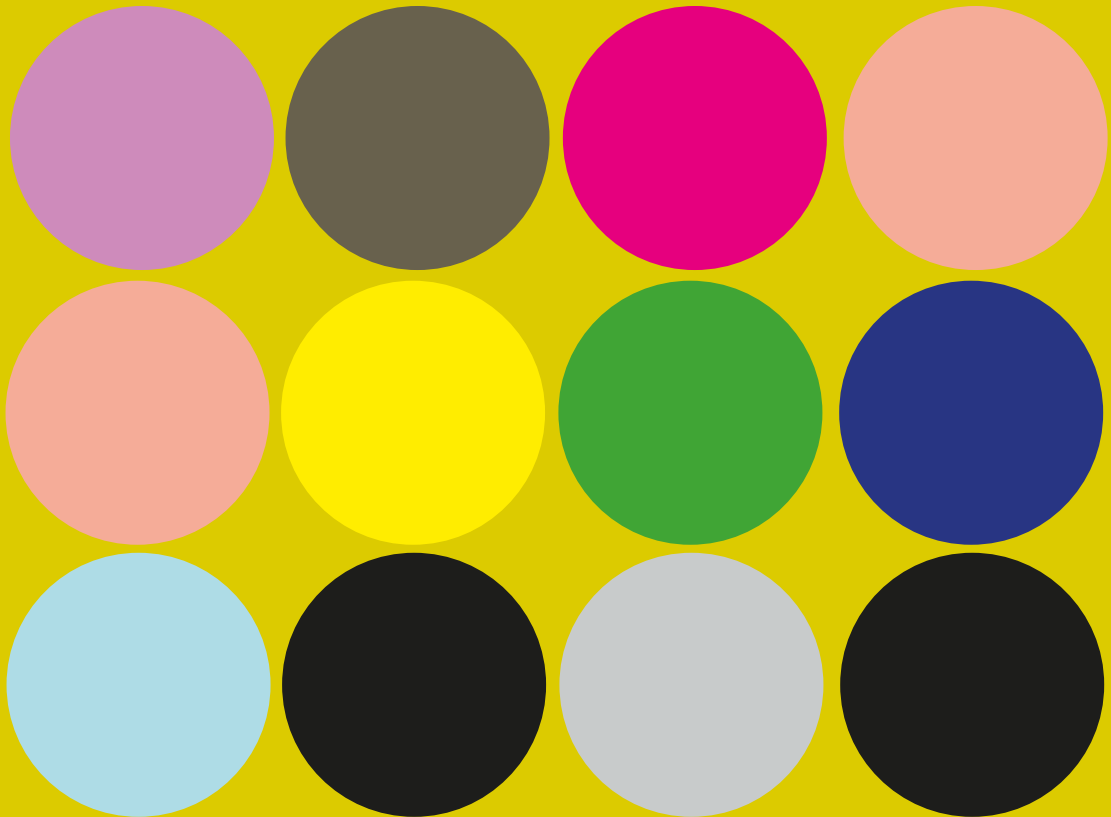


# **Reshaping welfare institutions in China and the Nordic countries**

EDITED BY PAULI KETTUNEN, STEIN KUHNLE AND YUAN REN



RESHAPING WELFARE INSTITUTIONS IN CHINA  
AND THE NORDIC COUNTRIES



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# Reshaping welfare institutions in China and the Nordic countries

Edited by  
Pauli Kettunen, Stein Kuhnle and Yuan Ren

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## Preface

This book is the result of papers first presented at two seminars organised by the Sino-Nordic Welfare Research Network (SNoW) in Shanghai (October 2011) and Helsinki (June 2012). We have included in this book a selection of subsequently revised papers from the seminars.

The SNoW project is an offshoot of the activities of the Nordic Centre of Excellence NordWel (The Nordic Welfare State – Historical Foundations and Future Challenges), hosted at the University of Helsinki, financed during 2007–2013 by NordForsk. NordForsk is a Nordic intergovernmental research funding organisation under the Nordic Council of Ministers. SNoW has received additional funding for the period 2013–2015 from the Nordic Council of Ministers, and the network includes researchers active in the other Nordic Centre of Excellence in welfare research, REASSESS (Reassessing the Nordic Welfare Model), which was also financed by NordForsk 2007–2013, and based at NOVA (Norwegian Social Research) in Oslo. Thanks to NordWel, and long-term collaboration in particular between the University of Bergen and Fudan University through its Nordic Centre, the book, *The Nordic Welfare State* was published in Chinese by Fudan University Press in 2010, edited by Stein Kuhnle (University of Bergen), Chen Yinzhang (Fudan University), Klaus Petersen (University of Southern Denmark) and Pauli Kettunen (University of Helsinki). Since February 2013, an electronic SNoW Newsletter has been published and disseminated on a quarterly basis from the Nordic Centre, Fudan University.

The seminars in Shanghai and Helsinki invited papers from Nordic and Chinese scholars in the field of social policy and welfare research, as it was broadly defined. Papers were presented within the following three topics, which all concern common or similar challenges in the Nordic countries and China:

- 
- Norms and institutions
  - Labour markets, migration/immigration and social rights
  - Ageing populations as a challenge to social security systems

History teaches us that there are different roads to welfare and well-being, and different perspectives across time, space and governments, as to what the scope of the welfare role or responsibility of the state should be. Since the early 1990s, there has been much research on different types or ‘models’ of welfare states or regimes in the West. This field of research has subsequently given rise not only to comparisons of different types of Western welfare states, but also to comparisons of welfare and social security development in different parts of the world. Concepts of an ‘East Asian welfare model’ or ‘Confucian welfare model’ have been introduced by some researchers to emphasise embedded fundamental ‘cultural’ norms and values which have given rise to different kinds of public policies and welfare and social security institutions. Perhaps several ‘welfare models’ can be distinguished in East Asia, as we can distinguish different welfare models in Europe.

In the first part of the book, focusing on norms and institutions, Yuegen Xiong provides a historical institutional perspective on social policies in China; Yi Pan describes the basic elements of China’s welfare system; Byung-Cheol Kim and Keqing Han analyse the development and current changes of China’s social welfare by a comparison with South Korea in the framework of East Asian welfare regime; Pauli Kettunen examines conflicts and compromises in the Nordic pattern of social regulation; Nanna Kildal and Stein Kuhnle analyse trends towards a possible ideational shift in the Norwegian welfare state; and Pirjo Markkola studies family duties in the history of poor relief and social legislation in Finland.

Discussions on labour market mobility, migration and immigration are salient and important both in China and the Nordic countries. Although there are clearly structural differences, e.g. domestic migration vs. foreign immigrants, and the systems of social protection and labour market regulation are different, many general problems and questions are similar, including those concerning basic social rights and labour standards for moving populations,

the social and economic costs of (im)migration and integration, and the political challenges related to (im)migration issues. Papers were concerned with identifying the challenges, how they are understood, and what kind of public policy solutions are formulated and decided on in this field.

In this book, four chapters cover this area of study: one by Åsmund Arup Seip on work migration and labour market regulations in the Nordic countries; one by Saara Pellander on family migration and gender equality in the Nordic welfare state; one by Ka Lin, Longfei Yi and Shuang Wu on the social protection of migrant workers, housing policy and the 'new citizen' of the Chinese city; and one by Heng Quan comparing income inequality in China and in India.

Both China and the Nordic countries are undergoing a process of demographic change towards an ageing population, which have implications for both the 'cash' and 'care' aspects of public policies for the elderly. Chapters covering the sustainability of pensions systems in the Nordic countries, a chapter by Jørgen Goul Andersen and Aksel Hatland, and one covering the status of and solutions for elderly care in China and the Nordic countries, written by Hua Fu and Rolf Rønning, are included in this book.

We, the three editors, have written an introductory chapter on the development and diffusion of welfare systems and policies in the Nordic countries and China.

We would like to extend a note of thanks to NordForsk and the Nordic Council of Ministers for their generous support for the Sino-Nordic Welfare Research Network, and to the Nordic Centre at Fudan University for its crucial role facilitating network-building activities. We would also like to thank Sophy Bergenheim for editorial assistance in preparing the book and Liz Broomfield for improving the quality and style of the English prose of all of the chapters.

This book, supplemented with additional chapters on developments in China, will be published in Chinese by Fudan University Press in spring 2014.

Helsinki/Bergen/Shanghai, February 2014

Pauli Kettunen, Stein Kuhnle and Yuan Ren



## Introduction

### *The development and diffusion of welfare systems and policies in the Nordic countries and China*

PAULI KETTUNEN, STEIN KUHNLE AND YUAN REN

In the world of extended and intensified transnational interdependencies, international comparisons between different societal models are not only a fashionable scholarly approach but also an integral part of political, economic and cultural action. The so-called Nordic model is a benchmark and concept that has attracted international attention. At the same time, the ever more significant role of China in the globalised economy has increased international interest in the preconditions of China's economic growth and associated structural transformations. The social aspects and impacts of these transformations have for their part, in China as well as internationally, inspired discussion on various models and paths of welfare policies. Concepts such as 'the East Asian welfare model' and 'the Confucian welfare model' have been introduced by some researchers to emphasise that historically embedded, fundamental cultural norms and values give rise to different kinds of public policies and welfare and social security institutions. Indeed, in current debates, 'models' may refer to persistent path dependencies or to transferable knowledge about best practices to be utilised in policy learning.

In this book, Nordic and Chinese researchers on welfare policies discuss normative and institutional characteristics of Nordic and Chinese societies. They go further, examining two major areas of current welfare policies both in China and the Nordic countries, namely the problems and solutions associated

with migration and labour market mobility, and the ageing society. In order to initiate these analyses, this introductory chapter will briefly highlight three topics framing the Sino-Nordic scholarly cooperation in welfare policy research: (1) historical changes in the welfare state in the Nordic countries and future challenges and prospects for Nordic welfare states (Pauli Kettunen); (2) a Chinese perspective on implications of the Nordic experience and institutional characteristics for China's welfare reform (Yuan Ren); and (3) a Nordic perspective on features and changes in China's welfare system and possible future direction of development (Stein Kuhnle).

## **1. History and future challenges of the Nordic model**

In international comparisons, the five Nordic countries, Denmark, Finland, Iceland, Norway and Sweden, constantly appear among those offering the highest levels of social security and public health, care and education services. Nordic citizens are among those who are least at risk of poverty and have the highest life expectancy in Europe, and comparative studies indicate their high levels of human and social capital and happiness. The Nordic model is praised for combining economic competitiveness and growth with social and gender equality, solidarity, individual freedom and stable democracy.

Simultaneously with the increasing international interest in the Nordic model over the last decades, it has been widely recognised that the Nordic welfare state is being challenged by major transformations, including globalisation, European integration, immigration, the ageing society and increased individualisation. The accounts of the role of the Nordic welfare state during these transformations are controversial. Some commentators have argued, either regretfully or hopefully, that the Nordic model, alongside other models of the national welfare state, are likely to disappear in the face of the imperatives of global competition. On the other hand, the Nordic pattern of social regulation is seen as a sustainable model to enable a consensual response to the new challenges by means of human and social capital. It is also valued

as a set of ethical principles and social innovations to be applied not only on the national level, but also in European integration and global governance.

When discussing the global preconditions and impacts of the Nordic model, one should take into account that the Nordic countries are rather small, currently having a combined population of about 25 million inhabitants in the northernmost part of Europe. Furthermore, there are differences between the five countries and similarities with non-Nordic countries, in particular with other small Western European countries. The ‘Nordic model’ is a model of a national society, and there is “one model with five exceptions” (Christiansen & Åmark 2006, 335). However, this in no way precludes the importance of a Nordic transnational regional context, in which national identities and institutions have been shaped, and of an inherent Nordic element within the national identities and institutions of Denmark, Finland, Iceland, Norway and Sweden.

In general, inter- and transnational processes were constitutive of the formation of the national welfare states (Kettunen & Petersen 2011). In the 19<sup>th</sup> century, the intertwined ideas of historical progress and transnational interdependence became crucial ingredients for the notion of modernising nation-state society in the Nordic countries. The elite groups that were active in nation-building processes consciously adopted the distinction between what came to be referred to as centre and periphery. According to this view, the educated elite of a peripheral country, and later the popular movements, especially labour movements, could and should define their political tasks on the basis of knowledge about more developed – or more ‘civilised’ – countries. Problems should be anticipated and solutions should be planned by acquiring information on the experiences, solutions and mistakes in what was conceived to be the centre of industrial modernisation.

The Nordic countries developed into small relatively open economies that were – each country in its specific way – highly dependent on exports and exposed to the cycles and crises of the world economy. This international dependence provided preconditions for the articulation of strong notions of national economy and national society and for the legitimacy of the active role of the nation-state in the processes of modernisation. As the German



development researcher Dieter Senghaas (1985, 71–94) argues, “there is no automatic connection between growth and the lack or elimination of absolute poverty”. What was required was the development of a combination of world market integration and internally consolidated national economy. The ‘Scandinavian development path’ is his main example. A constitutive factor was a formation of national political, economic and cultural identity as well as “considerable political control over domestic and external economic processes, in order to prevent export growth from making society more oligarchic and producing a sort of rentier capitalism”.

During the last couple of decades, many researchers have discussed the origin of the Nordic welfare state. They have tried to find it in the 19<sup>th</sup> century processes of modernisation or the structures of pre-industrial rural communities, in socialism or nationalism, in the rise of Social Democracy in the 1930s or the Reformation and the creation of the Lutheran state church in the 16<sup>th</sup> and 17<sup>th</sup> centuries. Instead of making a choice between these different proposals, it is reasonable to re-interpret the divergent ‘origins’ as temporal layers in the Nordic welfare state. Mediated through mentalities, traditions, values, epistemic practices and social movements, these layers are present in the formal and informal rules and norms of the Nordic model (Kildal & Kuhnle 2005), and in the tensions and contradictions associated with these rules and norms.

Historical accounts of the Nordic welfare state tend to exaggerate the ethnic and cultural homogeneity of these countries. However, one can say that particular historical preconditions existed in the Nordic countries for utilising an ideal of cultural homogeneity in the construction of the nation-state and the welfare-state. One should not bypass the role of religion here. The Reformation, carried out in the spirit of Lutheran Protestantism in the 16<sup>th</sup> and 17<sup>th</sup> centuries, was a process of making the centralised state. The state was inseparably intertwined with the Lutheran church and its lessons combining conformity and an individual relationship to God. Homogeneity and conformity have by no means implied an absence of class conflict and class consciousness. Rather, the development of the nation as an ‘imagined community’ (Anderson 1983) offered moral criteria by means of which the

socially subordinated groups could interpret their experiences of suppression and injustice and elaborate their individual and local experiences into political class consciousness and strong labour movements.

The class compromises of the 1930s, reflecting political conclusions from the Great Depression and the international threat of fascism, were important for the formation of the Nordic welfare model. They included the political coalitions of ‘workers and farmers’, i.e. the Social Democrat and Agrarian Parties, and the consolidation of the practice of collective agreements in the industrial labour markets. A virtuous circle was supposed to connect the interests of worker-consumers and farmer-producers on the one hand, and of workers and employers on the other. However, this was not just an idea of a positive-sum game between different organised interests. The trust in a virtuous circle between increased social equality, economic growth and widening democracy came to widely colour the future horizon in the post-Second World War decades, the Social Democratic labour movement being the main carrier of this mode of thought and action. In the 1970s, national institutions, policies and future prospects indicated what are referred to in current debates as traditional characteristics of the Nordic model: the public sector is large and expensive; welfare benefits and services are financed primarily by taxes; the principle of universalism extends; the welfare state empowers women in the family, labour market and society; and the comprehensive organisation of an autonomous labour market works in a smooth relationship with the state.

Since the 1980s, crucial aspects of the notion of national society that were associated with the vision of the expanding welfare state and parity based negotiations and agreements in labour market have been severely challenged in the Nordic countries, as elsewhere. The transformations labelled as globalisation have meant increasing economic and social asymmetries concerning the role of spatial ties. The increased mobility and the increased asymmetries between different actors in terms of their mobility have reinforced the role of economic competitiveness in the defining of national political agendas.

In the Nordic countries, changes have taken place within a considerable institutional continuity. According to a far from unsuccessful argument, the high levels of social security, comprehensive public social and educational services and agreement-based industrial relations are not only compatible with the objective of economic competitiveness but also provide crucial competitive advantages. In the shaping of the European Union's social policies, it has been easy for those coming from the Nordic countries to develop and support the principle of "social protection as a productive factor" that was adopted into the EU strategy in 2000. The principle implies an economisation of social policy in two different senses: as an argument for the recognition of the economic importance of social policy and also as an argument for reforming social policy in a way that could meet the demand of being a productive factor and providing 'social investments'. We can recognise an incremental discursive and institutional change, in which welfare-state institutions are modified to serve competition-state functions.

At the same time, the welfare state is very popular in the Nordic countries. No political party can expect to gain electoral success by declaring its opposition to the welfare state. The arguments for a radical deregulation that emerged in the 1980s have been pushed to the margin and everyone seems to be in favour of the welfare state. Rescuing the welfare state is one of the most widely shared arguments in the politics associated with the financial crisis that began in 2008 or with the long-term concerns about demographic structures and the so-called sustainability gap. Those concerned about economic competitiveness or advocating austerity politics motivate these concerns with the necessity of creating or rescuing resources for the welfare state. The welfare state is used as an argument for restrictive immigration policies as well as for the promotion of labour immigration. Those defending the welfare state against the pressures of globalised capitalism argue that the welfare state, through its security networks and risk sharing systems, actually generates competitive advantages. Rescuing the welfare state seems to be a goal that sanctifies many different means, and a means that sanctifies many different goals, yet it is not clear how well the Nordic welfare state is withstanding the operations by which it is rescued.

## **2. A Chinese perspective on implications of the Nordic welfare model for China's social transition**

In the context of the market economy, under the influence of labour unions' collective bargaining, through strengthening and enhancing legislation, Nordic countries have established a relatively developed and comprehensive social welfare system and social policy framework, which has now become an important pillar for their nations' development. The positive role of their social welfare system is to promote movement from the early capitalist economic model, which is typically characterised by free competition and survival of the fittest, and to emphasise the role of the state in providing social security and in improving the welfare of workers and citizens. The Nordic welfare state model originated in the late 19<sup>th</sup> century and has experienced rapid development during the post-war period. Most Nordic countries have already built social welfare systems and worked out the relevant public policies, covering education, public health, medical care, employment, elderly care, protection for the disabled, family, housing, etc. Such an integral social welfare system has become an important feature of the Nordic countries and provided them with great advantages. It has made great contributions to alleviating poverty and fostering social equality and justice. And this also plays an important role in promoting economic innovation and sustainable development.

At present, China is experiencing rapid economic growth as well as social transition. This transition is a move from the *danwei*-based welfare system under the planned economy towards a more market-orientated social welfare system; from a dualistic and segregated rural-urban system and unequal social welfare system towards a flexible and integrated rural-urban welfare system; from economy-driven development and reform towards an economy and society coordinated and more holistic development.

During the process of transformation, China's social security and welfare system has lagged behind its economic growth. At the same time, terms of both rural and urban areas and different social groups, a series of problems have appeared, including the widening income gap, the poverty problem in

the cities, aggravated social stratification, the housing problem, discrimination against migrants regarding social rights and basic public services, weak protection for special vulnerable groups, etc. The increasingly serious social issues and social stratification have highlighted the shortcomings in China's social security and welfare system and are making an urgent call for the system to be enhanced. Taking China's realistic conditions, the characteristics of the state system and its socialist features into consideration, Nordic countries' social welfare system, compared to that of the United States, which is relatively more market-orientated, can provide transitional China with more knowledge and lessons.

The comprehensiveness of the Nordic welfare system does not only lie in its wide coverage, from cradle to grave and including various social affairs, such as employment, living and personal development. It also lies in its elaborate design. For example, for elderly care, it even specifies the situations where the third generation should take responsibility for looking after their grandparents; for child care, it even stipulates the age under which the family has the responsibility to look after children and secure their life and development; in migrant welfare, it also has clear rules which provide the standard that international migrants should satisfy in order to enjoy the same social welfare and public service as citizens. Furthermore, the comprehensiveness can also be seen in a series of social welfare legislation to guarantee the welfare of the elderly and the disabled, poverty relief, etc. Through legal and institutional construction and improvement, the social welfare system has become an important part of the national economic and social system.

Transitional China will definitely face a challenge to speed up the construction and improvement of its social welfare system and a challenge to extend social security and support to satisfy the various demands of urban and rural residents. The insufficiency of the welfare and support for social affairs including maternity, childcare, pensions, employment and so on, in turn, increases the pressure on family life, increases the risk to the citizens in a transitional society and decreases their well-being. Meanwhile, the relevant legislation and institutional construction are still unsatisfactory. Legislation

and administration on some social affairs are still stagnating in words but not appearing in the form of actions. For instance, some laws appeal for protection of the legitimate right of the elderly and encourage children to go home often, but without any concrete provision for action. Moreover, the legitimate rights for different social groups must be defined more clearly, and specific guidelines for their implementation also need further refinement.

The typical feature of the Nordic model is the universality of its social welfare system. By providing social welfare to all members of society, the nations demonstrate their responsibility in building up the welfare system and also promoting social equality. However, some scholars claim that the Nordic welfare system is still not universal, or even conditional. For instance, there are differences in approving employment visas for international migrants and in providing housing benefits. However, the universality essentially lies in the universal access to various kinds of basic social security, in an attempt to minimise a situation where minorities fall into hardship because of inadequate security and being excluded from the welfare system; and in an effort to promote social integration and social equality as much as possible through the welfare system. Therefore, the universality of the Nordic welfare system, to a large extent, is that of basic livelihood security and that which values more highly social support for disadvantaged social groups. To provide basic and universal social service and target groups with special difficulties is also an important purpose for constructing the social security system.

In the transition period, the characteristic and weakness of China's welfare system lies in its inequality. Such inequality is even presented in the hierarchical distribution of welfare. The dual social security system for government administrative organs and enterprises, the lower social security coverage among migrant workers, the lower level of new agricultural insurance and NCMS (New Cooperative Medical System): all these indicate that social groups in the upper classes enjoy a higher level of social security and welfare while disadvantaged groups have a lower level of security or even cannot enjoy any security. Such a hierarchical distribution of welfare will not only damage the underlying social values of universality and equality, but

also break the social security principle - to provide support for those who are most in need of risk aversion and social protection.

Therefore, transitional China should first strengthen the spirit of equality and the universality in building up its social security and welfare system. Through establishing a universal social welfare system, China can support and enhance labour market mobility and social mobility in its structural transformation.

Considering the fact that the percentage of social welfare expenditure to GDP is often high in Nordic countries, it seems that comprehensiveness and universality have increased the burden on the government's budget. However, the European debt crisis since 2008 has not seriously affected the Nordic countries with higher level of social welfare but rather Greece, a southern European country with deeper marketisation but a lower level of social welfare.

To rediscover the competitive advantages of the Nordic welfare model, firstly, the high-level welfare system can help to promote economic innovation. The Nordic countries are relatively more successful in innovation and have made remarkable achievements in information, design, environmental protection, new energy and creative industries, etc. To some extent, such success can be attributed to their relatively developed universal and lifelong education system. The huge investment in education, culture, art and public affairs of Nordic countries has exerted a positive effect on their economic innovation.

Secondly, the welfare state system can also help to reduce unemployment and cope with economic crisis. For instance, in the face of crisis, the Nordic countries, with their powerful labour unions and employment benefit system, have not experienced a serious increase in unemployment and aggravation of poverty problems. By retraining workers and promoting industrial transformation, these countries have taken the lead in crisis recovery.

Thirdly, the welfare state system itself is built upon the basis of the well-developed market economy and labour market. The reform of the welfare system in these Nordic countries also places emphasis on the close relationship between employment and welfare, on the demand for high-quality workers, and on the close relationship between welfare provision and labour market

participation. In addition, reforms also aim at fostering a more active role of the labour market. Therefore, the development of the social welfare system and economic growth objectively establish a well-coordinated, well-reinforcing relationship. Those who have much concern about the weaknesses of the Nordic model and its excessive provision either hold the opinion that social welfare is unproductive expenditure and will increase the pressure on the government budget, thus depressing the driving force of economic growth, or think that it will weaken the competitiveness of the labour market. With a higher level of welfare, workers may have weaker motivation to work and reduce their labour supply, thus causing the problem of ‘supporting the lazy’. Based on the experience of the Nordic countries, we come to the conclusion that the two consequences of this concern will not transpire. On the contrary, building up the social security and welfare system itself is competitive and neglecting its construction and improvement will probably hinder the sustainable and coordinated development of economy and society.

In this social transformation period, China has to face an increasingly serious and urgent demand for social welfare and social security construction. We should note not only that the provision of social welfare has lagged behind the economic development but that the institutional construction of our social welfare system is also relatively inadequate. Fortunately, the Nordic countries have provided us with long-term and detailed experience in regard to institutional construction. Therefore, to reform and improve China’s social security and welfare system, the welfare institution reform should learn from the comprehensiveness, universality and competitiveness of the Nordic welfare model; from its countermeasures to cope with specific problems, such as housing, employment, education, etc.; and from the way in which the Nordic countries have considered changes in their welfare system and policy design.



### 3. A Nordic perspective on changes in China's welfare system and its possible future direction

China has over the last three decades emerged as one of the leading economic powers and crucial political players in the world. It has quickly advanced to become the second largest economy after the USA, and will in all likelihood soon have regained its position as the world's leading economic power, a position which China has held during 18 of the last 20 centuries. China's social, political and economic development is of more crucial importance than ever before for the rest of the world, in which interdependence between nations has grown markedly in recent decades. Not least, the latest global financial crisis since 2007 has demonstrated China's crucial role for the world economy. But although consistently record-high rates of economic growth since 1980 have lifted many hundred millions of people out of poverty, Gross Domestic Product per capita is low, giving China a rank position between 80 and 90 among the world's nations. The gap between rich and poor people, between rich and poor regions, between the urban and rural population, has widened dramatically, and the lack of adequate social protection for large population groups, not least for the around 260 million migrants to cities and urban areas, represent major problems and challenges for the Chinese government and society.

What has happened to social policy development in China since the People's Republic was established in 1949? What are the current trends, and towards what kind of 'welfare state' – or towards what kind and scope of state responsibility for welfare – is China moving? Is the idea and phenomenon of a 'welfare state' globalising? Do the globalisation of social policy discourses and the possible 'globalisation of the welfare state' make the Nordic welfare state experience more visible and relevant for China? These are some of the questions to be dealt with and discussed in the following. Given China's increased and increasing role in world politics, it matters for the rest of the world what kind of state welfare responsibility China develops.

Chinese social policy has undergone tremendous changes since the establishment of the PRC, from a highly centralised communist 'iron-rice-

bowl' regime into a socialist market economy. Briefly and schematically we can say that the PRC has gone through three phases of social policy development.

The first phase of social policy development after the foundation of the PRC can be labelled the 'Maoist period', lasting until the beginning of the opening up and reforms initiated by Deng Xiaoping in 1979. Welfare in urban areas was guaranteed through the *danwei* (working unit) system in State Owned Enterprises (SOEs), providing cradle-to-grave social security, and government employees were covered by social insurance based on a law from 1951. The *danwei* system acted as a kind of mini-welfare state and played a key role in providing health services. The rural population obtained minimum security through the public ownership of land and the establishment of People's communes in 1958. The household registration system (*Hukou*) introduced under Mao in the late 1950s gave people social entitlements according to their place of birth. This law cemented the rural-urban differences which have persisted up until the present day.

The second phase of social policy development lasted from the initial steps of economic reform in 1979 up until the late 1990s or the early 2000s, and saw a far-reaching erosion of the previous welfare arrangements and emphasis on market-orientated flexibility, competitiveness and cost-containment that played down attention to social security and the role of the state in the responsibility for citizen welfare. Generally, the government adopted an approach characterised by a clear priority for economic growth. The *danwei* system was dismantled and urban health care, for example, was delegated to local authorities; through a management reform, hospitals were generally transformed into profit-orientated entities endowed with substantial autonomy. The overall trend was characterised by state withdrawal and increased out-of-pocket payments by workers for health services (Saich 2011). Rural areas experienced a similar process of health care deterioration, due to the collapse of the Cooperative Medical Schemes. Village collective funds virtually disappeared, leaving – in the 1980s – 900 million rural residents without health insurance coverage (Chan et al. 2008). The third phase, which China is currently experiencing, can be said to have started in the late 1990s, and more explicitly after Hu Jintao and Wen Jiabao became the new leaders

of the party and government in 2003. Both political rhetoric and practice changed. Attention shifted from pure economic growth orientated policies towards a more balanced, sustainable and socially equitable approach to development. The vision and ambition was to move towards a ‘harmonious society’ – *xiaokang shehui*.

In recent decades, the separation of welfare provision from SOEs and the rapidly growing numbers of migrants from rural to urban areas, many of them informal workers, have left many without basic and/or adequate social security or protection. The most severe source of income inequality in today’s China lies in the striking urban–rural disparities. The Chinese authorities have acknowledged the destabilising potential of the highly unequal distribution of income and access to social security and health care. Government and party authorities have become increasingly aware not only of the tremendous beneficial effects of economic growth, but also of the significant social and political problems that the rapid development of the economy has created. Accordingly, a great number of social policy initiatives have been taken and many laws enacted during the last 15–20 years, over a broad range of social policy and welfare. Let us briefly mention some of the major social policy reforms that have been passed:

- Basic medical insurance scheme for urban areas (1998)
- Minimum standard of living scheme: urban areas (1997), rural areas (2007)
- New rural cooperative medical scheme (2003)
- Pension scheme for all urban workers (2005)
- Decisions on new measures to provide social protection for migrant workers (2006)
- Labour contract law (2008)
- Free nine years compulsory education for all (2008)
- New health care reform (2009)
- First comprehensive social insurance law (2010)

From 2003 onwards, the social policy agenda has shifted towards the inclusion of larger proportions of the population and the most vulnerable groups, i.e.

rural residents, the unemployed or migrant workers. We might say that the recent vision to establish a ‘harmonious society’ with nation-wide universal health care and pension systems by 2020 reflects a more people-centred development than was the case during the previous two decades of economic reform. Social justice, equality, sustainable development and making welfare a top priority have to a greater extent shaped the discourse over the last decade. Besides fulfilling these goals, the aim is also to preserve social stability, which in turn is considered the main precondition for continued and stable economic growth (Saich 2011). It remains to be seen to what extent visions and goal statements on paper can be transformed into successful implementation.

Is the Chinese social policy development following Western patterns of ‘welfare state’ development? There are similarities in terms of widening the scope of state responsibility for welfare, although the underlying values and understanding of ‘welfare’ may be different. The challenges of social inequality, new social divisions of welfare, population ageing, changing labour markets and family structures, migration and globalisation are common to both Western, including the Nordic, countries and China and other East Asian nations. Chinese social challenges may to some extent be unique, and are certainly on another scale. Also, problem perceptions and concrete social policy solutions may differ. Although modifications of elements of the Nordic welfare states have taken place, for example increased individual responsibility for pensions; less generous unemployment schemes; more co-payments in the health sector, overall public expenditure levels persist, in both relative and absolute terms. Given a historically relatively successful interplay of market economies, the role of organisations in the labour market and their collaborative relations with the government, and the comparatively successful management of the recent global financial crisis, the experience of the Nordic countries may appear to be both more visible and relevant for other countries and regions of the world, including China. To some extent, one might say that recent reforms and agreed-upon plans in China point in a more ‘Nordic’ direction, for example, universal coverage of health care and pensions; efforts to narrow social divisions; and increased public responsibility for the welfare of citizens. China’s social policy choices can potentially have

a significant impact regionally as well as globally as China takes a greater role in international political forums and social policy epistemic communities in which scholars and practitioners representing different ‘welfare model’ traditions and experiences meet. Ideas and policy learning will diffuse globally more easily than before, and will likely have an impact upon social policy thinking and reform developments in both the Nordic countries and in China and East Asia.

The spread of the idea of ‘the welfare state’ is one element in the on-going process of the globalisation of economics and politics. Public responsibility for citizen welfare is increasing, as measured both by public expenditure data and scope of legislation, in emerging economies around the world (Castles et al. 2010). It will be a major task of scholars in the field of social policy and welfare research to comparatively analyse policy reforms and institutional changes as responses to the challenges mentioned, the norms, logic and mechanisms underlying processes of change, and the social and political outcomes of policies.

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Part I

NORMS AND INSTITUTIONS





## Chapter 2

# The unbearable heaviness of welfare and the limits of social policy in China

### *A historical institutionalism perspective*

YUEGEN XIONG

“An essential feature of society is tradition – the handing of formed ways of acting, a formed way of living or developing their social membership – and the transmitter of a message cannot do without some image of a message which he has received and of the way in which he received it.” (J.G.A. Pocock (1989), *Politics, Language and Time*, Chicago: University of Chicago Press, pp. 233–234.)

## 1. Introduction

To interpret the meaning of the heaviness of being, the German philosopher Nietzsche once argued that this heaviness could be either a tremendous burden or great benefit, depending on the individual's perspective. Welfare, as a measure aimed at generating human well-being, can either be regarded as a rational instrument of promoting government responsibility or as a familial obligation of care. Rapid economic growth and drastic social transition has created an enormous impact on the pattern and pace of social welfare expansion in post-socialist China during the past decade. Given the successively increasing size of social expenditure, China is apparently “bringing a strong state back in” in order to maintain a balance between economic growth

and social development (Xiong 2012). In recent years, welfare expansion in China has represented a significant social and political phenomenon driven by popular ideas on justice and the ruling party's belief about the legitimacy of regime-maintenance, suggesting how important it is for us to rethink and re-elaborate the tradition of welfare in Chinese society.

However, the concepts of welfare that lie behind China's social policy-making and implementation in recent years still reflect the Party's sobering considerations on the crisis of the welfare states in Europe and the potential challenges of creating universal generous social welfare provision. From my point of view, in explaining the changes in social policy in recent years in China, one must link the present with the past. In short, history matters.

In contemporary China, the reform of social welfare and progress of social policy have been portrayed as outcomes of social change (Davies 1989; Selden & You 1997). For decades, residual welfare, mainly administered by the Ministry of Civil Affairs and other related government sectors, was designed to provide a social assistance scheme and social services. In terms of policy implementation, the Chinese government has strongly emphasised a top-down model which exhibits a salient power-responsibility structure between central government and local governments. Meanwhile, popular perceptions of welfare and the responsibilities of government in China are different from those of Western societies, because the history, culture and organisational framework of a country create enormous impact on social policy process. In particular, the ideas of welfare (or welfare ideologies) can influence the process in a very profound way (Burstein 1991).

This paper aims to discuss ideas around welfare and its policy practice in Chinese society from a historical institutional perspective by focusing on an analysis of the Dibao System (The Minimal Living Standard Scheme, MLSS) as the core component of the social assistance policy. The research questions in this paper include: First, interpret how the concepts of order, relations and needs are constructed as a set of core norms and meanwhile how key social institutions influence the formation of the Chinese welfare regime; Second, analyse recent progress and constraints of social assistance policy implementation as a tool of value realisation under the Party-state

fabric to maintain social order and strengthen institutional legitimacy; Third, understand the Chinese welfare regime as an East Asian welfare regime from a comparative perspective based on normative discussions.

## **2. Understanding cultural norms and institutions that shape and reshape the Chinese welfare regime**

When explaining the trajectories and patterns of social welfare development in various societies, their history, culture and institutions play a pivotal role (Skocpol 1992; Jones 1993; Chan 1996; Rothstein 1998; Lin 1999; Swank 2001; Pierson 2004; Béland 2005; Pfau-Effinger 2005; Lin & Kangas 2006). In this regard, some researchers in this field tend to emphasise that ideas, norms, values and institutions can determine the paths and patterns of social welfare models or welfare regimes (Hall 1990; Immergut 1992; Crawford & Lijphart 1997; Berman 1998; Campbell 1998; 2002; Cox 2004). As a philosophy of lifestyle or a product of life politics, social welfare has been arguably considered as a problematic modern social phenomenon in the West since the 19th century (Goodin 1988). Since the 1980s, plenty of discourse has surfaced on the theme of the crisis of the welfare states, which has created a sense of the 'heaviness of welfare' as a burden on smooth economic development.

As Walter Korpi argues in his essay (2000), many critics of the welfare state hold misleading impressions and incoherent evidence is used to jump to implausible conclusions. In fact, the relationship between economic growth and welfare spending is more complicated than people might speculate. Compared to the European welfare states, the Asian countries are latecomers to social welfare development. With the rapid progress of industrialisation and urbanisation in the 1960–70s, social welfare gained its marginal status in national development strategies. For a relatively long period, the welfare state was regarded as a Westernised (Europeanised) dream full of illusions and heaviness.

In the past decade, however, there has been a growing interest in comparing different welfare systems or different models in the non-welfare states,

especially in Asian societies. The primary attention to this topic has mainly been paid to the discussions on the 'East Asian Welfare Model', 'East Asian Welfare Regimes', or 'Confucian welfare states'. As a socialist market economy in transition, China did not occupy a significant position in the discourse on East Asian welfare models or regimes until very recently, when scholars have sought to explain the pattern of social welfare or social security development in China from a comparative perspective (Goodman et al. 1998; Walker & Wong 2005; Xiong 2008; Chan et al. 2008; Xiong 2011).

In China, social welfare has been mainly regarded as a residual public provision beyond the remit of the family. Unlike European advanced industrialised democracies, China has not yet built a solid welfare state system to meet social needs, address domestic social problems and realise social justice. Only in recently years have Chinese people felt it to be problematic that the state (or government) does not shoulder more responsibilities when family and informal social networks fail to respond to individual contingencies. To understand the ideas of welfare in Chinese society in general, and the Chinese welfare regime in particular, one has to put the subject of welfare into its historical, cultural and political context.

Historically, neither the discourse nor the practice of welfare was developed in feudal China. In ancient China, the long-standing absence of the state in social protection exactly reflects the government's primary desire to fully control the social system and augment its economic power through its centralised administrative system. Given the depressed growth of the moral economy in feudal China, researchers can hardly ignore the fact that the missions of the state did also aim to do good to the mostly vulnerable groups in society, but for the sole purpose of maintaining social stability and keeping the social order. There was a longstanding tradition of social relief in ancient China, varying from providing disaster relief to establishing local community-based welfare provision. The current Dibao System is actually deeply rooted in Chinese histories of social relief.

In this country, long periods of feudalism did not yielded a constant process of industrialisation and modernisation until the mid-20th century. After 1949, socialist China founded its dual social security system for the

urban and rural areas, in which work units (or Danwei, workplace) played a central role in guaranteeing a basic livelihood for employees and their dependent family members, with the commune acting as a safeguard to ensure a minimum living standard for vulnerable people in rural areas. The civil affairs sector will shoulder its responsibilities to take care of truly disadvantaged people by providing basic social assistance. In a seminal article, Chow (1987) argues that Western social welfare is determined by industrialisation-driven public expenditure and state responsibility towards the well-being of citizens. However, Chinese social welfare is more or less influenced by its own culture and its government's reluctance to institute social programmes.

In Chinese culture, there is a striking difference between individual perception of well-being and government's sense of responsibility, because the individual weights personal relationships more than his own material gain and the state usually regards performing a merciful deed by providing relief to vulnerable people affected by misfortunes as a manner of governmentality. In feudal China, one of the major ethical and political concerns of government-run social relief was to maintain the status quo of the social order by exhibiting the state's mission of doing good deeds through its centralised power structure.

Owing to the long-standing ideological influence of the former Soviet Union and its absence of social policy, China barely gained any international status in terms of human development during the planned economy period. The post-1978 economic reform initially changed the productive mode of the rural household economy and later reconstructed State-Owned Enterprises (SOEs), aiming to emancipate productivity and promote modernisation in China. The rapid industrialisation and economic growth from this point onwards created enormous pressure on urban areas, when the old social security system was unable to address emerging social issues, such as the needs of unemployed people, new migrants and other vulnerable people, as part of the process of unplanned urbanisation (Li & Piachaud 2006).

When interpreting the nature and idiosyncratic pattern of Chinese social welfare or the Chinese welfare regime, researchers are constantly confronted by a series of thorny questions: First, how to appropriately define the concept of social welfare in Chinese context? Second, how to treat culture, values and

history when a comparative approach is employed for theorising Chinese welfare regime in the East Asian context? As an outcome of modern politics, social welfare development has been interpreted as institutionalised by state-building and actors' interests, and as evolutionary, owing to the dynamic changes caused by the interplay between time and circumstances.

Although institutional analysis is widely-used in welfare state research and social policy studies, many faces of institutionalism still remain to be considered. In this paper, the author adopts a historical institutionalism approach to interpret the ideas of welfare and the recent progress of social policy reform in China, because of the significance of 'history' in understanding institutions and their durability. According to historical institutionalism analysts, the past trajectory of social welfare development shapes the present and future of the Chinese welfare regime in the context of social change.

### **3. The use of historical institutionalism in analysing social assistance policy in China**

Historically, social welfare as both a concept and as a practice did not gain a significant position in social or political discourse. The state would only provide social assistance or public relief when people could not rely on their family members or communities under certain circumstances. During the planned economy period, social welfare was marginal, established as an instrument of social control to meet the basic needs of the most vulnerable groups in the society. Either the family or the work-unit played a significant role in taking care of individual needs.

To understand the ideas of welfare, the theme of welfare should be integrated into a consideration of the complex historical, cultural and political context shaping the Chinese welfare regime over its long history. In ancient and modern China, the histories of relief in times famine and other natural disasters (for instance, the frequent flooding) basically reflects a major trajectory of state intervention in the domain of social welfare. However, in normal periods, family and kinship played a dominant role in meeting the

needs of individuals, where the concept of well-being more or less emphasises the harmony and order of interpersonal and ethical relationships as well as the satisfaction of basic material needs. Therefore, the ideas and practice of welfare in Chinese society had been profoundly influenced not only by people's perceptions around the values of life and equity, but also by people's recognition of the extent to which the role of the state in providing support to meet individual needs is desirable.

Institutional theories have been widely utilised for analysis in the field of social sciences, which has a relatively early origin in the work of Karl Polanyi (Polanyi 1944). As one branch of institutionalism theory, historical institutionalism aims to take a historical viewpoint using past event analysis to interpret the causes of social phenomena or social consequences, in which researchers tend to summarise different kinds of elements attributed to change and consequences as institutions by emphasising how institutions shape the behaviours of actors. In the past two decades, historical institutionalism as a theoretical framework has been broadly applied in sociology, political science, economics and comparative studies.

In the field of comparative politics, historical institutionalism emerged as an analytical framework in the early 1990s (Steinmo 2008). There are many facets of institutionalism in the field of social sciences. Contrary to its counterpart of institutionalism driven by rational choice, which stresses coordination as a major function of institutions, historical institutionalism tends to place more emphasis on the concrete short period in which institutions are generated (Thelen 1999). In the work of historical institutionalism analysis, researchers emphasise the formation of 'path dependence' in institutional evolution and continuity (Pierson 1996; 2004; Pierson & Skocpol 2002; Lustick 2011). In theorising the analytical framework of path dependence, scholars also attempt to treat it as a whole system that is associated with consequences (Mahoney 2000; 2001; Pierson 1993; 2000; Thelen 1999; Thelen & Steinmo 1992). Researchers state that equal attention should be paid to both change and resistance, which coexist in the process of institutional analysis, while the critical juncture usually plays a pivotal role in influencing institutional change. In the policy domain, a contingency – either a sudden



event or a human action – may change the trajectory of policy development (Hacker 2009).

In Socialist China, the development trajectory of social welfare has been closely bound up with the reform of the planned economy in past decades. Meanwhile, the collapse of the enterprise-based social protection system caused by economic reform gradually shifted people's ideas about the role of collective social welfare. However, the retreat of the state in the area of social protection in the 1980s was not obvious. On the contrary, some SOEs were strengthened in self-autonomy and control of running their own business because of economic reform. Therefore, compared to the early period of economic reform, the work-unit's function as a welfare umbrella drastically reduced in the context of marketisation after the mid-1990s. In a way, the socialist system based on centralisation and authoritarianism had developed a strong preference for state intervention in political and socio-economic arenas. The dual track of institutional work-unit welfare provision and residual need-based social assistance has profoundly formed an idiosyncratic feature of the Chinese welfare regime.

Thus, researchers in the field of historical institutionalism may have noticed that the past of planned economy and the inertia of political control dominated by the party have been the main drivers of social policy-making and implementation in the process of social transformation. In the new era of building social harmony after 2004, welfare politics driven by social instability and growing social needs has reshaped the ideas and path of social policy implementation in China. In short, the practice of strengthening vulnerable people's basic livelihood has become a vital task involving maintaining social order for the sake of managing social risks.

In the past decade, institutional analysis and theories of institutionalism had been widely adopted in the field of social policy research, both in the advanced welfare states and the transitional economies (Offe 1993; Rothstein 1998; Cerami 2008; Chavance 2008). The approach of institutional analysis in the field of social policy often emphasises the significance of state intervention in maximising social welfare to meet growing social needs (Midgley 2000). It is also equally important to mention that social policy-making and

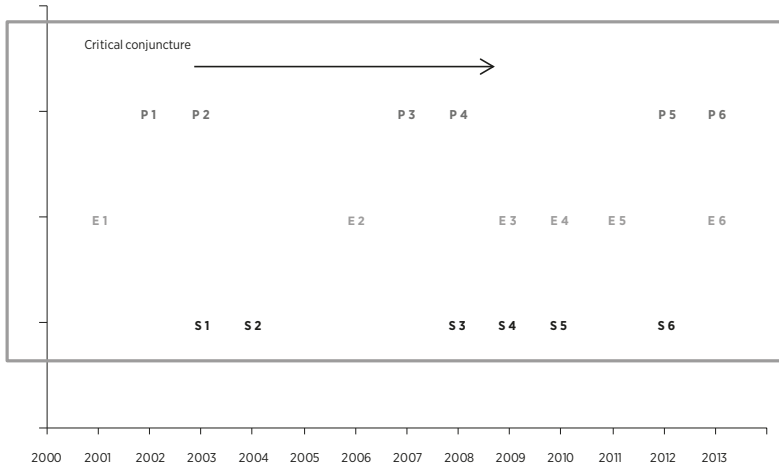
implementation can to a certain extent be regarded as an outcome of value realisation in the context of specific ideologies and socio-economic situations. In the past decade, a variety of studies on social policy analysis relating to historical institutionalism have appeared (Steinmo et al. 1992; Skocpol & Campbell 1995; Campbell 2002; Linder & Rittberger 2003; Pierson 1996; 2004; Béland 2005; 2007; Béland & Cox 2011). In China, only a limited number of researchers have attempted to conduct institutional analyses of social policy in a few different fields (Shi 2006; Xiong 2009; 2011).

But, people may ask: Why does ‘historical institutionalism’ matter for understanding Chinese social policy and the Chinese welfare regime? As policy is a political practice, time, contexts and configurations are significant in understanding the institutions surrounding the policy arena. Moreover, acknowledging the fact that social policy has undergone a long period of gradual formation in the period of economic reform in China, path dependence as a temporal process has created a self-reinforcement of policy effects that are embedded in a given institutional context. Therefore, as Hacker (2009) argues, the timing and sequence of policy interventions usually plays a crucial role in how specific social policies shape and reshape themselves. Sociologically, path dependence can refer to the actors’ habitus of developing coping strategies based on the past experience of doing. According to Pierson’s (2004) approach to social analysis as articulated in his seminal book, critical conjuncture is another crucial component of historical institutionalism. ‘Critical conjuncture’ refers to the decisively significant event(s) that occur during the process of socio-economic and political change. In the social policy arena, both significant events and previous experience can profoundly influence the trajectory and pattern of policy development.

In this paper, the author attempts to develop an analytical framework of social policy development in China in the past ten years (2003–2012). Figure 2.1 below indicates that the trajectories of social policy development in China after 2003 highlight certain crucial concrete periods of change in policy formulation and implementation in the Chinese socio-economic and political context. The author uses P, E and S to represent different types of event occurring in China that profoundly shaped social policy after 2001.

P stands for political events, E for economic events and S for social events. During the period 2003–2012, the crucial events occurring at national level are considered to be critical conjunctures of social policy development.

Figure 2.1. The analytical framework of social policy in China (2001–2013).



It is well known that political events tend to influence Chinese policy-making and implementation in a paramount way, especially the Party Congress held every five years. Thus, significant attention has been paid to the impact of the 16<sup>th</sup> Party Congress, the 17<sup>th</sup> Party Congress and the recent 18<sup>th</sup> Party Congress on the onward process of social policy-making and implementation. In this analytical framework, the author also pays particular attention to the impact of economic events on social policy change in China. Over the past decade, one can see how a series of key economic events has brought about a far-reaching impact on social policy formulation and implementation, for instance, China's successful entry into the World Trade Organization (WTO), launching the Five-Year Plan of National Economic and Social Development and the financial crisis that emerged in 2008. It is equally important to note the role of social events in creating an incredible impact on social policy process, particularly the SARS outbreak of spring 2003, the

Olympic Games and the Wenchuan Earthquake in 2008 and social turmoil emerging at a local level.

Lustick (2011) thoroughly discusses the connection between evolutionary theory and historical institutionalism by suggesting that social science researchers should be more meticulous when carrying out theoretical and empirical analysis. Here, the author is looking at historical institutionalism as a theoretical configuration to interpret Chinese welfare regime in the context of history, culture and socio-economic dynamics. It is understandable that the depth, richness and abstractedness of this theoretical tool can sometimes even trap the researcher when they attempt to put the ideas and values of order, relations and needs into the complex mixture of Chinese culture and polity.

In Chinese society, 'historical' has a rich meaning in social policy analysis when adopting the theories of historical institutionalism, which implies that some historical periods have been crucial in the creation of social welfare provisions or social policy making (for example, the period of the mid-1990s to early 21<sup>st</sup> century, the period of 2003–2010, and the period of 2011–2015 in China). In addition, it also emphasises the fact that the national social welfare systems have evolved through different historical periods. To analyse the process of social policy evolution in Chinese society in the past decade, the researchers anticipate reaching a deep understanding that the major actors of social policy (state, social organisations and individuals) have formulated their own strategies for dealing with the emerging needs, mainly from their previous interactive experiences. Consequently, the past experience of both success and failure generated by government policy-making and implementation has conveyed a message to and influences current government policy-makers. Strikingly, the Communist Party of China (CCP), as a core player in social policy-making, heavily sticks to its ethos of revolution, anti-capitalism and loyalty to the country.

To summarise, historical institutionalism can work to interpret the Chinese welfare regime in many aspects as follows: First, Confucian norms and values, such as filial piety, family loyalty, order, obedience, relations (*Guanxi*) and closeness of social network; Second, beliefs about state intervention, economic planning, regulated market and priority of efficiency; Third, political

preferences for centralised power, social control, social stability and limited citizen participation within the fabric of the Party-state. For a long time, in Chinese society, the connotation of residual social welfare has represented the governmental ethos of social assistance, in which individual self-reliance and mutual-aid within the family have been centred as a thread of social solidarity. The extensively-established and functional network of the social relief system run by government focused on state-building and maintaining social order through a top-down model of policy implementation. During the market economy period, with its split urban-rural social security system and increasing pace of social mobility caused by urbanisation and migration, the old welfare system serving work-unit employees and targeting a fixed vulnerable population failed to maintain social order and achieve the goal of a social justice based welfare system. Particularly, in the process of rapid globalisation, the Chinese welfare regime has been transformed into a combination of cultural traditions, institutional legacies and dynamic social changes. The emergence of social policy as a tool for managing new social risks reflects the Chinese government's mentality of handling domestic social problems in order to adapt itself to meet international demands (Xiong 2009). Meanwhile, the striking difference between the Chinese welfare regime and Western welfare states lies in China's lack of institutional design towards a clear social objective, which exhibits an eternal predicament of an imbalance between economic growth and social development. However, we must note clearly that the built-in mechanism of planned socio-economic development and party politics still have a significant influence on social policy-making and implementation at present.

#### **4. Understanding the recent progress and constraints of the social assistance policy in China: the Minimal Living Standard Scheme (MLSS) as an example**

In the initial stage of the market economy, social policy (or social security reform) was used as an instrument to fix the problems caused by the restructuring process of SOEs. With the escalating pace of social transition, the Chinese government chose to react more actively toward social issues generated by economic reform. In addition, in the context of globalisation, the Chinese government has been aware that it is important to strengthen its social security system to maintain stable economic growth and reduce new social risks. According to Esping-Andersen (1999), post-industrial economies shift to a series of welfare reforms in response to increasing new social risks caused by changes in the labour market and households.

In China, we also find a series of newly-emerged social risks related to rapid social transition and globalisation, namely, increasing income disparity, fragile government risk-management mechanisms and depressed forces of social movement. Therefore, new social policies need to be swiftly tailored to growing social needs in order to maintain social stability and enhance social justice. In recent decades, a few new public concepts, for instance, 'scientific approach to development', 'harmonious society' and 'China dream' have been recognised in China, and these take a more balanced approach towards socio-economic development and social welfare. Currently, the government is emphasising its concern about its appropriate role in the use of market principles and in developing a well-off society. More policies and measures have been adopted in order to narrow income inequality and regional disparity in the context of enhancing inclusive growth and building a harmonious society.

In China, besides traditional types of social assistance schemes, the emergence of MLSS for Urban Residents has marked a watershed in social policy development in China in the context of social transition. As a pilot scheme of local policy implementation, the Shanghai municipal government initially invented this social assistance programme in June 1993 with the aim of strengthening its impact on economic progress on poverty reduction

and social stability. Compared to traditional and administrative measures of social assistance in old days, the MLSS highlights some new ideas and values as follows: First, the main responsibility for assistance rests with state and society and a universalist principle of assistance has been adopted in policy implementation all over the country; Second, the emergence and universal implementation of the MLSS indicates a substantial development in citizenship right in reform-era China, with an annual adjustment of benefit and expansion of assistance programmes; Third, a number of political principles, such as a people-centred approach, government for people and power shared by people in the process of social assistance policy implementation; Fourth, the Chinese government stresses a core principle of realising transparency, justice and efficiency in the process of social assistance policy implementation. In order to tailor the programme to local needs, the concrete institutional arrangement and policy implementation structure at local level reflect certain degrees of difference.

From the twenty-year experience of policy implementation, the institutional setting, expansion and universal coverage of the MLSS fully reflect the growing social impact of economic reform and the government's learning about policy intervention on societal problems, especially poverty reduction and improving people's livelihood. As Hammond (2011) observes, the development of the MLSS in urban China is attributed to resources, actors' agency and historical context at local level. In addition, the emergence of the MLSS' universal coverage based on local policy implementation can be characterised by top-down institutional design, local innovative operation mechanism and decentralised resource allocation pattern. In China, the development trajectories of the MLSS can be roughly divided into three phases: Phase One, the period of pilot scheme and initial policy response (1993–1998); Phase Two, the period of policy expansion and broad institutional coverage (1999–2005); Phase Three, the period of universal institutional coverage (after 2006). During Phase One, while the Chinese market economy was still in the initial stages of development, the government's main concern was to absorb the negative consequences caused by process of restructuring the SOEs.

With the increasing progress in economic reform and social transition, the Chinese government has realised that it is too inefficient to passively respond to growing social needs and to deal with the social turbulence caused by the huge number of lay-offs and increase the deprived groups through temporary policy measures. Rather, both central and local government have recognised that it is necessary to establish a safety net based on the MLSS so as to rebuild trust between the government and the people. During Phase One, the main task was to implement the Minimal Living Standard Scheme at local level and modify the system based on the practice of local pilot schemes, causing little radical change. The real institutional change occurred during Phase Two, when the State Council issued the Circular on Establishing the Minimal Living Standard Scheme (MLSS) in Urban China, suggesting that the government was considering comprehensively implementing the MLSS across the entire country at the end of 1997. Almost after two years of policy implementation, the Ministry of Civil Affairs (MOCA) proudly declared in October 1999 that Chinese government had established the MLSS in urban areas covering 668 cities and 1648 townships in the counties. In the same year, the State Council issued the *Regulations of the Minimal Living Standard Scheme for Urban Residents*, which set out this formal social assistance programme as a long-term fundamental policy founded at a national level. In 2000, the State Council made the significant decision to double the fiscal expenditure of the MLSS from 2001 to 2003.

From 2003, the Chinese government shifted its emphasis of social assistance around urban poverty from broadening institutional coverage to supporting measures and categorising assistance programmes based on the different vulnerable groups. The aim of the supporting measures is to help the recipients of the MLSS solve the problems facing them in terms of medical care, children's education, housing and heating in winter. The categorised assistance programmes involve a series of specific assistance measures taken by the government to meet the needs of the vulnerable elderly, children, disabled people and the chronically ill (Zhang 2009). After a breakthrough point of policy expansion in 2003, the number of recipients of the MLSS has remained over 22 million, with a stable fiscal expenditure at national level.



During the period of economic restructuring in the late 1990s, the main purpose of the MLSS for urban residents was to guarantee the basic needs of the laid-off and unemployed in the cities for the sake of social stability. As the safety net had now been set up to present a relatively solid dam preventing this flood, the Chinese government took immediate measures to tackle poverty in rural areas.

During the period of policy expansion of the MLSS, the level of cash benefit for the poor rose from 152 Yuan per head each month in 2004 to 251.20 Yuan per head each month in 2010 in urban areas. In rural areas, however, the level increased from 70 Yuan per head each month in 2004 to 177 Yuan per head each month, meaning that the level of cash benefit doubled over a short period. Thus, as a key area of social policy, the MLSS has experienced a significant institutional change in the past decade, which can be inferred from the expansion of pilot schemes and programme contents, but also the obvious improvement of institutional design from the top down.

To look back over the decade-long development of the MLSS, the most important achievement in the field of social policy in China is the universal coverage of a basic social safety net where all poor people are covered by a social assistance scheme based on the policy objective of guaranteeing it to all eligible residents. However, researchers cannot exaggerate the advantages of the Minimal Living Standard Scheme because this policy is implemented at local level and thus relies on local fiscal expenditure. From a long-term perspective, the implementation of the MLSS still confronts some unavoidable institutional constraints and policy limitations as follows: First, the success of policy implementation of the MLSS is not only influenced by local officials' political will and incentives, but is also confined by local budgetary capacity. When economic growth slows down in a new wave of economic restructuring and cooling-down of the land economy, local government will face difficulties in meeting social goals by limited revenues. Second, the level of cash benefit of the MLSS is too low to raise the poorest out of the poverty trap, which means that local government and related social organisations (for example, charity foundations or organisations) must work together to find other measures and make new institutional changes to help the poor to live better and to build

their capacities to be self-dependent by working or augmenting household assets through a planned asset-building policy. Third, the existence of low efficiency and wrong targeting of policy implementation at local level has been influenced by a flexible culture of human connection (*Guanxi*) and technical flaws in the means-testing procedure in Chinese society; the low degree of integration between the MLSS and other social policy schemes is obvious for certain type of social assistance in China. For instance, local government still lacks clear guidance and sufficient resources to protect orphans when they become homeless and least supported, which implies that a more efficient policy scheme should be designed to solve the problem.

During the planned economy period, poverty as a social problem was denied by socialist ideology, while the social assistance scheme was mainly designed to help only the mostly vulnerable people without family, income or job. The collectivism-orientated work units in urban areas and communes in rural areas played a fundamental role in providing basic welfare provisions for those in need. The new era of economic reform and particularly the rapid process of the market economy since the mid-1990s has dramatically changed the scenario of social structure and social welfare provision, which created an opportunity for the Chinese government to reshape its social policy to respond to emerging societal problems such as urban poverty, unemployment and the increasing number of migrant workers from rural areas. The launch of the pilot scheme of the MLSS in the early 1990s and its overall establishment as a universal scheme across the country around 2008 should be interpreted as a gradual and persistent policy implementation of social policy intervention amidst the changing socio-economic context in China. Nevertheless, one may not ignore the impact of the astonishing phenomenon of increasing income disparity and rampant corruption on escalating the social expectations of the public, while social policy as a supportive tool of promoting economic development in China will find its own way to proceed in the future.

## 5. Conclusion and discussion

During the past decade, growing interest in the East Asian welfare systems and East Asian welfare model were initially generated by researchers in the West, followed by scholars in the Asian region. The main discourses on the East Asian welfare systems and welfare model can be summarised as discussions of Confucian welfare states (Jones 1993), East Asian welfare systems (Kwon 1997), the Oriental welfare model (Goodman et al. 1998), productivist welfare states (Holliday 2000), developmental welfare states (Kwon 2005) and the East Asian welfare regimes (Walker & Wong 2005). In conducting cross-national studies on the welfare systems in the East Asian region, especially when China is included, researchers will encounter challenges thanks to the inadequacy of systematic data, differences in basic concepts and unparalleled country size differences between China and other Asian countries.

Like other East Asian countries, the Chinese welfare system or regime was not only inherited from the legacies of Confucianism and the planned economy, but also absorbed experience and lessons from advanced industrialised nations. However, compared to the European welfare states and other East Asian welfare systems, China has a unique welfare regime embedded in its coherence and self-adjustment in a changing context (Xiong 2008; 2009). In recent years, China has moved rapidly toward building a harmonious society by maintaining a balance between economic growth and social development through implementing a wide range of social policy schemes to reduce the side effects of social instability (Xiong 2012). The ongoing reform of social security and social welfare systems in China cannot only be regarded as an outcome of three decades of economic growth, but also a delayed policy response to emerging societal problems. During the rapid process of urbanisation and industrialisation, the Chinese government has focused on strengthening the role of social policy to provide more room for economic development, as a part of which, integrating the social security system between urban and rural areas has become a daunting challenge. Contrary to the divergent forces of party politics and turbulent social movements occurring in Western societies, social policy-making and implementation is more or less bound within the

structure of the Party-State regime and the qualities and incentives of political elites. In the new era of Chinese leadership, will China move towards a welfare state in future or will it develop a new type of social welfare system? Considering the overarching regional income disparity, a persistent urban-rural fragmented social security system and complex social fabric embedded in a long tradition of Confucian culture, it is fairly safe to say that it will take time for China to create an integrative and universal social welfare system based on needs, equality and justice.

In China, dealing with social problems has been a persistent task of the government-led social administration, and political ideologies and principles heavily determine its path of social policy development. The Chinese government has implemented a series of social policies based on the Scientific Concept of Development and the People-centred Approach since 2003, reflecting a top-level concern about social development strategy in the context of a growing social tension between dream-like political ideals and cruelly-naked social realities. As a facet of social engineering, social policy has, in fact, been strongly influenced by political institutions, socio-economic situations and the degree of conflict of interest between different social groups. It can often be identified that policy response may fail to tackle rapid social change and emerging social problems because of bureaucratic inertia and institutional limits (Navarro 2003). In contemporary China, the progress of social policy implementation, however, is closely related to local officials' incentive structures, individual efforts and institutional recognition. Moreover, the big picture linking the international political and economic context, domestic social atmosphere and other strategies of social reform will create a noticeable impact on the agenda of social policy in this transitional economy. With the smooth transition of the Chinese leadership and a gradual approach to surfacing new development strategies in the new era of the Xi-Li administration, China is making a determined effort to deepen its market economy and to reform its political and social institutions in a context of rapid transition and globalisation. As economic growth slows down and more social risks emerge in a turbulent world, social policy in China still confronts a dilemma between persistent old institutions and new problems.

It is anticipated that in the foreseeable future, the Chinese government will reshape its social welfare system and social policy approaches by strengthening the party's leadership role, promoting citizen participation and augmenting non-profit organisations' involvement in the process of realising the Chinese dream and building a modernised socialist country by the mid-21<sup>st</sup> century.

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## Chapter 3

# Basic elements of China's welfare system<sup>1</sup>

YI PAN

### I. Development context of China's social welfare system

China's social welfare system has gone through three rough stages: creation; destruction and adjustment; and structural reform.

#### I.1. *Creation of China's social welfare system (1949)*

At the initial stage of construction of China's social economy, under the context of planned economic guidance, the social welfare system was built under the structure of a dual urban and rural social economy, which developed completely different welfare policies for the city and the countryside.

China's social welfare system under the urban and rural dual structure represented the construction of welfare mandated by the state, and was specifically provided for and organised by workplaces in the city. The Chinese welfare system under the dual social and economic institutions was as follows: in urban areas, it set up state responsibility for policies and budgets, as well as work unit operated welfare benefits and services. Social welfare provision, based on work unit management and financial support mandated by the state, included health care, retirement, work related injury and other benefit systems,

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<sup>1</sup> This is a revised version of a paper published in Chinese, in the *Journal of Social Welfare* 1 (Jan.) 2012, Beijing.

based on the ‘small community unit’. It comprehensively covered pensions, medical services and housing policy, even including heating subsidies and a transportation allowance. Social welfare was based on the state’s responsibility, and each work unit managed, provided and took on all responsibilities, based on the concept, “the work unit is a small society”.

In rural areas, based on land guarantees, the state carried out basic compulsory education, established a social assistance system (natural disaster and poverty relief), the five guarantee system, cooperative medical service, and collective support under the collective economic system. The populations of the countryside were guaranteed land, plus social assistance (including natural disaster and poverty relief). On the basis of the collective economy, the policy for the elderly allowed them to enjoy the five guarantees, that is, childless and infirm old persons were guaranteed food, clothing, medical care, housing and burial expenses. In addition, a rural cooperative medical care system was established, which continued for more than 20 years.

### *1.2. Damage and adjustment to social welfare system after the economic market reform (after the 1970s)*

In the 1970s, the state began the reform towards a market-orientated economy, and collapsed the previous social welfare system. In the city, the work unit became a pure enterprise production unit, namely, an independent economic corporation. The state transferred welfare functions to society, in other words, engaging in the socialisation of social welfare, and launched various social insurances with endowment insurance as the core. In rural areas, the collective economy was replaced by the household contract responsibility system, and collective welfare declined with the dissolution of the collective economy. The Minister of Labour and Social Security, and Ministry of Civil Affairs and other agencies explored how to adapt the social welfare system to a market economy system, by looking into the process of community building in the city. At one point, economists and policy makers questioned the idea of having, and at one point suspended, a rural area social security system.

### 1.3. *Restructuring of the social welfare system (after 2003)*

The reforms brought about an increased gap between the rich and poor, as well as imbalanced regional development, coupled with growing social problems. In 2003, at the Third Plenary Session of the Sixteenth Central Committee of the Communist Party of China, a scientific development ideology, calling for “people-orientated, comprehensive and sustainable development”, was proposed. In 2004, at the Fourth Plenary Session of the Sixteenth CPC Central Committee, the concept of “building a socialist harmonious society” was clearly put forward. In October 2007, the Seventeenth CPC Central Committee clearly proposed “speeding up social construction that focused on the people’s living standards”. The key issue of “building a socialist harmonious society” is that “all people have rights to education, a living wage, employment, medical care, and housing” (The Central Committee of the Community Party of China 2007). This actually makes up the precise content of China’s social welfare system. China has begun to move from economic development to social development and social construction. The state has started to become concerned with people’s livelihoods, and is exploring social welfare systems such as endowment insurance, a new rural cooperative medical care system, and other social services. The social welfare system tends to be covered by the state, society and individuals, covering more areas and populations from economic security to service benefits. Some new problems in the current situation, for instance, migrant populations and workers, abandoned old people and children left behind in homes in rural areas, have started to attract attention, and topics such as public services have come into view. Even though the government is concerned with people’s well-being, many problems have arisen because of the differences between the rich and poor, in the areas of people’s housing, education and medical care, during the past three decades under the sole drive towards economic development.

#### 1.4. *The current social welfare system in China*

After about six decades of development, the context of China's social welfare system includes social insurance, social assistance, welfare service, a special care and placement system and social aid and charity.

Social insurance systems have been explored very quickly in recent years. There are four main areas of concern: medical insurance, pension insurance, work related injury insurance, and unemployment insurance.

Except for the basic medical insurance for public institutions, basic medical insurance for urban employment was set up in 2005, basic medical insurance for urban citizens in 2007, and rural cooperative medical services in 2006, and an urban and rural serious illness insurance system was installed in 2012.

Looking at the basic pension insurance, basic pension insurance for urban employees was issued in 2005, rural social pension insurance in 2009 and social pension insurance for urban citizens in 2011. The regulation for work related insurance was set up in 2003. The regulation for unemployment insurance was published in 1999. Maternity insurance was issued in 1994.

The social assistance system mainly covers calamity relief and poverty relief. It includes the establishment of the minimum living security system for urban residents in 1999, minimum living security system for rural residents in 2007, natural disaster emergency rescue system in 2004, rural five guarantee system initially established in 1956, and revised in 2006, social assistance for rural poor households in 2003, rural medical help system in 2003, urban medical help system in 2005, relief system for urban vagrants and beggars in 2003, assistance for education in 2004, assistance for housing in 2004 and judicial assistance system in 2003.

Social insurance has grown and its coverage expanded in recent years. According to the Ministry of Human Resources and Social Security of China, basic pension insurance covered 82 million people in 2002 and 305.52 million in 2013, multiplying by 3.7 times in 10 years. Basic medical insurance covered 100 million people in 2002 and 552.77 million in 2013, multiplying by 5.5 times in 10 years. Unemployment insurance covered 4.4 million people in 2002 and 157.35 million in 2013, multiplying by 36 times in 10 years. There were

45.75 million people joined up to work-related injury insurance in 2002 and 188.24 million in 2013: this multiplied 3.94 times in 10 years. Maternity insurance cover has increased from 35 million in 2002 to 154.45 million in 2013, multiplying by 4.4 times. In 2002, 55 million people had joined the rural pension scheme, and this was 320 million in 2011, multiplying 6 times in 10 years.

Public expenditure on social welfare was growing at the same time. Education represented 2.9% of GDP in 2007, and 4% in 2012. Public expenditure on medical services was 0.8% in 2007 and 1.4% in 2011. Public expenditure on social security and employment was 0.2% in 2007 and 2.4% in 2011. Public service represented 2.3% and housing 0.8% in 2011. All public expenditure on social welfare was 7.4% in 2007, and 10.4% in 2011. It is growing fast but is still very low compared with European countries, especially the Nordic countries.

## **2. The background of China's social welfare and its impact on the restructuring of the current social welfare programme**

### *2.1. From planned economy to market economy*

As mentioned above, during the process of transformation from planned economy to market economy, the structures of urban and rural social welfare faced a process of collapse. At this point, in the process of transition to a market economy, personal responsibility was emphasised. In the cities, workplace or work unit managed social welfare was changed to social responsibility, which meant that individuals received benefits and services from different providers, such as social insurance, market purchases and family support. In rural areas, the collective economy was dismissed under the contract responsibility system. As a result, personal income grew, and the state allowed the substantial interference of market mechanisms in all areas, such as education, health care, pensions, housing and social services. On the one hand, the state released

responsibility to market and individual choices; on the other hand, the state welfare structure was dismembered and destroyed, which led to intensified polarisation between the rich and the poor and an increased urban-rural gap. At this point, the Ministry of Civil Affairs tried certain community development and service approaches, and the community would replace the work unit to offer welfare services.

### *2.2. From closed production to economic globalisation*

Globalisation has brought China into the international environment for economic development, accelerating the speed of the country's economic development. As China heads towards a market economy, social security is required to accompany it, i.e., the construction of a social welfare system adaptable to the new situation, which is already the experience of developed countries. When the Western countries encountered globalisation, their market economy was mature and their social welfare system was relatively sound. However, since China's market economy was only in its infancy, social protection was seriously needed to protect people suffering from the market economy. But then, when economic globalisation hit China, a new liberalism was also introduced into China. Globalisation demands the creation of a so-called friendly investment environment, to protect the interests of investors, resulting in denationalising industries and reducing insurance costs to a minimum. When the old social welfare system collapsed and the new one had not yet been established in China, the ideology of 'de-welfare' impacted and hindered the establishment and development of China's social welfare system.

### *2.3. From shortage economy to a certain material basis*

After three decades of reform and opening up, China has created economic conditions and a certain material basis for reconstructing the social welfare system. In the Eleventh Five Year Plan, China's GNI per capita rose quickly, to

\$3,650 in 2009, 1.1 times that of 2005, ranked 125<sup>th</sup> in the world, and advanced 3 places compared with 128<sup>th</sup> in 2005. Although the ranking of Chinese people's GNI per capita is essentially the same as that in the developing world, China's economic status was ranked third in 2005 and in second place in 2010. China's GDP reached 39.7983 trillion Yuan in 2010, increasing 69.9% compared with 2005 (National Bureau of Statistics of China, 2011). The accumulation of material is not commensurate with the establishment of a social welfare system. At present, high income is accompanied by a widened national gap between the rich and the poor, and wealth is concentrated on a few people. Therefore, the construction or reconstruction of China's social welfare system based on redistribution is imperative.

### **3. Core principle of re-structuring China's social welfare system**

#### *3.1. Universal principle*

According to the message from the Ministry of Civil Affairs, in 2007, the Chinese government proposed the transformation of social welfare from basic, limited welfare to a moderate universal type, to serve all populations, including not only the elderly or disabled, but also other people in difficulty; furthermore, service projects would be expanded to medical treatment, health care, rehabilitation, sports and entertainment, comfort and support, and so on (Dou 2007). Its core idea is to widen services to the population and create service projects. According to the reality in China's, moderate universalism contains two meanings, population and content. For example, the current urban and rural social endowment insurance system does not cover all of the people. In 57.5% of larger urban areas, retired citizens receive pensions, but in small towns, this number is 24.8 %, and only 4.6% of rural old people were involved in pension schemes in 2005 (National Bureau of Statistics of China 2005). Universalism means that all of the elderly will be covered by a social endowment insurance system. There are many shortfalls in China's



social welfare system, and it does not meet people's basic needs. Thus, many new social policies should be laid down.

### 3.2. *Integration*

The principle of moderate universalism shall be achieved by integration measures. Integration consists of two points, and also contains welfare content and population. The former means integrating different fragmented social welfare programmes; the latter means integrating the urban and rural area populations into a whole. The goal is the integration of the social welfare system, so that urban and rural residents can receive equal benefit. This will follow concepts based on human-orientation, building a harmonious society.

At present, for instance, just talking about social insurance clearly shows a lot of fragmentation. Citizens cannot have the same levels of insurance coverage, and there are many kinds of insurance for different kinds of people, including medical insurance for urban workers, and rural cooperative medical insurance. Pension insurances are of four kinds, basic pension insurance, basic pension insurance for enterprise employees, rural old-age insurance and residential urban old-age insurance. At present, various incomplete old-age insurance systems have tended towards urban and rural integration. For example, recent news claims that many provinces and cities realise that overall urban-rural development for endowment insurance should cover all people, so that the endowment insurance between urban, rural area and counties can be chosen and transferred (Li 2013). Income security will develop along principles of fairness and balance.

### 3.3. *Establish and improve a new social welfare system*

The establishment and improvement of the social service system in China at this stage includes developing social construction, providing social services, promoting social work, supporting social organisation, establishing rules and

regulations, etc. It represents a transformation from income support security to a modern social administration and social welfare system.

#### **SOCIAL ENGINEERING AND CONSTRUCTION**

Social engineering can optimise the social structure, explore proper management measures and proper relationships between government, society and citizens, and lay a solid foundation for the development of social undertakings. A good social structure can protect a good basic economic and social life for citizens, integrate citizens into society, empower citizens, increase the degree of citizen participation in social and political life and comprehensively enhance their well-being.

#### **SOCIAL SERVICE**

As regards improvement from economic benefit to welfare services, over the past three decades, more attention has been paid to income security, social assistance, disaster relief and different social insurances, but from now on there will be an expansion of service guarantees. With the growth of the elderly population, the phenomenon of migrant workers and changes in family structure, more people and their families need social service support. However, social service is still in its initial stage. A community network platform of social services for residents provided in the community and by the community is required.

#### **SOCIAL WORK**

Social work specifically undertakes the implementation of social policies related to specific operations, playing a professional function in social construction and the social welfare system, especially social services. In the reconstruction of the social welfare system, the professional role of social work is emphasised and highlighted, and the development of social work is truly implemented in all aspects of social work, including the training of social work professionals.

**SOCIAL ORGANISATION**

Non-governmental and non-profit social organisations will be vigorously developed, social enterprises and social production promoted, and many factors mobilised in the cause of social service. However, in view of the shortage of civic organisations that can provide a particular level of service and qualifications, cultivating, building and reforming social organisations will be an important task in order to provide more appropriate and effective services. Currently there are incubators for civil society organisations in Shanghai, Beijing and other cities.

**RULES AND REGULATIONS**

All rules and regulations on social welfare must be improved, especially the proportion set aside for providing social welfare, service standards, testing and oversight systems.

**4. Positive factors of restructure of China's social welfare system**

Some people question the possibility of universalism in China, if even Western developed countries cannot maintain their current systems. We are talking about 'moderate universalism', so, how should this be explained? First we should examine the universalism of the Western countries. Its design is for the purpose of satisfying people's basic needs and reflecting just and relative fairness and equality, instead of meeting the final average result. Firstly, the universalist welfare model is designed to satisfy everyone's basic needs, so that each member of society is able to access basic life support. Secondly, instead of completely filling in differences, it recognises that people have different capacities, and gives such difference the chance for free development opportunities and a fair return. Thirdly, it creates opportunities, so that each person's potential can be fully developed, which is the basic principle of the moderate universalism that we are discussing here.

#### *4.1. Socialist principles and institutions*

The country plays an irreplaceable role in the development of social welfare. The core issue is whether the state proceeds from the common interests of people, and adheres to the principle of social justice.

##### **PRINCIPLE OF SOCIALISM: COMMON PROSPERITY**

China's national system is publicly claimed to be based on common prosperity. Deng Xiaoping said: "The key difference characterising socialism vs. capitalism is common prosperity. Polarisation is not allowed" (Deng 1993). In addition, "Common prosperity is an important essence of socialism, which shows the different characteristics of socialism and capitalism, and the basic principle that cannot be shaken off by a socialist system" (Wang 2012). As well as the elimination of the basic contradiction of capitalism, there are other more obvious factors.

##### **OVERALL PLANNING AND MACRO-CONTROL OF CENTRAL GOVERNMENT**

A socialist system is not only based on a principled and secure system for constructing a social welfare system, but also includes national integrated planning. The centre deploys funds to support the poor and lagging areas, specifically strengthening central financial regulation and redistribution for social endowment insurance. The centre gives 80% of basic pension subsidy to the western area, 60% to the middle area and 20% to the eastern area. The transfer of central subsidies does not only involve the tilt from east to west, but also the transfer from city to rural areas. Another activity of the macro control of the socialist system is scheduled mutual support between regions. The function of welfare features regional and urban-rural pairing. For example, in the construction of rural communities, urban and rural communities in many provinces and cities are paired up, to be built by counterparts. This approach was also very significant after the Sichuan earthquake. Major cities help disaster areas in pairs.

**ECONOMIC BASE**

The public ownership dominated position of a socialist society aims to achieve the economic base of common prosperity, which addresses the contradiction of capitalism's privatisation versus the welfare of all citizens. "Implementing public ownership on an economic basis, or with public ownership playing the dominant role is the fundamental economic system and important symbol of socialism" (Wang 2012). Ownership and property relations determine distribution relations, which is the root cause of the widened gap between the rich and the poor. This public ownership will also provide the basis for improvement of national welfare. For example, in some places, 30% of the income of state-owned enterprises is directly invested into people's livelihoods or careers.

#### *4.2. Traditional heritage*

China's traditional culture has the following characteristics:

**CULTURE: COLLECTIVISM**

Chinese culture is characterised by collectivism. Chinese traditional culture emphasises groups rather than individuals, so welfare often appears in the form of collective institutions, such as the family, community and the state, that demonstrate a collective welfare function. Collectivism, as previously mentioned, is the basic factor of welfare. The emergence of the modern welfare state arose from each class forming alliances and the collective facing crisis and risk. The socialist system is a new choice for a country, and a cultural carryover of a traditional collectivist culture. For example, before the reform and opening up, China's rural areas were very poor, but the state spent less money on establishing common rural cooperative medical systems by relying on collective power.

**ADMINISTRATION: STATE INTERVENTION**

Historically, China emphasised the function of state intervention to take responsibility for people's welfare. In ancient times, there was a statement

of benevolent government. In practice, state intervention first appeared in the Han Dynasty with features such as the Normal Granary, and there was state relief long ago. In Chinese history, measures of state intervention in welfare and disaster relief came much earlier than the earliest representative of intervention in the Western countries – such as the English Poor Laws.

#### **PHILOSOPHY: GREAT HARMONY**

The idea of great harmony expresses a longing for an ideal society, which is a combination of harmony, peace, and coordination, demonstrating harmony between people, and between man and nature. The harmonious community includes the whole world as one community, respecting the old and cherishing the young, filial piety and equality, the core spiritual values constituting welfare.

These cultural factors represent soft powers whose role cannot be underestimated. Stressing the impact of traditional culture, advocating harmonious family relationships and welfare, and the welfare effects of the social network can reduce the country's welfare spending. For example, in the field of social policy, the Chinese cultural factor is applied: family is emphasised as an economic unit, and family is regarded as the smallest unit for formulating family policy. In this way, family cohesion will be increased and government spending reduced. The soft power should be transferred as a system-based benefit design. For example, the phenomenon of older people's collective culture and entertainment appears in many places around the country, which, in fact, manifests in health savings and the tendency towards longer, happier ageing.

#### *4.3. Social organisation and social networks*

Traditional social organisations and networks have played a significant role influencing and changing the restructuring of the Chinese social welfare system. At the same time, since the establishment of the People's Republic of China, some community groups and grassroots organisations established

or promoted by the government are or will also become both promoters and platforms of the social welfare system.

#### **PEOPLE'S ORGANISATIONS**

Chinese people's organisations include the Communist Youth League, the Women's Federation, the Association for Science and Technology and trade unions, etc., which are also facing reform in the new period. Some of them are exploring new ways to provide social services. For example, the Women's Federation is looking into the welfare of abandoned women and children. The Communist Youth League is exploring work for volunteers. These organisations provide a very good agency and organisational frameworks for establishing the social welfare system in the future. However, a new change in their exploratory function is needed to play a special and indispensable role.

#### **COMMUNITY-BASED ORGANISATIONS**

There are about 589,000 rural community village committees and 754,897 urban community village committees, which are resident (villager) autonomous organisations, in China. While mobilising community capital to protect the welfare of local residents, they also play a role in transferring the government's social welfare. Those local autonomous organisations supported by the government are strong organisational networks used for the Chinese community's welfare. They build a platform and organisational mechanism for community service.

#### **NEIGHBOURHOOD, COMMUNITY, AND SOCIETY OF ACQUAINTANCE**

Different from Western countries, China's neighbourhood relations are very close, relatively speaking, especially in rural areas. Some neighbourhoods are there for simple mutual support and help, and some have extended to become community-based mutual organisations, such as The Senior Committee in Jiangxi Province, Mutual Aid Associations in some areas and Elderly Associations everywhere. China has a cultural intellectual tradition of 'united construction of the family and the state'. These harmonious institutions expand welfare culture and provide a welfare function.

**FAMILY**

The inner family relationship of China is close. The family rather than the individual is the minimum social unit. Although currently China's nuclear families are increasing in number, we can see that each small nuclear family is closely linked. Therefore, some scholars have said that the Chinese family is an extended family, and can be referred to as the 'friendly relationship of the extended family'. Family cohesion is a source of well-being. Such relationships can only be strengthened and not weakened. For example, when the elderly social service system is not perfect, and service staff are insufficient, an elderly family policy can be considered, which involves the issuing of an old-age allowance with the family as a unit to support a jobless family member to undertake the work taking care of the elderly. At the same time, the recurrent population of migrant workers can be considered to be supported within the family rather than as individuals. Social policies need to explore family policy to strengthen families and social services, so as to reduce state spending and combine welfare with family roles and function.

These benefit factors have been confirmed in the course of the development of social welfare services. Therefore, we have reason to believe that China will explore its own way in the restructuring of its social welfare system, create a harmonious society and provide well-being for the Chinese people. At the same time, it will enrich the theory and practice of social policy through its own unique exploration.

**5. Challenge of China's welfare factors**

During the reform and opening up, thanks to the influence of diversified thought and new liberal ideological trends, China's social welfare thinking has become less rigid than in the past, being challenged from many aspects. Under the strength of the market economy, socialist principles make way for the market economy in some respects. Vested interest groups occupy strong, powerful economic positions and the right to speak, steering national social welfare together with domestic and international forces. Following



three decades of Chinese economic reform and opening up, and adhering to the view of Deng Xiaoping of moving steadily without controversy, a clear opposition has emerged to the welfare ideology in current classes. Current class stratification strains the value orientation of the government and the nature of the national welfare system.

Despite unprecedented challenges and difficulties, we are convinced of China's choices for a few reasons. Firstly, China's national condition is socialist, and China's socialist nature is written in the Constitution, which is indisputable. Secondly, social welfare policy emphasises moderate universalism. Thirdly, the strong Chinese culture has continued for thousands of years. Fourthly, China's historical path of development cannot be reversed. The current confusion and problems demand a new way of thinking. In 2002, after three decades of economic reform, the idea of social development fitting economic development was proposed. And now, it is time to think of welfare ideology. Therefore, political reform is required. The two strands of welfare and democracy have mutually reinforced each other in Western countries. China's economy and liberalism have been integrated for many years. However, development of social welfare needs to focus on people's livelihoods and basic needs, which reflect people's social rights. The voice of social rights calls for political rights.

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## Chapter 4

# Historical development and new characteristics of China's social welfare

*A comparative study with South Korea under  
the framework of the East Asian welfare regime*

KEQING HAN AND BYUNG-CHEOL KIM

### 1. Introduction

The concept of the 'welfare state regime', including social democratic regimes, liberal regimes and conservative regimes, was first put forward in 1990 by Gøsta Esping-Andersen in his book, *The Three Worlds of Welfare Capitalism*. Since then the research of welfare state regime has attracted strong interest from academia. Later, in his book, *Welfare States in Transition: National Adaptations in Global Economies* (1996), Esping-Andersen points out that social welfare development in the East Asian countries and regions can be defined as the main goal of their national construction of an extended adaptive learning and development strategy. A welfare system can be considered to be a joint action as a result of the internal and external pressure. Compared to Western experiences, East Asia's social welfare development model is not consistent (Esping-Andersen 1996). In recent years, the East Asia welfare regime has become the research object of many scholars, who have attempted to find a new welfare model that is different from those regimes mentioned in *The Three Worlds of Welfare Capitalism*. After twenty years of examination,

the question as to whether the so-called 'East Asian welfare regime' exists in the East Asian regions is still controversial.

The research proposition regarding to whether or not the East Asian welfare regime exists is very complicated. It initially involves working on a standard classification of welfare regimes. Undoubtedly, Esping-Andersen's work is ground-breaking. However, there are limitations in his research. Thus, the key to confirming the existence of the East Asian welfare regime is to find the core discipline of its features, ensuring that this discipline is totally different from the other three types of welfare regime. Only through this process can the task of examining the East Asian welfare regime be accomplished.

## **2. Introduction and characteristics of the East Asia welfare regime**

Since the second half of the 20<sup>th</sup> century, the East Asian countries, represented by Japan, South Korea (hereafter Korea), Singapore, Taiwan and Hong Kong, have produced great economic miracles. Meanwhile, social welfare policies have played a main role of serving economic development rather than social solidarity. To certain extent of economic development, the East Asian countries are prepared to take measures to expand national welfare. Currently, the majority of developed countries in the West are showing a trend of reducing national welfare. How have the economic miracles of East Asia been created? How can the combination of a welfare regime and an economic system be realised?

The issues related to East Asian welfare have aroused the extensive concern of researchers. The study of the East Asian welfare regime opened its door to the West in the 1980s. Dixon and Kim (1985) paid great attention to the institutional characteristics of welfare systems in Asia. Rose and Shiratori (1986) showed the differences in welfare systems between the East and West, which went beyond the scope of national research in welfare systems. But the

examination of East Asian welfare was still minor before the 1990s, compared to studies on European welfare.

A remarkable growth of studies related to East Asian welfare has been witnessed since the beginning of the 1990s. Some scholars have proposed the concept of an 'East Asian welfare model' or 'East Asian welfare regime' in order to identify certain similarities that emerged in the development of social welfare in the rising economies of East Asia, as differentiated from Western welfare states (Jones 1993, 198–217; Goodman et al. 1998; Lin 1999). However, the East Asian countries still have significant differences in their historical development, basic national conditions, population, level of economic development and welfare systems despite their similarities in terms of geographical location, cultural traditions, development strategies, political environment and so forth. Therefore, it is a controversial issue in the academic field as to whether the East Asian welfare regime exists.

### 3. Similarities in the East Asia welfare model

Firstly, the level of national welfare is low, as is the proportion of welfare expenditure in most Asian countries or regions (White & Goodman 1998, 1–22). Holliday & Wilding (2003) systematically point out nine common features in the social policies of East Asian social welfare regimes: (1) low government expenditure on welfare; (2) positive welfare policies with a focus on economic growth; (3) government hostility toward welfare; (4) residual models; (5) family-centred nature; (6) government has a role in normalising and encouraging; (7) fragmentary schemes of welfare development; (8) maintenance of the stability and legality of political power by means of welfare; (9) limited commitment to welfare entitlement. According to the *Social Protection Index* report issued by the Asia Development Bank on 14 May 2008, the average expenditure on social welfare in Asia was less than 5% of GDP and the average level of financial support to the unemployed, the aged, the poor and disabled only reached 35% of the level set by the United Nations (Zheng 2009).

Secondly, the coverage of social insurance in most of Asian countries is very low, except in Japan and Korea. Taking China as an example, the actual number of people participating in pension insurance only accounts for 20% of those who should have such insurance, and the same proportion of people in the relevant cohort receive a pension. Only about 5% of the population have benefited directly from the minimum livelihood guarantee system. Although the rate of health insurance coverage has accelerated, around 300 million urban and rural people are not insured by medical security. In the countryside, the actual medical insurance benefits that rural residents obtain from the cooperative medical system represent less than one third of their medical expenses. Similar situations can be found in India, Indonesia, Malaysia, Thailand and the Philippines, Pakistan, Mongolia and other countries (Zheng 2009).

Thirdly, elitism is an obvious feature of social welfare in East Asia. The loyalty of regional elites and significant state functionaries is ensured by the necessary welfare policies. In this area, civil servants, soldiers and staff from key public sectors are usually given more generous welfare packages, while vulnerable groups are often excluded from such welfare packages (Lin 2008). Thus, the social welfare system of East Asia does not fully play the role of promoting social justice.

Fourthly, the reform and development of social welfare shows a trend which is distinct from current models in Europe and America because of the specific social, economic and cultural backgrounds found in East Asia. It is a diversified development pattern (Lin 2000). Japan is an Asiatic welfare state, whereas Singapore chooses the unique accumulation fund model. The mixed welfare system of China is taking shape, and welfare system arrangements in each country also vary significantly (Zheng 2009).

Last but not least, Confucianism emphasises familial responsibility and obligation, which induces people to reduce their expectations from national welfare and rely more on the family (Park & Gao 2007). Research indicates that the family structure of East Asian countries and regions has suffered an unprecedented impact under the influence of industrialisation. The downsizing of the family structure or increase of nuclear family types has

been accompanied by the process of urbanisation. The family structure, as well as close relationship through kinship is still very strong, which is quite different from the situation in Europe and America. Familial responsibility still plays an extremely important role in social security in East Asia (Lin 2000).

#### 4. Arguments about East Asian welfare regime

The concept of traditional ‘Welfare Orientalism’ has led some researchers to regard East Asian societies as homogeneous, which in turn has led to the image of an egalitarian society. However, in a real sense, they are quite different from each other in terms of their historical trajectory of modernisation in a real sense (Takegawa 2007). Significant differences can be found across the East Asian region in the aspects of historical background, national conditions, population density, political system, social structure, level of industrialisation, life style and values. These different factors correspondingly lead to unique social welfare regimes with their own characteristics.

Although social welfare in the East Asia region has shown some common features, it is still controversial to agree upon the possibility of an ‘East Asian welfare regime’ because of these differences. Thus, it is difficult to boil them down into a homogeneous and unified East Asian welfare regime (Walker & Wong 2005, 216).

Some scholars consider the so-called ‘East Asian welfare regime’ to be invalid. Lin and Zhao (2010) argue that “what standard welfare type or regime is established” is a key question that cannot be avoided in East Asian welfare studies, while the geographical area cannot be taken as a whole for classification basis. Even though we may to some extent confirm the existence of an East Asian regime in geographical way, the key foundation of the East Asian welfare regime is definitely not the geographical scope of these countries and regions. There is also insufficient research that is supportive of the so-called ‘East Asian regime’ and ‘East Asian Regionalism’. Ramesh (2004, 16) argues that the concept of the East Asian welfare regime is useless,

because of certain differences among East Asia countries, which have been more obvious since the late 1990s. Xiong (2007; 2008) points out that the unified East Asian welfare regime does not exist, by demonstrating the obvious diversity rather than a single form of social welfare system in the region.

Throughout the social welfare practices of East Asian countries, we can find that the regime choices are different. Japan established a universal social insurance system in the late 1950s and early 1960s by choosing the strategy of paying equal attention to income distribution and economic growth. In 1955, Singapore established the Central Provident Fund System with compulsory saving. Initially independent, this system was continued by the government and made further achievements in its coverage and function. Now it has evolved into social insurance system providing pension, health care, housing and other related programmes for all citizens, and the beneficiaries covered by security programmes have been expanded from employees of the public and private sectors to the self-employed. The Taiwanese social welfare system, including labour rights and interest protection, health insurance and occupational security, has taken a basic form in the 1990s. In regard to programme development, insured levels and the degree of system sustainability, army personnel and civil servants still obviously enjoy more benefits than labourers, farmers and other professionals. In Hong Kong, a 'no intervention policy', which tries to reduce government intervention and increase the self-reliance of citizens, has had a prominent impact on social welfare.

## **5. The historical development of social welfare in Korea**

Factors such as social, economic and political elements in a country or society are closely related to the development of social welfare. Understanding these factors can help us to identify the major features of social welfare in a particular country or society (Kim et al. 2009). The development of social welfare in Korea could roughly be divided into two phases. The first phase is the formation period of social welfare system, which covers the period from the



U.S. government's military intervention after liberation (1945–1948) and Chun Doo-hwan's government (1980–1987). The second phase ranges from Roh Tae-woo's government (1988–1992) to Lee Myung-bak's government (2007–2013).

The first phase is the formation period of social welfare in Korea, which ranges roughly from the military intervention of the U.S. government after the liberation (1945–1948) to the eve of Chun Doo-hwan's government (1980–1987). The national policy of the U.S. government was keen on maintaining the status quo. At that time, the U.S. government introduced various forms of aid in order to solve economic chaos throughout the country. The measures that the U.S. government took featured extremely restrictive and selective objects for welfare provision, such as facility supplies, public aid, emergency, disaster relief and other general assistance, as well as aid in sheltering, unemployment and housing for victims who returned after the war (Lee 2004). During the period of the Rhee Syng-man and Zhang Myon governments (1948–1961), social welfare at the national level was supportive of certain groups of people, such as civil servants, school teachers and soldiers who could display strong support for the political ruling party and its leaders. Social welfare at civil society level was concentrated on facility-based protection, and was highly dependent on foreign emergency aid. During this period, the Korean government formulated a series of laws, including the national meritorious staff compensation, *Sergeant Aid* (1950), the *Labour Standard Act* (1953), the *Civil Servants Pension Law Related to Social Insurance* (1960), and so on.

The state-dominated economic development policy of Park Chung-hee's government (1961–1979) placed economic development as the priority. Park Chung-hee's government continued to maintain 'distribution after development' political domination with the formulation of over ten social welfare Acts (Choi 2001). The authoritarian Chun Doo-hwan government (1980–1987) featured a stabilising politics and resistance to social movements to some extent, and still served to ensure the legitimacy of political power (Jung 2003; Park 1995). In short, the first stage, from the U.S. government's military intervention to Chun Doo-hwan's government could be regarded as the formation period of social welfare in Korea, in which social welfare

was transformed from an assistance-orientated welfare system into a modern institutionalised welfare system.

The second stage is the developing period of social welfare, beginning from the struggle for democratisation and labourers' movements during Roh Tae-woo's government (1988–1992) up until Lee Myung-bak's government (2007–2013). Roh Tae-woo's government (1988–1992) set up a series of social welfare programmes in order to satisfy the constantly emerging need of democratisation and workers' welfare. These programmes were based on universalism, which gradually expanded their coverage. It is not only inclusive of a specific social class, but also covers ordinary people. During this period, the basic structure of social welfare was established. The *Minimum Wage Law* and *National Pension Act* were implemented on 1 January 1988. Kim Young-sam's government (1993–1997) established a system of political democracy and instituted standards of living through means such as the minimum livelihood guarantee system. The social security system in Korea was enlarging gradually. The economic crisis after 1997 resulted in extensive bankruptcy and unemployment, which in turn resulted in a ripple effect of social problems including interruption of income, family disintegration, increase in homelessness, an increased suicide rate and so forth. Kim Dae-jung's government (1998–2002) proposed to provide the able-bodied with decent protection based on basic human rights. Social welfare during this period was based on productive welfare that dealt with the economic crisis. In particular, the nation's loose social safety net was tightened by expanding the coverage and the benefits of the four major state-administrated social insurance schemes and by thoroughly overhauling the public assistance program (Yang 2000). During this period, consolidated social insurance brought all citizens into the coverage, but informal employed labourers such as temporary workers were still excluded from the formal coverage of the social insurance system. Besides this, the National Minimum Livelihood Guarantee System was promulgated in 1999. In order to prevent family discord and breakdown due to massive unemployment and the ensuing poverty, a series of acts, including the *Domestic Violence Prevention Act* (1998), *Parents' Welfare Act* (2002), *Children's Welfare Act* (1999), and the *Disabled Welfare Act*

(1999) were enacted and revised. Roh Moo-hyun's government (2003–2007) set 'participation' and 'authoritarianism absent' as the political orientation in its initial stage. The notion of participative welfare reflected the new welfare demand and the positive meaning of the maturity of civil society in a changing society (Ministry of Health and Welfare 2006). Social welfare in this period was based on participative welfare theory and inherited and developed the productive welfare of Kim Dae-jung's government.

Lee Myung-bak's government was centred around Neo-liberalism, which mainly consists of growth theory and exploitationism represented by the '747' pledge – 7% annual GDP growth, an annual per capita income of 40,000 USD, and making Korea the seventh-largest economy in the world – and 'the Grand Canal Project' – the 500-kilometre waterway project. But these measures accelerated social polarisation. As Lee Myung-bak's government came with a message of small government, less regulation and lower taxes, it weakened investment in social welfare. It further advocated an 'active welfare' policy, introduced on the basis of the market function and offering a door-to-door service for beneficiaries without waiting. The One-stop welfare delivery structure has been constructed in all welfare systems, providing welfare services from children to the elderly. It also includes policy measures that prevent the appearance of vulnerable groups instead of investing in welfare once they have arisen. There are four strategies to bring about active welfare: (1) providing basic livelihoods based on the life cycle; (2) preventive, targeted and comprehensive welfare programmes; (3) stabilising the national economy through the market function; (4) safe society breaking away from social danger (Kim et al. 2009). Superficially, the social welfare policy of Lee Myung-bak's government was regarded as similar to those of previous governments. However, in relation to welfare, it is rather different from Kim Dae-jung and Roh Moo-hyun's governments. From the perspective of the tax reduction policy implemented by Lee Myung-bak's government in September 2009, we should say that it was far from the goal of "expanding welfare for citizens" (Kim 2009). The 0.7% cut in inheritance tax and reduction on income tax on duty-free shopping instituted by this policy has nothing to do with the low-income class. The policy rather ease the tax burden of

the cooperate class. In particular, 80% of it was applied to large enterprises. Policies to increase the property of the upper classes and large enterprises come into opposition to the expansion of social welfare that is beneficial to most citizens. Looking at the share of the total welfare spending in GDP between 1999 and 2001, the trend in welfare expenditure displays a dramatic decrease. Korea's welfare budget of 129.6 trillion won was equivalent to just over 12% of the entire gross domestic product (GDP) in 1999 and the country's proportion of welfare spending dropped to 9% GDP in 2001. Thus, we may say that the social welfare of Lee Myung-bak's government is quite robust. But it still follows the path of decreasing social welfare. Thus, the expansion of social inequality will become a stumbling block for the lower classes to fulfil their potential and restrain people's freedom to act, which, in return, can cause social unrest in Korea.

## **6. The characteristics of social welfare development in South Korea**

Before the 1990s, Korea paid great attention to economic growth aiming at eliminating absolute poverty instead of consideration for decent livelihoods and support for disadvantaged groups of people. Therefore, the institutional framework for dealing with the social risk that has resulted from unemployment, ageing and diseases is not sound and perfect. However, in the 1990s, the government started to recognise the necessity of social welfare, with expanded investment in this area under the new paradigm of 'balance between economic growth and social development'. There existed a unique background from Kim Dae-jung's government to Lee Myung-bak's government. In politics, the outbreak of the national requirement for democratisation and the labourers' movement established the foundation of the transition from a formal democracy to a substantial democracy. In terms of the economy, the influence of globalisation and Korea's unique economic system brought about a serious economic crisis in late 1997. During this period, social and economic problems, including increasing rates of unemployment,

poverty and informal employment as well as family disintegration resulted in social polarisation to various degrees. In addition, the low birth rate and ageing population made the situation worse. Regional decentralisation and welfare circumstances also changed alongside these issues.

The characteristics of Korean social welfare in the first phase could be summarised as follows (Kim et al. 2009). Firstly, social welfare under the Japanese colonial period was instantly transplanted after liberation, and then institutionalised. Regarding social assistance, the rescuing order of Japan's rule was changed into rescue principles in the period of the U.S. government's military intervention; it then became known as the life protection system during Park Chung-hee's government. This represented a sort of renaming process, without key programmes being changed and with no differences between them.

Secondly, social welfare is regarded as a tool for maintaining ruling power and social stability. In spite of a number of pieces of social welfare legislation being implemented, social welfare was merely nominal, not applied in a real sense universally to ordinary people. The Park Chung-hee and Chun Doo-hwan's governments made flexible use of social welfare as a political means by which to maintain their authority.

Thirdly, economic development always took precedence over social development. The welfare system was supposed to serve economic development along with the national strategy as the goal. It was often thoroughly suppressed by the labourers' movement and students' movement. This relationship blocked the development of social welfare guaranteeing people's basic rights.

Fourthly, welfare provision by the private sector was more prevalent than state welfare. Under the circumstances of the 'Korean War' and absolute poverty, various forms of aids from private foreign aid agencies strongly featured, involving dispensation-orientated assistance. In terms of scale, the for-profit sector that was dependent on foreign aid occupied more of a share than social welfare. As foreign aid gradually retreated, social welfare had to take over its responsibility in a passive way. At that time, the poverty issues and health problems of ordinary people were buried under the priority of

economic development, and most responsibility for poverty and health was borne by individuals and families.

The establishment of social welfare in Korea has gradually taken effect with the following characteristics (Kim et al. 2009). Firstly, there is a continued expansion of the universal welfare system. On one hand, this has been a result of democratisation and the labour movement. On the other hand, it has been a policy adjustment to deal with economic crisis. Through democratisation, the needs of the citizens emerged. The president elected by the hands of the citizens was committed to provide social welfare to meet the demand of the citizens. If the labour movement was recognised as the driving force for welfare development, the series of labour movements had a tremendous effect on the development of the universal welfare system. Moreover, the rapid growth of civil organisations also had a certain impact on the establishment of universal social welfare during this period.

Secondly, the responsibility of the government in social welfare was suppressed compared with the grater expansion of the private sector. The level of social welfare expenditure in Korea has been one of the lowest compared to the OECD countries. This reflects the huge influence of neo-liberalism on its social welfare, which emphasised the establishment of a social welfare system, while enhancing the benefit level of social welfare was faced with many challenges.

Thirdly, the governments in the second phase carried out specific plans for welfare development according to their own welfare ideology, except Roh Tae-woo's government. Each government needed to make strategic adjustment at the national level in order to eliminate negative influences such as globalisation, economic crisis, social polarisation, low birth rate and population ageing. For example, Kim Young-Sam's government put forward the Korean type of social welfare model represented by the national minimum livelihood guarantee system, Kim Dae-jung's government proposed productive welfare represented by labour-linked social policies, and Roh Moo-hyun's government brought in participative welfare. These strategic adjustments made development and distribution possible in order to reach a benign interactive equilibrium and various social welfare schemes.

## 7. The historical development of social welfare in China

The historical development of Chinese social welfare has undergone two major institutional changes since its foundation in 1949. The first phase was the period of the gradual establishment of social welfare, including a national insurance system, work-unit welfare and collective security, adapted to the socialist planned economy system. The second phase was the period of system transformation since the reform and opening up policy in 1978. The Chinese economy has gradually been shifted from the planned economy to the market economic system. In this major process of system transformation, the development of social welfare has moved on to the third stage.

The first phase was mainly about the establishment and stabilisation of social policies under the planned economic system. It started with the foundation of PRC in 1949 and ended on the eve of the policy of reform and opening up in 1978. During these years, the Chinese government established the labour insurance system for urban enterprise employees, the socialised medical care system, the enterprise collective welfare system, and the retirement system of organisations and institutions in urban areas, while establishing the Five Guarantees supporting system and the rural cooperative medical system in rural areas. Thus, the model of national social welfare under an urban-rural partition was gradually formed.

The policy under the planned economic system was generally characterised by this dual policy system with urban-rural partition. In the urban areas, the national insurance system as a main provision was designed for the workers, work-unit welfare was considered a supplement, and social relief was only for the small number of poor people (for example, people without a job, income or alimony). In rural areas, people belonged to collective welfare based on the three-tier system: people's commune, production brigade and production team. At that time, Chinese social welfare featured universal forms of welfare provision through the state and the enterprises.

The second phase happened between the transition and convergence period from the planned economic system to the market economic system, roughly between 1979 and 1997. During this period, land reform in rural areas started,

followed by the reform of state-owned enterprises and collective enterprises in urban areas with the planned economy being comprehensively replaced by the market economy. In the field of social welfare, the all-encompassing welfare burden of economic organisations and enterprises under the planned economic system were fully eliminated. In 1993, the CPC Central Committee decision on establishing a socialist market economic system clearly aimed at building personal income distribution and social security systems by building a multi-level social security system, providing social security compatible with China's national conditions for urban and rural residents, and promoting economic development and social stability. It focused on improving the corporate pension and unemployment insurance system, and strengthening the function of social services to reduce the burden on enterprises, to promote the adjustment of enterprises' organisational structure and improve economic efficiency and competitiveness (Ministry of Labour and Social Security 2002). During this process, the social welfare established and perfected during the planned economy faced problems including the gradual disintegration of the policy basis, significant reduction of effectiveness, and even the absence of specific policies in some areas. Welfare housing and publicly funded education began to move in the direction of market, commercialisation, privatisation and industrialisation.

With the gradual deepening of reform and opening up policy, new economic problems and social contradictions became increasingly prominent. The adaptation of social welfare to the socialist market economic system also became an inevitable requirement of economic development. Against this background, many areas carried out old age insurance, medical insurance and other social insurance system reform pilots, and preliminarily established a combination of social pooling and individual accounts for the social insurance system. Regarding the social assistance system, Shanghai was the first city to explore the implementation of the minimum livelihood guarantee security system for laid-off workers in urban areas. The social welfare of this period embodied the transition from universal forms of welfare system to a selectively based liberal welfare system.



The third phase covers the establishment and improvement of the new social welfare system, roughly starting in 1998. The first characteristic of this period is the frequent adjustment of the social welfare management system. In 1998, the National Labour Personnel Ministry, renamed the Ministry of Labour and Social Security, helped to reinforce the managerial function for affairs of social insurance in management systems. In 2008, the Ministry of Labour and Social Security was combined with the Ministry of Personnel to form the new Ministry of Human Resources and Social Security. The second characteristic is the intensive release of various welfare policies. Here, the Chinese government prioritised the gradual establishment and perfection of the social insurance system such as urban employees' pension insurance and basic medical insurance, unemployment insurance, industrial injury insurance, urban residents medical insurance, the new rural cooperative medical system, the new rural pension insurance system etc. On 28 October 2010, the institution of the *Social Insurance Law of the People's Republic of China* demonstrated that the basic design of the social insurance system in China had been finalised. At the same time, various social assistance, social welfare services, education and housing welfare and so forth policies came on in succession, such as the *Regulations of Minimum Livelihood Guarantee System for Urban Residents*, *Regulations for Housing Accumulation Fund Management*, *Law of Donations for Public Welfare*, *Regulations on Assistance and Management for City Homeless and Beggars*, *Rules of Rural Five Guarantees Support*, *Minimum Livelihood Guarantee System in Rural Areas*, *Measures for Low-Rent Housing*, *Law of Protection for the Disabled* and so forth. The third characteristic is the fundamental shift of value orientation for social welfare. Fairness and justice have gradually replaced the concept of efficiency and temporary-aid-centred welfare. During this period, social welfare in China began to transform from the selective welfare of liberalism to the institutional welfare of universalism.

## 8. Characteristics of social welfare since market-orientated reform in China

First of all, the modern social welfare system bears certain liberal characteristics. As is commonly known, Chinese social welfare has been established to concentrate on the socialist market economy since the reform and opening up policy. There are two important positions here. One is that market-orientated reform is a fundamental condition for the construction of China's social welfare, while the other claims that China's social welfare is also part of the marketisation reform. The liberal market-orientated reform is the basic platform for the establishment of social welfare, which features a strong sense of neo-liberalism (Han 2008; 2010). According to Esping-Andersen, the minimised laissez-faire policy is obvious in liberal thought. When liberal universalism and the reality of social dualism and social stigma brought by it are in conflict, liberal countries try to cope with market failure through the establishment of poverty relief in a punitive and stigmatised way. The poverty relief gradually becomes a modern type of social assistance with means testing (Esping-Andersen 1990, 62). Since the market-orientated reform, the inherent dual separation of the Chinese society, the gap between rich and poor and the social exclusion brought by stigma all comply with Esping-Andersen's view of the dilemma faced by liberal social welfare. If what Esping-Andersen describes about the liberal social welfare and system arrangement is a kind of universal law of welfare policy, the priority of current Chinese societal construction must be the establishment and perfection of poverty relief and social assistance system using means testing.

Secondly, policy reform is driven mainly by economic development. The changes in Chinese reform have been dominated and driven by the government since China's market-orientated reform policy. From the perspective of structural-functionalism theory, changes in the political system are affected by the economic system. Both tend to undertake the same process from differentiation to adjustment. Although the development of China's social welfare has been initiated by economic reform or changes in the economic system in some ways, current social welfare in China has become a very

important part of China's political reform or political system changes. This will become more clear when the economic and political systems are gradually separated. Considering China's current political system, the single goal of economic development is leading (or has led) to multiple goals of political democracy and social construction. The function of social welfare is changing (or has changed) from the single goal of supporting market economy reform to multiple goals of dealing with social problems, tackling the gap between rich and poor and promoting social justice.

Thirdly, the social welfare system has expanded rapidly. The new century has seen the rapid development of China's social welfare and policy measures. From the perspective of social assistance systems, the government has established the minimum livelihood guarantee system for urban residents, assistance and management for city beggars, low-rent housing for poor urban families, medical assistance, education aid and other forms of social assistance, and correspondingly adjusted management systems. On 10 July 2008, the General Office of the State Council issued the *Regulation on the Main Responsibility, Internal Institutions and Staffing of the Ministry of Personnel*. It reformed the ministry's internal institutions, adjusted its responsibilities, strengthened the social assistance function, established the internal organisation and changed its name from the Minimum Livelihood Guarantee Department to the Social Assistance Department. In terms of the social insurance system, the *Social Insurance Law of the People's Republic of China*, promulgated on 28 October 2010, further integrates pension, medical, industrial injury, unemployment and birth insurance. It also confirms that old-age insurance will gradually realise national co-ordination; other insurances extend to the provincial plan. It also enlarges the coverage of the system to benefit labourers and citizens and further clarifies the government's responsibility, which sets the tone of the social welfare system which is marked with Chinese characteristics since the reform and opening-up policy. A series of systems such as the new rural pension insurance system, the new rural cooperative medical insurance system, the minimum livelihood guarantee for rural residents, and the rural five guarantee system form the basic system framework of the rural social welfare system in establishing social welfare in rural areas. Social welfare for

immigrant workers has been improved and the household registration system reform has developed rapidly. What is more, the integration of the urban and rural areas of the social welfare system has started to take shape. At present, the social policies of China are beginning to transform from being a selective liberal welfare regime to becoming an institutional universal welfare regime.

## **9. Conclusions and discussion**

As China and Korea have similarities in terms of their history, culture, social traditions and economic development, social welfare in two countries correspondingly has much in common. To some extent, this may lead to theoretical basis of the East Asia welfare model. Looking at its background, the common characteristics mainly include the following aspects:

Firstly, social welfare in China and Korea are deeply influenced by the liberal welfare regime. Democratisation, marketisation and neo-liberalism are obviously identified in the development process of social welfare in Korea. The 'democratic market economy' is fundamental in differentiating societal welfare development in Korea. As for China, neo-liberalism has had a great impact on the establishment of social welfare since the market-orientated reform. A series of welfare reforms have been made with an emphasis on 'de-nationalisation or growing out of work-unit protection system' such as 'marketisation of education' and commercialising housing'. In addition, the construction of a social insurance system, with its emphasis on shared responsibility among state, society and individuals, has become the major element of welfare reform in China. On the other hand, social assistance has played an important role in providing effective supplements to welfare deficiency during the process of marketisation.

Secondly, the establishment of national welfare is another noticeable dimension of social welfare development in China and Korea. Looking at the historical and cultural traditions, the two countries have traditions of national welfare emphasising collectivism in spite of deep influence by the liberal welfare regime. Looking at the development process of social welfare in

Korea, it is not difficult to find that social welfare achieved rapid development and expansion under the premise that basic social insurance systems and social assistance systems are established. It is the same in China. With a basic social insurance system established and the social assistance system continuously improving, there is obviously an increasing trend in sustainable development and the rapid expansion of demand for national welfare and public services in China.

Thirdly, China and Korea have lagged far behind the Western developed countries in the process of modernisation, because of social historical conditions. Therefore, both countries have adopted a 'catching-up and surpassing' strategy. In the realm of social welfare, this shows evident features of developmental welfare. Through social investment and productivist, developmental welfare attempts to promote social development, to increase opportunities of employment and self-employment for low-income and special groups, and to promote human capital flow and social capital formation (Midgley 1999; Midgley & Sherraden 2000). Therefore, whether the productive welfare driven by Kim Dae-jung's government in Korea or the social welfare system promoting economic development in China, both reflect not only the profound influence of economic growth on social welfare, but also the goal of social welfare development to promote economic growth and social development.

Fourthly, the development of social welfare in China and Korea is based on experience and lessons from the Western developed countries. In the course of learning about these experiences, the two countries constantly make adjustments in order to cope with social problems and to ease social conflicts that emerge in the process of rapid economic development. At the very beginning, social welfare in Korea was based on the selective aid system of the U.S. government. Then the Korean government has constantly taken policy design from the European countries as a reference in the process of democratisation and industrialisation. In the early days, China firstly took the national insurance system from the former Soviet Union. Since the market-orientated reform, the Chinese government has taken elements of policy design from Germany, Japan and other developed countries.

Of course, the two countries have different historical experiences and circumstances in development of social welfare. This has led to obvious distinctions in ideology, political system and the decision-making process between the two countries. As the two countries have experienced rapid changes in social welfare, the distinction can be mitigated or transformed to a great degree. To draw a more solid line about this issue, we should wait until the on-going transformation of two countries, particularly China, reaches its end.

Meanwhile, we could ideally produce the so-called 'East Asian welfare model' or regime. But it is too naïve to simply classify social welfare in China and Korea as liberal welfare regime or another category. Whether in China or Korea, it is a very complicated process to form social welfare, because social welfare combined with their own characteristics of economic and political system should be able to solve social problems and to realise the social justice that really matters for the national development, social progress and well-being of humanity.

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## Conflicts and compromises in the Nordic pattern of social regulation

PAULI KETTUNEN

### 1. Introduction

The strong state is conventionally regarded as a major characteristic of the Nordic model of social regulation. Whether it is seen as guaranteeing social rights, promoting gender equality, or patronising people, the strong state is also a central figure in discussions on the current challenges facing the Nordic-type societal pattern. Some debaters, seeking for effective responses to the challenges of globalised economic competition, cross-national migration, or the ageing population, have pinned their hopes on actors and modes of action that they find to be opposite or alternative to the strong state: market competition, civil society or local community.

I will argue, however, that the strong state contrasting with market competition, civil society and local community is a stereotypical image of the Nordic welfare states. Any relevant analysis of current transformations should include a historical deconstruction of common stereotypes. Stereotypes, or taken-for-granted beliefs, are not just something to be proved false. One should ask how they are embedded in social reality. The image of the strong state is 'real' in the sense that it is effective in political debates, and it is also easy to show norms and institutions that can be plausibly interpreted this way. Comparative classifications of different welfare models or regimes are often based on defining one dominant actor or action field of welfare

provision (the state, market, civil society, local community or family), and in such comparisons it is quite natural to point out the strength of the state in the Nordic model.

Yet one should move beyond this image. Different directions for such a critical elaboration can be recognised. One might start from the observation that, even in the Nordic countries, a wide array of actors appears as a somewhat permanent phenomenon in the production of welfare. There have been religious and secular, national and local, public and private, official and unofficial, obligatory and voluntary welfare providers, and a plenty of mixtures of various elements. Instead of classifying welfare models or regimes according to one dominant actor or field of welfare provision, and instead of greeting the emergence of non-state actors and activities as a great novelty, the varying and changing relationships between different actors appear to be crucial for a historical understanding of the Nordic pattern of social regulation.

However, I will question the conventional image of the strong state from a slightly different perspective. I focus on the role of conflicting interests, especially those associated with the labour market and working life. This topic not only brings actors other than the state into the arena (trade unions, employer organisations and companies), but it also helps to deconstruct the figure of the unified agency of the state, and to question the view of the state as an external regulator of the economy and other fields of social life. Thus, the topic of different interests concerns both the politics by which the system of welfare is (re)shaped and the policy practices through which the system of welfare functions. But it also concerns the outcomes of policies in people's life world. I will argue that the recognition of different and conflicting interests within the framework of a national society was an important aspect of the making of the Nordic pattern of social regulation, in the practical functioning of this pattern, and in the notion of social citizenship that has been associated with the outcomes of this pattern. I will approach the complex of these three levels from the point of view of the last-mentioned notion of social citizenship.

## 2. Interest-orientated social citizenship

The British sociologist, T. H. Marshall (1950), famously distinguished between three stages and aspects of citizenship, each of them associated with the rights that the state guaranteed to individuals: civil rights, political rights and social rights. In the Marshallian theory, the focus is on the evolution and dimensions of the relationship between the state and individual. However, focusing on state-individual relations is not enough, especially not in the case of Nordic countries. The notion of social citizenship was developed in the Nordic countries through policies and collective actions, in which people were defined and defined themselves as parties within asymmetrical social relationships. Through these policies and collective actions, they were empowered to articulate their interests within the framework of national society. Such an interest-orientated social citizenship was different from the idea of social citizenship based on individual social rights.

In order to clarify and motivate this argument, a critique of two influential scholarly accounts of the Nordic model is helpful. One is the analysis of the Danish sociologist Gøsta Esping-Andersen (1985; 1990) on how 'politics against markets' in the Nordic countries resulted in a high degree of 'decommodification'. The other is the thesis of the Swedish historian Lars Trägårdh (1997; Berggren & Trägårdh 2006) on 'statist individualism' as the main characteristic of the Nordic model. Both accounts are opposite to any simple view that associates the strong state with the patronising of people.

'Decommodification' à la Esping-Andersen owes much to Karl Polanyi's ([1944] 2001) historical analysis of the commodification of labour. The concept refers to policies that liberate people from the uncertainties of living associated with the character of labour as a commodity. Social security is provided in case people cannot participate in labour markets. Responding to feminist critique, Esping-Andersen (1999) completed his analysis by concluding that a high degree of 'defamilialisation' is another major characteristic of the 'Social Democratic welfare regime'. Both 'decommodification' and 'defamilialisation' implicate the empowerment of the individual by the state, be it against the markets or against the family.

In a still more programmatic way, the idea of a strong state promoting individualism appears in Trägårdh's thesis on 'statist individualism'. While Esping-Andersen focuses on the relationships between the state and the market, Trägårdh's point of departure lies in discussion of the relationships between the state and civil society. In the 1980s and 1990s, Swedish right-wing critics of what they found to be a patronising Social Democratic welfare state wished to create or revitalise an autonomous civil society, which they claimed to be non-existent in Sweden. Trägårdh agreed that the idea of a civil society confronting the state had not developed in the Nordic countries, yet he did not agree with the critique of the patronising state. On the contrary, the strong state, when developing into the welfare state, had orientated itself towards securing individual autonomy and individual resources. Social solidarity was realised through high taxes, public systems of social security and vast public services for health, care and education that helped to liberate people from the personal relations of subordination, especially those within the family, and, as a part of efforts towards full employment, made women doubly dependent on the welfare state, both on public sector jobs and the services that facilitated combining motherhood and employment outside the home. Social security became based on the 'individual-state social contract'.

Neither Esping-Andersen nor Trägårdh can be criticised for reducing social policies to any inherent non-political agency of the state. In their works, the state is strong by virtue of its being a target, an arena and a tool of politics. Both of them talk about the 'Social Democratic' welfare state, but they see it – and also the 'Social Democratic road to power' (Esping-Andersen 1985) – as an outcome of compromises between different class interests. In accordance with the long tradition of Nordic historical research and historically orientated social science, the class of freeholder peasants and farmers appears as an important political force in their interpretations of the origins of the Nordic welfare state.

However, both 'decommodification' and 'statist individualism' seem to bypass something important. The policies to which these concepts refer have not just protected individuals from the imperatives and arbitrariness of markets nor just liberated them from subordinating social relationships

in family and working life. 'Politics against markets' actually promoted the development of labour market rationalities, not least by reinforcing workers' position as parties in individual and collective contracts with employers. And getting rid of paternalist ties of social subordination did not mean that only the individuals and the state would have remained as the parties to the 'social contract', as the thesis on 'statist individualism' seems to argue. The individual as a party in social relationships has been a major concern in Nordic social and labour market policies. The transformation called 'decommodification' could be, rather, conceived of as a process in which the normalcy of waged and salaried work was reinforced at the same time as it was adjusted towards a universalistic principle of social citizenship.

In the post-World-War-II decades, the goal of *full employment*, with its different normative notions of work, came to be one of the ways in which the normalcy of wage work and the principle of social citizenship emerged in parallel and intertwined. The simultaneous reinforcement of these two principles also became characteristic of social policies. In the field of *social security*, the adjustment of the normalcy of wage work and social citizenship was associated with the ways in which social insurance policies contributed to the development and functioning of labour markets. In particular, in pension policies, by diminishing their dependence on single employers, transportable social benefits strengthened workers' positions as sellers of their labour power. This was also promoted by the work-performance and income-related definitions of these benefits. True, work-performance and income-related benefits did not in any self-evident way fit into the universalistic idea of social citizenship (Edling 2006; Petersen & Åmark 2006). However, through the power of strong trade unions, the secured continuity of income actually became interpreted as a right associated with citizenship, or as an aspect of social citizenship.

The normalcy of wage work and the notion of social citizenship were also reinforced by the construction of extensive *public services*. These services, defining and meeting the needs of health, care and education, bore the character of universal social rights at the same time as they created preconditions for the generalising of wage work as the norm. A transformation

of the gender division of labour was crucial here, associated with redefined relationships between family and society. A particular complex of welfare state, labour market regime and gender system was formed, one crucial aspect being the strong gender segregation of the Nordic labour markets (Borchorst & Siim 2008, 207–224).

However, still another way of combining wage work and social citizenship can be recognised in Nordic countries. This might be characterised as a Utopian vision of equality *within* the relationships between workers and employers. In terms of my argument here, this vision deserves special attention.

In his *Great Transformation*, Karl Polanyi concluded that the making of labour into a commodity was a necessary precondition of modern capitalism, yet labour was a ‘fictitious commodity’, since labour, and the production, selling and consumption of labour, were inseparable from the life of the wage workers themselves (Polanyi [1944] 2001, 71–80). Polanyi preceded Esping-Andersen in arguing that social policies and trade unions are forces for the removal of human labour “from the orbit of the market” (ibid., 186). They were, for him, forces of the historical counter-movement against the markets for rescuing society. However, one can ask whether social policies and trade unions, notably in the Nordic countries, were actually orientated towards abolishing the character of labour as a commodity. Arguably, they were, rather, orientated towards abolishing the constraints and coercions stemming from the *fictitious* character of this commodity. Social and labour market policies, while creating non-market supportive institutions for preserving labour power when it is not traded in the labour market (cf. Offe 1984, 263), were liberating people’s life courses from the necessities of selling labour power at any condition and, thus, making labour more like a *real* commodity.

In the Nordic countries, this kind of orientation towards the social citizenship of the sellers of labour power seems to have played an important role. It may not be accidental that the term ‘market’ is frequently used in the Nordic conceptualisation of employment and working life issues. The communitarian concept of ‘social partners’, stemming from the tradition of social Catholicism and adopted in the language of the European Union and many international organisations such as the ILO and the OECD, has not

become popular in the Nordic countries. For example, the Danish, Finnish and Swedish official translations of the constitutional Lisbon Treaty of the European Union talk about ‘labour market parties’ instead of ‘social partners’. Stubbornly sticking to this concept also seems to be at odds with the first principle of the Philadelphia Declaration of 1944, annex to the constitution of the ILO: “labour is not a commodity”.<sup>1</sup> The labour-market language in the Nordic countries is, however, certainly not a language of unregulated market or a language of market-based harmony, but instead a language of collective regulation and of recognised conflicts between divergent interests – ‘parties’ instead of ‘partners’ (Kettunen 2012).

### 3. Symmetry between labour market parties

The idea of symmetry between labour market parties is, as such, far from exclusively Nordic. The ‘ideology of parity’ (Bruun 1979) was adopted as a crucial point of departure for the development of European labour law in the 19th and 20th centuries. The social liberals as well as the Marxists of the late 19th century shared the idea that the labour market is a particular kind of market and labour is a particular commodity. The social liberals concluded that the worker was the weaker party in the individual worker-employer relationship and consequently needed protection. At the collective level, however, parity would be realised through organisation and collective agreements. In the 20th century, reformist trade unions widely adopted this mode of thought.

In the Nordic countries, this mode of thought was modified by influential trade unions associated with reformist Socialist movements. As early as the 1930s, Denmark, Sweden and Norway led the international statistics on unionisation. In Finland, the degree of unionisation was much lower. This reflected the heritage of the class-based Civil War of 1918 and the still predominantly rural and agrarian structure of Finnish society. Finnish

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1 Declaration concerning the aims and purposes of the International Labour Organisation (Declaration of Philadelphia). [www.ilo.org/ilolex/english/constq.htm](http://www.ilo.org/ilolex/english/constq.htm).

employers, especially in the manufacturing industries, were until World War II able to adhere to a policy of refusing collective agreements with trade unions. In Denmark, Sweden and Norway, the principle of collective agreements had achieved a recognised status and practical significance long before the 1930s. The so-called September Agreement of 1899 between the Danish peak organisations of workers and employers provided a model. The phenomenon of Denmark the forerunner and Finland the latecomer also appears in the fact that Denmark has been in the long term been the most consequent, and Finland the least consequent, as regards the 'Nordic' principle that collective agreements are the primary, and legislation only the secondary, means of the social regulation of labour (Bruun 1990).

In the 1930s, trade unions and employer organisations, urged on by experiences of widespread and harsh industrial conflicts, were ready to further specify the rules of the game and to consolidate the system of negotiations and agreements. This was manifested in the Norwegian *hovedavtal* (basic agreement) in 1935 and the Swedish Saltsjöbaden Agreement in 1938 between the peak organisations of trade unions and employer associations. In Finland the corresponding national-level basic agreements between the organised workers and employers were achieved in 1944 and 1946. The logics of these national agreements included the idea that labour market parties reciprocally recognised the particular – and not the universal – and therefore legitimate nature of their interests. They committed themselves to taking into account through their mutual compromises the universal interest that was assigned to 'society', and included objectives such as the prevention of damaging conflicts, the promotion of industrial efficiency and the increase of purchasing power.<sup>2</sup>

Three principles came to be combined in Nordic working-life institutions: the regulation of labour market conflicts through parity-based collective agreements; the direction rights of employers, associated with different arrangements for employee participation; and the joint acceptance of

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2 This mode of thought was formulated, e.g. in a Swedish governmental committee report that paved the way for the Saltsjöbaden Agreement of 1938, by proposing that the labour market parties should 'depoliticise' their mutual relationships in order to be able to realise, through their compromises, the interest of 'society' (SOU 1935:65, 129).



rationalisation in production and work processes (Kettunen 1998). This combination might be seen as an institutional reproduction and regulation of the tensions between three different rationalities which mediate between workers' life-worlds and the systemic conditions of their living. Two rationalities are inherent in living by wage work: that of *the seller of labour power* and that of *the subject of labour process* (Kern & Schumann 1984). The third significant rationality here is that of *citizenship*.

Obviously, it has been difficult to adjust the rationality of an equal *citizenship* into the context of wage work relations and hierarchical work organisations. One can also argue that the system of collective bargaining, as it follows the logic of the selling and buying of labour power, including trade union strategies for limiting competition between individual workers, tends to reduce qualitative issues of working life into issues concerning the price of labour power and the quantity of labour exploited. However, in the Nordic countries, the symmetry of party relations came to include something more than just an idea of regulating labour market conflicts or an ideological disguise of the basic asymmetry of capital and labour (cf. Offe & Wiesenhal 1980). The widening of symmetrical party relations became crucial for the Nordic model of working-life reform. It was a vision in which the compromises of conflicting labour market interests would include the promotion of both democracy and cooperation between the groups fulfilling different functions in a company or in society.

In the 1930s, collective agreements were included in the concept of democracy, in particular, by the Nordic Social Democratic parties and trade union movements. The strong trade unions were supposed to extend democracy in two senses, both as a popular movement and as one of the two 'labour market parties' making parity-based agreements.

Trade unions became orientated towards extending the field of parity-based relations, that is, the range of issues to be included in collective agreements. This did not only strengthen the role of trade unions in industrial relations. A still more fundamental aspect was that business companies, and somewhat later even the state and municipalities in their role as employers, were defined and organised as a 'party' representing (no more than) particular

interests, and that they had to recognise this not only in the setting of wages but also in many other issues of working life and management. Collective and public regulation of labour relations would empower the weaker party (workers) to take care of their interests and constrain the stronger party (employers) from presenting their interests as universal. This idea appeared at the 'macro' level of the national economy and society, but also at the 'micro' level of the business economy and enterprise. One can find a more or less explicit distinction between 'enterprise' and 'employer', in which the general interest of the enterprise was not just identified with the action of management but rather conceived as an outcome of the parity-based agreements and negotiations between employees and employer, with their particular interests (Kettunen 1998).

In this way, 'industrial democracy' in the Nordic countries was strongly associated with the widening and deepening of the system of collective agreements and the associated workplace level system of shop stewards, rather than referring to separate parallel institutions of personnel participation such as the German works councils, *Betriebsräte* (Knudsen 1995; Kettunen 1998). With their considerable power to set the agenda on working life issues, trade unions began to draw management issues into the sphere of collective agreements. In the Nordic discourse on working life reform, especially in the Swedish and Norwegian debates in the 1960s and 1970s, we can recognise a politically effective Utopian idea according to which the collective-level parity between the labour market parties has to be extended and woven into individual employer-worker relationships (Winner 1995; Claussen 2000). It was a vision of an interest-orientated social citizenship *within* wage-work relationships, different from Marshall's concept of social citizenship as an extension of citizenship through more extensive individual rights.

#### 4. Divergent interests and virtuous circles

The interest-orientated form of social citizenship, based on the empowerment of the seller of labour power, was developed in the framework of a particular

notion of national society. International dependencies provided preconditions for strong notions of national economy and national society. Europe's Northern peripheries were integrated into the expanding spread of capitalism in nationally varying ways, yet, in general, the Nordic countries developed into small, relatively open economies that were, for each country in its specific way, highly dependent on exports and exposed to the cycles and crises of world economy (Senghaas 1985; Katzenstein 1985). In connection with the Great Depression of the 1930s, class compromises brought new ingredients to ways of conceiving society and economy. Reflecting class structures and conclusions from the economic crisis and the rise of Fascism in Europe, the Nordic class compromises of the 1930s included political coalitions of 'workers and farmers', or Social Democrat and Agrarian parties, and the consolidation of national systems of collective labour market negotiations and agreements (only the former applied to Finland before the Second World War).

The concept of 'Nordic democracy' emerged in this political context, especially through the established Nordic cooperation of Social Democratic labour movements (Kurunmäki & Strang 2010). In the historical references of this concept, various 'sub-state' principles were actually put into the centre. The oldest reference for Nordic democracy was to be found in the idealised figure of the free Nordic peasant and the heritage of local rural self-government. This ideological element of the 'Nordic' was developed in the 19<sup>th</sup> century, partly by the rising popular movements, which, themselves, were later in the 20<sup>th</sup> century referred to as another aspect of a particular Nordic democracy. A further 'sub-state' element is worth noting. The regulation of employment relations through parity-based negotiations and agreements of the voluntary organisations of workers and employers was, from the 1930s, widely included in the concept of Nordic democracy.

One may argue that the heritage of the local self-government of independent peasants, the tradition of strong popular movements, and the institution of collective labour market agreements have contributed to the development of, and been integrated into, the strong state. Nevertheless, these integrative processes can also be conceived as a 'societalisation' of the state (which is indeed often called 'society' in Nordic political discourse).

This included a wide acceptance of the idea that social solidarity is fulfilled through the public power (the state and municipalities) and high taxes, and the recognised and institutionalised role of interest representation in political processes (often called corporatism). The associated concepts of 'Nordic democracy' and 'Nordic society' also included a widely shared confidence in virtuous circles between divergent interests, values and objectives, to be achieved by means of compromise between interest organisations and political parties.

Indeed, in conclusions drawn from the Great Depression of the 1930s, the notion of national economy began to be based on new ideas of cumulative economic success. Virtuous circles would connect the interests of worker-consumers and farmer-producers as well as those of workers and employers. Confidence in the positive-sum game was institutionalised in class compromises, which initiated the period of Social Democracy in the Scandinavian countries, especially in Sweden. The practical significance of the new employment and economic policies before World War II has been debated. On the level of political discourse, however, the new Scandinavian ideas of a virtuous circle indicated important changes in the 1930s.

The idea of virtuous circles should not be reduced to the vulgarised Keynesian description of the virtuous circle between growing consumption and growing production, with the emphasis on the side of demand. As early as the 1930s there was considerable 'productivistic' supply-side interest in the political orientation of the Scandinavian Social Democrats (Kulawik 2002; Andersson 2006). The promotion of social equality was held to be the means of releasing human productive capacities and, thus, the means of promoting economic effectiveness, which, in turn, was seen as a fundamental precondition for achieving social equality.

Any compromises reached between the conflicting interests remained a question of power, and the mutual recognition that the interests of different groups were indeed divergent was a central feature of the Nordic class compromises. However, new forms of systemic integration also appeared. Thus, the labour movement adopted the view that economic competitiveness, and thus the rationalisation of production, was necessary in order to create

resources for social welfare and equality. At the same time, bourgeois groups and employers admitted that the collective organisation of labour and the widening of workers' social rights could bring economically positive outcomes, not least with respect to industrial peace. Somewhat paradoxically, the needs and interests of capital, or employers, were provided with a new moral and political legitimacy, and the needs and interests of the working class achieved a new national economic legitimacy.

The virtuous circle included something more than just positive-sum compromises between conflicting economic interests. It was also a virtuous circle between equality, efficiency and solidarity, which, in a sense, can be seen as being based on three different ideological strains of Nordic modernisation processes: the idealised heritage of the free peasant, the spirit of capitalism and the utopia of socialism. In terms of political objectives, and of future expectations, the virtuous circle came to connect social equalisation, economic growth and widening democracy. Different ways of interpreting these objectives and expectations appeared, yet in the post-World War II period, they came to play a hegemonic role, in the sense that political conflicts tended to be struggles around the right way to represent and promote these objectives and expectations and to conceive the interconnectedness between them.

The trust in a virtuous circle between economic growth, widening democracy and increased equality was not, as such, a Nordic specificity in the post-war decades. During World War II, it had become a more or less explicit part of the so-called post-war planning in Western countries. At the international level, it was manifested, for example, in the Philadelphia Declaration of the ILO in 1944 which came to form part of the constitution of the organisation. Among the main principles of the Declaration were the participation of workers' and employers' representatives in social policies, collective bargaining, full employment, and the linkage between social equality, elimination of poverty and economic growth (Kettunen 2009). The post-war development in Scandinavia, especially Sweden, was perceived by both Nordic citizens and many others outside the Nordic region as featuring uniquely consistent steps along such a universally applicable road to progress. No doubt, in the Cold War world, more than one candidate for the universally

applicable road existed. The notion of the ‘third way’ or the ‘middle way’, as it was associated with Sweden and sometimes with the whole *Norden*, included a particular claim of universality, expressed, for example, by maintaining that ‘freedom and welfare’ was the guiding principle of Nordic social political cooperation (Nelson 1953; Salvesen 1956).

## 5. The ambiguous Nordic model

The terms ‘Nordic society’, ‘Nordic democracy’, ‘Nordic welfare state’ and ‘Nordic model’ all refer to separate clusters of national institutions. There are significant differences between Denmark, Finland, Iceland, Norway and Sweden and important similarities with societies outside the Nordic region, in particular with those other small European countries to which terms such as ‘democratic corporatism’ (Katzenstein 1985) can be applied. Nevertheless, the differences between the Nordic countries and similarities with non-Nordic countries in no way preclude the existence of a Nordic transnational framework of many-layered ideological, practical and institutional linkages, within which national identities and institutions have been shaped by constant intra-Nordic comparisons and the transfer of ideas and knowledge, and the Nordicness has been adopted as an inherent element within the diverging national identities and institutions (Kettunen 2006; Petersen 2006).

In the 1970s, it was easier than before – or later – to recognise common Nordic characteristics in national institutions, policies and future prospects. These included many work-related features:

- strong dominance of wage work/salaried work as a social form of work
- active policies for full employment: everyone should have the right to fulfil his or her moral duty to work
- high degree of female employment outside the home: the central role of paid work in views on gender equality

- two-fold dependence of women on the welfare state: social political preconditions for employment outside the home; jobs in the labour market with a strong gender segregation
- the principle of universalism (rights and benefits associated with citizenship) in the organisation of welfare and education
- high rate of unionisation among employees (men as well as women, blue-collar as well as white-collar workers, public as well as private sector employees )
- high rate of organisation among employers (and other interest groups), as well
- strong national hierarchical system of collective bargaining
- priority of collective agreements to direct statutory norms in the regulation of working life
- tripartite cooperation between employees and employers organisations and the government on issues of economic and social policies ('neo-corporatism')
- thus a close connection between the formation of the welfare state and industrial relations.

The Nordic model was a pattern of constructing a modern nation-state society, in which institutions are based on waged and salaried work and support its expansion and normalcy, including the paid work of women outside the home. In the Nordic countries, waged and salaried work became the predominant social form of work even more overwhelmingly than elsewhere in the so-called developed countries. By comparison to the rest of Europe and the OECD, the Nordic countries belong to those with the lowest share of entrepreneurs in the economically active population (van Stel 2008, 79–82). The far from self-evident and certainly not tensionless combination of wage work and social citizenship became, in the process of the making of the welfare state, crucial for Nordic notions of society and the 'social'.

It is important to note that the Nordic model did not just encompass existing institutions but was rather a model of change and reform. It consisted of principles and practices that defined ways of dealing with social change and

making reforms, that is, of setting the political agenda of the welfare state. The combination of the normalcy of wage work and the principle of social citizenship was reinforced in the post-World War II Norden through the policies of full employment, through the construction of social security systems and public services that came to manifest citizenship-based universalism at the same time as they followed and supported labour-market rationalities, and through the regulation of industrial relations by agreements between highly organised labour and capital, orientated towards a symmetry between the parties of employment relationships. These policies and processes were shaped within the framework of a widely shared confidence in virtuous circles that could be achieved through compromises between interests in the context of a national society. However, even before the end of the expansive phase of the welfare state by the early 1990s, this kind of agenda setting was losing some of its future-orientated power.

From the 1980s onwards, crucial aspects of the notion of national society that were associated with the vision of an expanding welfare state and collective party relations in the labour market have been severely challenged in the Nordic countries and elsewhere. The transformations that have been called globalisation have led to increasing social asymmetries concerning the role of spatial ties. The opportunities enjoyed by different actors to choose between alternative forms of relating themselves to their environment – between the three options of what Albert O. Hirschman (1970) called *exit*, *voice* and *loyalty* – have been increasingly differentiated. The exit option is in a new way available to transnational economic actors and, as a structural mode of exerting influence in national contexts, it tends to make obsolete the previous national forms of using voice and loosen the previous loyalties to national rules of game. Solidarity through shared national links has become more problematic, and any ‘concrete utopia’ (Bloch 1959) based on an idea of parity between labour and capital within a national society seems to have been dissolved.

The project for extending widening symmetrical party relations lost its political momentum. The premises for the ‘Nordic’ image of symmetry between labour market parties have been weakened by a variety of developments:



the multi- and transnational character of companies in the global economy, including their dependence on calculations in the global finance markets; the constant restructuring of production processes in accordance with the network principle, including varying forms of outsourcing and sub-contracting; the corresponding transformations in the public sector in the spirit of New Public Management, including the blurring of boundaries between public and private, obligatory and voluntary, and official and unofficial; the increase in so-called 'atypical' (short-time and part-time) employment relationships; and the growing practical and ideological fluidity of the boundary between wage work and entrepreneurship.

For their part, the management lessons and practices aiming to promote both flexibility and commitment in work organisations blur the difference between wage work and entrepreneurship. This implies, among other things, that the idea of the worker as the weaker part of the worker-employer relationship has tended to be pushed to the margin through the ethos of entrepreneurship at the same time as, on the other hand, the asymmetry between capital and labour has increased because of the dramatic growth of the mobility of financial capital. In any case, it has become ever more difficult to identify, organise, bring together and centralise the 'labour market parties' within a national society.

A crucial part of the Nordic model used to be the widening of the scope of issues in which business companies as well as public-sector organisations had to recognise the *particular* instead of the universal character of their employer interests. In this respect, the direction changed in the 1980s. A company-level and workplace-level sign of this change is that 'industrial relations', that is, the institution of collective negotiation and agreement based on interest conflicts and compromises, have been in various ways subordinated to the company interest aims of 'human resource management' (Looise & van Riemsdijk 2001). On the national level, the same change is reflected, for example, in the fact that in many European countries, including the Nordic countries, separate employer organisations have been abolished and the representation of companies' employer interests has been integrated as just one part of the business interest organisations that articulate business

interests in relation to many different ‘stakeholders’, including trade unions. The idea of representing the *universal* interest of the ‘economy’ in relation to the particular and biased interests of workers and governments is evident in the statements of business interest organisations.

However, the Nordic countries still top the international statistics of trade union membership, and no drastic decline has occurred. The majority of waged and salaried workers in the Nordic countries are union members, and in this sense the picture differs from the general trends in Western countries. In connection with the rise of neo-liberalism in the 1980s, arguments for radical social-political deregulation emerged. However, they seem later to have been pushed into the margin, and the welfare state is highly popular among ordinary people in the Nordic countries. No political party can currently expect to gain large electoral support by opposing the welfare state. Nevertheless, ways of discussing and contextualising the welfare state have changed, and discursive changes have been associated with institutional ones.

Interesting paradoxes appear in Nordic debates on the future of the welfare state and collective agreements. Practitioners and researchers in social policy tend to make pessimistic accounts of the present and the future of the welfare state. They have paid attention to the erosion of so-called universalism in connection with the projects of knowledge-based competitive society (e.g. Kildal & Kuhnle 2005; Kuivalainen & Niemelä 2010; Anttonen, Häikiö & Stefansson 2012) or with the ideas of ‘workfare’ in activation and immigration policies (e.g. Keskitalo 2008; Blomberg & Kildal 2010). At the same time, representatives of business life and many economists have expressed optimistic views on the crucial role of the Nordic model of societal risk sharing for economic performance and competitiveness (e.g. Andersen et al. 2007). A slightly different paradoxical turnaround of positions can be found if we look at the arguments for the defence of the welfare state and the arguments for the significance of economic competitiveness. Those defending the welfare state and the system of collective agreements against the pressures of globalised capitalism argue that the welfare state actually generates competitive advantages, whereas those concerned about economic

competitiveness or government budget discipline motivate these concerns with the necessity to create or rescue resources for the welfare state.

An interesting ambiguity also appears in the current usage of the concept of the 'model'. It may refer to a structure that has become threatened through globalisation, or it may refer to a way of responding to the challenge. The former meaning is obvious in the discussion around the threats against the 'Nordic welfare state model'. The latter, in turn, is manifested in the – currently somewhat receded – praise of 'the Danish model' of 'flexicurity' (Madsen 2004), 'the Finnish model' as a paragon of consensual competitiveness in a new knowledge-based society (Castells & Himanen 2002), or 'the Nordic model' in general, assessed to be capable of embracing globalisation by means of risk sharing (Andersen et al. 2007). The ambiguity of the concept of 'model' indicates the changing role of the nation state, which can be characterised using the concepts of 'welfare state' and 'competition state' (Cerny 1990; Streeck 1998; Palan et al. 1999). One may not talk about a shift from the welfare state to a competition state but, rather, conclude that an ambiguity of the welfare state and the competition state is characteristic of what is currently called 'the Nordic model' (Kettunen 2011).

## 6. Institutional continuity and the ideology of competitive consensus

The change may take place within a remarkable institutional continuity, through an 'institutional conversion' (Thelen 2003). Old institutions of the welfare state and industrial relations can be and have been modified to serve new functions of the competitive community.

The distinction between *compromise* and *consensus*, elaborated by the Dutch historian Frank Ankersmit (2002, 193–213), seems useful for interpreting this change. Compromise is based on the mutual recognition of the particular' instead of the universal' nature of the interests in question, and the political process does not aim to remove this state of affairs. Consensus, in turn, presupposes a commitment to a common interest that has been defined

beforehand, and in the political process, only those aspects of the particular interests of the participants are recognised which bear elements of the given common interest. In nation state societies, decisions that are not just made by the coercive power of the strongest forces often include elements of both consensus and compromise, and in conflicts, both of these ideals may be recognised. The relationship between these two principles, however, varies and changes.

The making of the Nordic welfare states and industrial relations systems included the strengthening and institutionalisation of compromises between divergent particular interests, and this was legitimised by the confidence in the virtuous circle of social equality, economic growth and widening democracy. The logics of the competition state – the imperatives of making the national society competitive in globalised economic competition between different business environments – reinforces consensus and weakens compromise. Consensus as an ideal may exclude the interests and ideas of those actors who do not wish to commit themselves to the common interest. Furthermore, putting national competitiveness into the centre of this ideal also means that those interests and needs that cannot be associated with the project of competitive community tend to be ignored. One must admit that in Nordic political debates and practices, a vast range of social and educational policy objectives are proved to be compatible with national competitiveness and included in the competitiveness-orientated consensus. However, legitimate interests and needs tend to be redefined when welfare policies are motivated by their compatibility with the consensual project of competitive national community.

Concerning working life, collective interest representation and even high social norms are considered not only as ‘rigidities’ but, rather widely, as competitive advantages, as factors that promote the commitment of workers and the innovativeness of firms and their managements. The neo-Schumpeterian emphasis on innovation and the institutional preconditions of innovation has been easily adopted in this context. Such tones have particularly appeared in the discussion on education and training. Much of the ideological power of knowledge, education and innovation in the Nordic countries stems

from the promise that competitiveness and its preconditions in the global economy can – or even must – be seen from a wider perspective than that of neo-liberalist deregulation.

In the shaping of the social policies of European Union (EU), it has been easy for those coming from the Nordic countries to develop and support the principle of “social policy as a productive factor”. This slogan was introduced into EU debates in the late 1990s (Beck et al. 2001), and confirmed in connection with the so-called Lisbon Strategy of the EU, 2000–2010, aimed at making Europe by 2010 “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. The Social Policy Agenda 2000–2005, implementing the Lisbon Strategy, advocated a virtuous circle between social policy, economic policy and employment policy and aimed “to reinforce social policy as a productive factor” (COM 2000:279). This argument includes an economisation of social policy in two different senses: as an argument for the recognition of the economic importance of social policy, but also as an argument for reforming social policy in such a way that it could meet the demand of being a productive factor in global competition. Be it implicitly or explicitly, the argument means that the role and meaning of equality is redefined, something that some social policy researchers have also argued for since the 1990s: “the maximization of human capital must take priority over egalitarianism ‘here and now’” (Esping-Andersen 1996, 264).

It makes a difference whether or not an individual’s opportunities to make themselves competitive are shaped by more or less egalitarian systems of education and training, and it also makes a difference whether or not the encouragement of knowledge-based competition in working life is connected with collective institutions of social regulation. Nevertheless, a tension appears in Nordic discussions between what are presented as institutional *preconditions* of competitiveness and how the *contents* of competitiveness are conceived. At the same time as egalitarian institutions and participatory practices can be defended as preconditions for knowledge-based competitiveness, true membership in a competitive community is a matter of individual competitiveness. This consists of communicative and innovative skills and

talents and reflexive capabilities of monitoring oneself from the point of view of competitiveness. In the orientation towards these objectives, the principles of social equality and collective interests hardly play any role. One may ask where the limits of competitiveness-orientated national consensus lie. Failing to recognise those interests and needs that cannot be associated with the project of competitive community implies risks concerning the democratic legitimacy of the 'model'.

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## Chapter 6

# The principle of universalism challenged

## *Towards an ideational shift in the Norwegian welfare state?*<sup>1</sup>

NANNA KILDAL AND STEIN KUHNLE

### 1. Introduction

The Nordic countries have developed many institutions and cultural patterns of their own, and have in recent decades attracted particular attention world-wide for the kind of welfare state that they have developed since the Second World War (see e.g. Kildal & Kuhnle 2005; Alestalo et al. 2009). One core feature of their type or ‘model’ of welfare states is summed up in this formulation: “Universal solutions are one of the characteristics of the Nordic welfare model, which means comprehensive public responsibility and social rights which cover everybody. This has also been a good strategy economically” (Nordens Valfärdscenter 2012, 7).<sup>2</sup>

One primary function of welfare states is to protect citizens against social risks. Obviously, this protection varies in scope and generosity over time and according to political constellations and national institutional traditions. Nonetheless, welfare states may be clustered into distinct types based on

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1 This is a revised version of a paper published in Chinese and English in the *Journal of Zhejiang University (Humanities and Social Sciences)*, 42 (2), (March) 2012, pp. 50–67. Title in English: ‘Welfare principles and reform trends in Norway: Towards more conditional social rights?’

2 Original text: “Universelle løsninger er et av den nordiske velferdsmodellens kjennetegn, det vil si et stort offentlig ansvar og omfattende sosiale rettigheter som gjelder alle. Dette har vist seg å være en god strategi, også økonomisk.”

similarities in their institutional designs. The Nordic countries make up one such cluster in most academic research on welfare state typologies, subsumed under the label ‘the Nordic welfare model’.

This model is characterised by five essential features:

- social policy is comprehensive in terms of needs covered
- there is high legitimacy for public welfare provision
- social rights are of a universal nature, based on residence in the nation
- redistribution makes for relatively equal income distribution
- work orientation is strong

During the last hundred years, an increasing number of risks such as sickness, unemployment, disabilities, old age, etc., have been recognised as being matters of public responsibility and individual rights. Some social risks, though, such as loss or lack of income caused by diverse reasons, have never been granted this recognition as a right in the same sense – they are subsumed under residual social assistance acts that provide benefits only after a means test, benefits which are far less generous than those offered through the general social security system for the risks mentioned above. A common policy shift in all Nordic countries, and in Western welfare states in general, during approximately the last 20 years, has been a stronger emphasis on the so-called ‘work-line’ (*arbeidslinjen*), which has also had implications for conditions, for example work-related conditions, for obtaining social assistance benefits, and for sanctions on behaviour.

Not only do the Nordic welfare states form a distinct type of welfare state in terms of their institutional characteristics, but they also frequently appear to serve as a positive model for reforms and developments in other countries. The reason seems to be that this model places more emphasis on certain political values and welfare principles that are highly regarded by many, such as a generally high level of well-being, social equality and social peace, and have clearly, in comparison with most other countries of the world, been quite successful in these respects (see, for example, comparative overviews based on the OECD Social Expenditure Database). A high degree

of egalitarian outcomes such as limited poverty, income equality and social stability are achieved *inter alia* through the inclusiveness of social policies and the universal allocation of public welfare benefits. Studies show that the design of the welfare policy institutions and the outcomes of policies enjoy high legitimacy in the population, i.e. both in terms of procedural legitimacy (how decisions are made) and outcome legitimacy (results of those decisions and their implementation). Comparative research has shown relatively high citizen trust in government and political institutions and also high levels of trust between citizens in the Nordic countries (Wollebæk & Seegaard 2011; Skirbekk & Grimen 2012). Thus, both ‘input’ and ‘output’ legitimacy appear to be high, and can be considered vital to the stability of the Nordic democratic systems.

Although we claim that a notion of a distinct Nordic welfare model can be argued for, we should also be aware that it is not static. In fact, a number of researchers have started to question its uniqueness, for example, Greve (2011, 111) states that “The Nordic welfare state has now been changed in such a way that it raises the question whether a distinct Nordic model is still in play”; Haynes (2011, 114) questions whether Scandinavian countries are ‘different’: “Recent research has cast some doubt on the consistency of models that isolate Scandinavian countries as different to other nations in terms of egalitarian welfare states”; and Kvist and Greve (2011, 146) sweepingly claim that, “The Nordic welfare model is undergoing a fundamental transformation. Using Denmark we show how a universal welfare state model is gradually being transformed into an emergent multi-tiered welfare state”.

As with other welfare states, advanced as well as emerging, the Nordic welfare states are faced with a number of more or less common challenges, such as the ageing of the population, (im)migration, the internationalisation or globalisation of the economy, and – during the last four years – financial and debt crisis. It can be argued that the Nordic welfare states have so far weathered these challenges better than most Western countries, and research has also shown that welfare states in rich democracies “have not converged around an Anglo-liberal model of modest benefits, extensive means-testing, and significant private insurance and services; welfare state trajectories in

developing political economies also exhibit substantial variety” (Swank 2010, 318). However, welfare states, including the Nordic ones, have been subject to market-orientated reforms in the field of social insurance and service provision, and to new policy initiatives for labour market activation, ‘flexicurity’ (a concept said to have been invented in Denmark), and variants of ‘workfare’. We shall not analyse the challenges to Nordic welfare states or the extent to which these are conditioned mostly by domestic (especially demographic) factors or external (European or global) factors, but will limit ourselves to discussing whether the highly praised and characteristic principle of universalism is currently under threat in one of the Nordic welfare states, Norway.

## **2. Research question: Is the principle of universalism threatened?**

All welfare states are expressions of norms, values and principles, which are more or less explicitly articulated, and which appear more or less ambiguous, mixed and even contradictory. However, three welfare principles which are less complicated to identify have been matters of discussion since the first development of social security and welfare policies in Europe from the end of the 19<sup>th</sup> century. They have come to be attributed to three central welfare state models, described by Titmuss (1974) as *institutional*, *achievement-orientated* and *residual*, based on the way in which the citizen gains entitlements to state social security and thus on the way in which the state distributes or allocates welfare benefits. The dividing lines between them are inter alia determined by membership in the welfare state. Fundamentally, the question is whether all members of society are beneficiaries, whether welfare provisions only cover those who have made a contribution to society in the form of paying income taxes and contributions to social security, or whether welfare provisions only cover the poor. The normative principles expressed in these three types of allocation of benefits may be described as *universalism*, *reciprocity* and *targeting*, respectively. Even if they exist next to each other within the same welfare

state, they represent competing principles of allocation that, in their own way, based on the relative emphasis on each, has contributed to the design of welfare states. Accordingly, these principles throw light on the normative logic of various states, and on the values and interests that are given priority.

No welfare state has implemented any of these principles in a pure form. Nevertheless, many researchers seem to agree on the characterisation of the Nordic welfare states as first and foremost universalistic. Almost 70 years after the implementation of the first universal benefit in Norway, the *child allowance scheme in 1946*, the ideas of reciprocity and targeting seem to have increasingly received a far more essential position in the discussion and implementation of social policy reforms, not only in Norway, but across the Western world. After a review of the three key principles, we shall give an account of *recent social policy reforms*, primarily in Norway, and thereafter throw light on the *arguments* that once were used to justify universalism. These will be compared with today's arguments for implementing means-testing and achievement-orientated social policies.

### 3. Welfare principles

#### 3.1. *Universalism*

The principle of universalism ideally distributes welfare benefits to all members of a society; they are all, as a matter of right, beneficiaries of the same benefits and services, rich as well as poor, and no matter how they live their lives. The term 'all members' is vague, though, in the sense that it refers both to 'all citizens' and to 'all residents'. In the Nordic countries, benefits and services are often described as 'citizenship-based', but are in fact based on *residence* in the nation. Residence is obviously more comprehensive than citizenship, and also the most generous to immigrants, guest-workers, etc.<sup>3</sup> The principle of universalism is, however, restricted in all known welfare states:

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3 To qualify for citizenship, a person must have resided in Norway for a total of seven years during the last ten years. A 'resident' is in Norway a person who has resided in the country for 12 months or more.

1. Firstly, benefits and services are *categorical* and related to certain politically defined need situations, such as old age, sickness, unemployment, etc.
2. Secondly, most benefits are related to *work achievements*.

Child allowances, health care and basic old age and disability pensions are the most universal schemes in the Nordic countries. Many other countries have universal schemes within one or several of these policy areas. These are examples of benefits that are distributed equally to all members of the welfare state that belong to a certain group of the population. Until 2004, everyone in Norway was entitled to a ‘funeral allowance’ – a more universal scheme can hardly be imagined.

Other income-securing schemes are less universal. For instance, unemployment benefits are not distributed to every unemployed person, but only to those who have been gainfully employed for a certain period and with a defined minimum income, and who, as of recent years, are actively seeking work and can document that activity. Others can apply for means-tested social assistance. With increasing and high levels of employment, one might say that income-related unemployment benefits have become more universal, in the sense that the large majority of the working-age population will be covered.

Clearly, the idea of universalism is closely related to that of *egalitarianism* (Kildal & Kuhnle 2005). Egalitarian doctrines tend to express the idea that all human persons are equal in worth or moral status. People should get the same, or be treated the same, or be treated as equals, in some respect (cf. Dworkin 2000). There are, of course, several types of equality, or ways in which people might be treated equally and enjoy equal opportunities. In modern democratic societies, however, the term ‘egalitarian’ is generally used to refer to a position that favours a greater degree of equality of income and wealth across persons.

In terms of income security, the ideal typical universal allocation is an unconditional, flat-rate ‘basic income’ that is unconditionally paid to every member of society – a benefit which no country has yet introduced. Although



no country has yet implemented a fully developed basic income grant, Alaska has established The Alaska Permanent Fund Program (1982), which on an annual basis distributes a share of investment earnings from inter alia the oil industry, to every Alaskan resident.<sup>4</sup> Recent years have seen growing public debate on the desirability and feasibility of such a ‘citizen’s income’ or ‘solidarity grant’ in countries like South Africa, Namibia and Brazil, as a benefit without a means test will more readily reach the poorest population of all ages.

### 3.2. *Reciprocity*

The principle of reciprocity is poles apart from the principle of universalism, and is based on the normative expectation of ‘mutuality’. Reciprocity signifies a relationship of exchange with the necessary moral element of duty; the duty of repayment. This principle is said to capture a deep intuition of distributive justice: In order to receive something, you have to give, or, as some writers have put it in today’s debates on social policy: “it is unfair for the able-bodied to live off the labour of others” (Elster 1987; White 1999, 170).

Reciprocity is the normative basis for *the achievement-related principle* of social insurance, which means that you receive in proportion to what you have paid in (Esping-Andersen 1999, 32). This was first implemented in Germany, by Bismarck in the Old Age and Disability Pension Programme in 1889. Continental welfare systems still mainly consist of insurance schemes. This principle of allocation was introduced in the universal Nordic model in the late 1950s and 1960s (e.g. in the old age pension schemes in Sweden, Finland, and Norway), and has in recent years received increasingly more attention in other schemes, and also in the so-called residual Anglo-American welfare model. In fact, the Anglo-American welfare states have contributed to this development internationally through their ‘welfare-for-work’ and ‘workfare’ programmes. But in the Nordic welfare states the principle of strict reciprocity

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<sup>4</sup> The dividend is paid to every resident who indicates an intention to remain in the state, regardless of age. In 2010, the Dividend was \$1,281 (ca. 10,000 NOK or 10,000 CNY).

has also gained a more prominent position through various so-called welfare contracts that oblige beneficiaries to contribute something in return: basically, work. We shall return to this below.

### 3.3. *Targeting*<sup>5</sup>

Targeting policies, which imply the allocation of benefits primarily based on means testing of one sort or other, aim at transferring benefits to those most in need and have also gained a growing influence outside the residual welfare states where they have been more prevalent. Although these policies are of various kinds, the term is usually taken to mean *means testing*, i.e. a testing of the individual's – or household's – ability to pay for their living, a testing of economic needs, in contrast to non-economic needs (Rothstein 1998, 19). Another targeting policy involves more individualised evaluations of need situations, often called *tailoring*. And a third involves the *targeting of groups with special needs*. Current discussions on poverty and social inclusion have in particular actualised targeting policies – all around the world (Sen 1999, 134), including the Nordic countries. Instead of choosing or maintaining universal benefit schemes that include everyone, governments implement selective programmes that are adapted to each applicant, especially the long-term unemployed, immigrants and youth. Targeting is assumed to increase the accuracy of social policy and thus its effectiveness.

## 4. Current challenges and reforms

It can be argued that universalism has been conducive to equality and security. And, if the values of relatively egalitarian income distributions, low poverty rates, high levels of employment, political stability and steady economic

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<sup>5</sup> It is not always clear what is meant by the concept of 'targeting'. In the World Bank report, *Targeting of Transfers in Developing Countries* (Coady et al. 2004), the term 'categorical targeting' is used of benefits that the research literature generally labels as 'categorical universal' benefits.

growth or development are set high on the political agenda, the Nordic welfare states have been successful, comparatively speaking. Nevertheless the question has been raised as to whether comprehensive welfare states have evolved at the price of weaker economic development than could otherwise have been expected. Are these welfare states – and the principles upon which they are built – being seriously challenged at the present time?

Since the 1990s, one of the main social policy discourses in the Western world has been on the financial sustainability of the welfare state (Ervik et al. 2009). High unemployment rates, population ageing and globalisation, with its increased immigration and economic competition, are conceived to be major challenges that represent serious threats to welfare state institutions. One of the main strategies in meeting these challenges has been to tighten the connection between social policy, employment policy and general economic policy, by introducing programmes that combine social benefits with work. In Norway a so-called ‘renewed work approach’ was announced which emphasised active measures rather than so-called passive benefits, as well as citizens’ obligations rather than rights. During the 1990s, similar work-orientated policies in the form of ‘welfare-to-work’ and ‘workfare’ programmes were implemented in welfare states with quite different institutional traditions. Economic activity became a main goal of social policy, and the means introduced to achieve this were obligations to be active and work.

In Norway, the ‘renewed work approach’ introduced in a White Paper in 1991 resulted in comprehensive labour and welfare administration reforms (NAV in Norwegian) in 2006. This involved the merging of three huge administrations: national insurance, the national employment service and the municipal social welfare administration. The objectives of the reform were threefold: To get more people to work and in activity and fewer on benefits, to form a user-friendly system, and to construct an efficient employment and welfare administration. One of the main goals was to strengthen the bond between *employment and social policies* in order to support the battle against *poverty and social exclusion*.

One of the main instruments was the so-called Qualification Programme, with a related qualification benefit for a targeted group of long-termed

unemployed and long-term recipients of social assistance (St.meld. Nr. 9 (2006–2007), 16). In order to concretise mutual expectations, demands and obligations between the welfare administration and the recipients, this White Paper applies the concept of a ‘welfare contract’ throughout the paper. This is used as a pedagogical tool in order to underline the connection that exists between *individual rights and duties*; as a common and *systematic principle* in order to concretise *mutual expectations, demands and obligations* between the welfare administration and the recipients (St.meld. Nr. 9 (2006–2007), 15–17; Nilssen & Kildal 2009). It articulates a close connection between the *right to welfare benefits* and the *duty to work*.

This contractual linking of rights to duties implies that violation of the duty to work or to be active may be *financially sanctioned*. Those who drop out from the Qualification Programme may get their qualification benefit reduced to pure Emergency help, which takes the form of a small amount of cash to pay for food (NOK70 per day; or ca. EUR9).

As a part of the NAV reform’s aim of narrowing the gap between social policy and labour market policy, three of the traditional benefits – medical rehabilitation allowance, vocational rehabilitation allowance and time-limited disability benefit – founded in the Social Security Act were unified in one common measure: The Work Assessment Allowance (*ArbeidsAvklaringsPenger* = AAP). The aim of the AAP is to arrange for more people to participate in work or work-related activities. Thus, while the Qualification Programme is directed towards long-term recipients of social assistance, the AAP covers people with problems in relation to the labour market who have a right to one of the three integrated benefits (administered by the old governmental social insurance and labour market services) (Kildal & Nilssen 2011). Entitlement to AAP is assessed by the NAV office on the basis of the claimant’s need of support to enter the labour market. If the allowance is granted, the recipient has a right to an activity plan worked out on the grounds of their individual needs. This right correlates with the duty to participate in the preparation and following up of the same plan. Violation of this duty of activity may be financially sanctioned.

As a point of departure every violation of the claim that the recipient shall actively contribute in the process of getting work, will imply that the benefit is suspended until the beneficiary again fulfils the demand. Concerning momentary violations the main question is whether the recipient has a good reason to break the activity duty (Ot.prp. Nr. 4 (2008–2009), 10).

An Active Labour Market Policy (ALMP) and an emphasis on work has been a cornerstone of Nordic welfare policy since the Second World War. The particularly striking aspect of the ‘new work approach’ is the new contractual thinking on which it is based, which must be said to imply a normative change in Norwegian social policy.

All in all, Norwegian social insurance benefits have increasingly been tied to requirements of activation and work, for example, the recent (2011) old age pension reform in Norway has established a much stronger link between contributions over one’s *entire period as gainfully employed* and pension benefits. And the single parent’s benefit, which is intended to ensure income for those caring for children of their own, originally continued until the youngest child reached the age of 10, now ends when the youngest child is 3. In 2011, a publicly appointed committee suggested that a work duty for single parents should be introduced as early as the point at which the youngest child reaches the age of one year old (NOU 2011:7, 345).

The new obligations in the field of labour market and social policy are primarily targeted at the poorest, most vulnerable groups in society, who in addition receive benefits on the basis of discretionary assessments of their needs. Both targeting and discretion are far from the principle of universalism.

This example from a core area of Norwegian social policy – policies against poverty and social exclusion – illustrates the challenges to which the moral logic of the welfare state is exposed. The principle of universalism is threatened by both the principles of targeting and reciprocity, or by the residual and achievement-orientated welfare state principles.

Finally in this section we will briefly examine another policy area in Norway that has come under constant attack for the last 15–20 years. This is

the universal Child Allowance, which is the most universal of cash benefit schemes, as it is independent of any work record or income.

The arguments against universal child allowances are basically that such benefits are too low to reduce poverty and improve the living conditions of young families, and that many affluent families who do not need financial support for their children receive these benefits. The benefits should therefore be targeted at those who need them most. However, child benefits were never meant to eliminate or reduce poverty, but to equalise the differences between families with and without children. It is primarily a contribution from society to those who take on responsibility for bringing up the new generation. Nevertheless, the criticism that universal schemes are too costly has been opposed by several counter-arguments, some of which will be discussed below.

## 5. Historical justifications for, and current arguments against, universalism

It is instructive to study the arguments that were once used in favour of universal programmes and compare them with current arguments against universal schemes. When the first real universal scheme, the Child Allowance Scheme, was introduced in 1946, and the old age pension scheme was reformed from being means-tested to being universal in 1957, the main arguments were *dignity*, *economic efficiency* and *community building*. The two last arguments about efficiency and community building, understood as *social inclusion*, are often heard today, although they have changed sides in the argumentative battle – now they are used to support targeting and social insurance-thinking. The core normative argument concerning human dignity currently receives less attention.

Today the language of *contracts* and the closely related concept of *incentives* pervade a whole string of policy discourses. While a key manifestation of the use of welfare contracts is the slogan “no rights without responsibilities”, one key manifestation of today’s incentive thinking is the famous slogan “make work pay” – the transition from benefit to work must pay economically. This

implies, according to Norwegian White Paper (St.meld. Nr. 9 (2006–2007)), that the compensation level of most temporary benefits should be substantially lower than the previously earned income. This will give the recipients of benefits an incentive to evade the ‘poverty trap’ and enter the workforce, if this is a possible choice, and thus the goals of *efficiency* and *social inclusion* will be supported. This is because social inclusion is currently perceived as labour market participation. In the construction phase of the universal welfare state, it was rather *equal political and social rights* that were perceived to be the basis for *social inclusion*.

The *economic calculation* is, however, more complicated than is often portrayed in today’s discourse. This can be illustrated by referring to the arguments from the 1940s and 1950s. When, for instance universal old-age pensions were discussed, and implemented, it was argued that to make pensions universal would save huge amounts of administrative costs that were used to control and check up on information on individual (or household) income and means. This ‘game of control’ is always put into action when groups are separated into members and non-members, the worthy and unworthy. Furthermore, while means-testing *penalises the will to work and save*, universal basic pensions avoid these effects (Sen 1999, 135; Kildal & Kuhnle 2008). This idea is supported by researchers today, who stress that the prospects of losing welfare benefits will prevent those welfare recipients with least resources from entering a risky labour market.

Furthermore, it is a question as to whether means testing and need targeting are effective for poverty reduction in the longer term. A welfare state that only supports the poor will presumably not be politically sustainable. Since the welfare budget is never settled once and for all, but is rather decided through elections, political representation and annual parliamentary budget decisions, it is not likely that those who are not included in the system – the well-off – will be prepared to argue strongly for very generous benefit levels. And since benefit recipients tend to be relatively weak, politically, socially and economically speaking, they are hardly capable of successfully *defending the quality of the programs*. A means-testing system for the poor may therefore after a while easily end up as a poor system. Korpi and Palme have characterised

this phenomenon as ‘the paradox of redistribution’, an insight that has been confirmed in several empirical studies (Korpi & Palme 1998; Sen 1999, 136; Moene & Wallerstein 2001). By comparing residual and universal welfare states, it is found that poverty rates are far higher in the former, although this may not be due solely to the different welfare state arrangements.

Another important consideration is that a system of support that requires a person to be identified as poor will have some effects on the self-respect of the beneficiaries and for the respect they are accorded by others (Sen 1999). These are aspects of *societal costs* of social policy or welfare schemes which cannot so easily be quantified in budget terms, and are therefore normally excluded from the calculations of those preparing annual state budgets in the ministries of finance. Still, the normative logic of a welfare state must be expected to have an indirect effect on the productivity of the economy, and it is far from given, as some seem to think, that a move away from the principle of universalism will save public expenditure in the long run or generally favour a more productive population. The social, political and economic cost of the social divisions and inequality that tend to go with welfare states relying extensively on means testing and targeting can easily outweigh the (economic) cost of universal and more egalitarian policies.

## 6. Are welfare principles on the move?

There are still strong universalistic elements in the Nordic welfare states in the sense that, for example, all residents are guaranteed an old age pension, health care and education. In addition, we shall not argue that the Norwegian or Nordic welfare state(s) must exclusively consist of universal social security schemes, such as is currently the case with child allowances or, as is discussed in some countries, in the form of a basic income, i.e. a system with flat-rate benefits paid to everyone. A welfare state cannot only secure basic security for all, but should also compensate for social and natural inequalities; welfare states should probably include both universal and selective schemes, for people with special needs, and in some areas also allow the principle of



reciprocity. Nevertheless, a change in social policies from universal social rights to targeting, contracts, duties and incentives in the policy areas we have highlighted, has important political and social implications and indicates a move away from universalism as an important normative principle and as a basis for egalitarian policies and outcomes.

In particular, the new contractualism with its duties and sanctions, represents a clear retreat from a main idea of welfare states, that no citizen shall be denied the basic goods needed to live a decent life. Although the definition of the adequate level of these goods, like health, education, pensions, income and security, has been a controversial issue, this discussion has become overshadowed by the contract-based discussion around “what should count as an adequate reason to *deny* citizens such a good, at whatever level it is provided” (Gutmann & Thompson 1996, 274, our italics). The central issue in current welfare debates has become “what obligations society may impose on citizens as a condition of their receiving basic opportunity goods” (ibid.). The new contractualism may thus be interpreted as representing a shift in the basic aims of welfare policy. The aim of protecting citizens against social risks may seem to be less of a central issue than the aim of changing people’s behaviour in a way that can make individuals help themselves. Social rights have been weakened by linking them to certain *behavioural conditions*.

It is somewhat paradoxical that at a time when much of the world looks to the Nordic countries and their seemingly successful model of welfare combined with world-class competitiveness, one recent example being the attention paid to them at the World Economic Forum (WEF) in Davos in 2011, dominant political actors seem prepared to throw core normative elements of the model overboard. As we have indicated, moving away from a core normative principle such as universalism can ignite a political dynamic which in the longer run can affect other aspects which have made the model successful, also in an economic sense, up until now, and incur higher social, political and, in the end, economic, costs. Current political discourse neglects these possible long-term effects which may be very difficult to correct, even if a new political will to do that should manifest itself ten, twenty or thirty years down the road.

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## Family duties in the history of poor relief and social legislation in Finland

PIRJO MARKKOLA

### I. Introduction

The past organisation of welfare provision in the Nordic countries is often told as the story of the Poor Laws, supplemented by some charity. The Poor Law arrangements were certainly based upon a long tradition of local administration and local funding, but it must be emphasised that throughout the centuries the primary provider of welfare was the family unit or the household. Poor Law arrangements were meant for those paupers who did not have a family to support them. Only when the household was so poor that it failed to take care of its members, or the family of the poor was missing, did the state, the Lutheran church and private charities, among others, offer their helping hand (Satka 1995; Rahikainen 1993; Pulma 1985). Thus, if we look at the past organisation of welfare provision as an implementation of the Poor Law, enacted by the state, we may gain a biased image of the ways in which welfare and solidarity were constituted historically. We also need to look at the formal role of families and households vis-à-vis the state in welfare provision.

Typically, historians and other scholars of the welfare state have been interested in the role of the state, and more precisely in the strengthening role of the central state in welfare policies. In the Nordic context, welfare policies and the organisation of social solidarity are often associated with

a strong state and the labour movement. This scholarly attention shifted in the 1980s and 1990s, when politicians and scholars started to pay growing attention to the role of civil society in welfare provision. Moreover, in the 1990s, a rhetorical turn to welfare society emphasised the role of the 'third sector' of voluntary organisations and social enterprises. For example, a state committee report on voluntary social work was published in Sweden in 1993 (SOU 1993:82). Since the 1990s, European researchers have increasingly been examining the 'mixed economy of welfare' that existed during the past centuries. Studies on the mixed economy of welfare distinguish state, market, civil society and informal (family) as four components of welfare. These components interact, coincide and change over time. The phrase was first used to refer to the changing welfare policies of the 1980s, but soon historians applied and further developed the concept in their work, too. The mixed economy of welfare has been examined in particular by British historians. One useful conceptualisation is the notion of a 'moving frontier' introduced by Geoffrey Finlayson in his analysis of the relationship between voluntarism and the state (Finlayson 1994, 6–18; Grell et al. 2002; Lewis 2000, 221–225; Powell 2007; see also Daunton 1996). Moving frontiers refer to shifting and overlapping boundaries in welfare provision. In this theoretical framework, the role of the family in Nordic welfare provision deserves more attention.

It is not without problems to apply the concept of the 'mixed economy of welfare' to the historical organisation of welfare provision in any national, regional or local context. Some historians find it an appropriate concept to use to discuss the division between voluntary and state assistance in various historical periods, whereas others argue that the idea of the mixed economy is 'too neat'.<sup>1</sup> Moreover, as the British historian of medicine, John Stewart, notes, the components of the mixed economy of welfare change over time. Thus, the relationship between the state, the family, the market and civil society also changes according to particular circumstances (Stewart 2007,

1 Anne Crowther calls the concept 'too neat', because it seems to suggest elements of planned strategy in usually chaotic circumstances (Crowther 2002, 2006). Joanna Innes, for instance, analyses the ways in which the 'mixed economy' was conceptualised and addressed in the English past (Innes 1996). Dorothy Porter examines ideological changes within the mixed economies of welfare in northern Europe in the 18th and 19th centuries (Porter 2002).

37). In fact, Finland, as well as the other Nordic countries, has a long, yet shifting, tradition of organising networks of solidarity not only on a formal but also on an informal, voluntary and market basis.

Over time, the moving frontiers of welfare provision in Finland have been negotiated between the state, the Lutheran church, municipalities, private charities, mutual societies, cooperatives, philanthropic organisations and the family.<sup>2</sup> Poor relief was a parish responsibility administered by local pastors until the 1860s, when local administration was re-organised and new secular municipalities assumed the responsibility for poor relief. The old paternalistic Poor Laws were replaced by a liberal legislation. Simultaneously, new providers of welfare emerged. Extensive networks of charitable associations, local poor relief, Lutheran parishes and social institutions, among others, contributed to welfare policies and knowledge production concerning social problems. In the 1920s and 1930s, modest welfare reforms gradually initiated a new era; however, a decisive turn towards a comprehensive welfare state can only be found after the Second World War, when new universalistic schemes for child allowance, people's pension and sickness insurance were introduced (Satka 1995; Rahikainen 1993; Markkola 2011, 102–118). These reforms had an impact on the role of family in poverty policies.

In this chapter, my aim is to analyse the role assigned to family and household in the history of poor relief and poverty policies in Finland. In terms of the mixed economy of welfare, I will pay particular attention to one moving frontier, that between public poor relief, later social policy, and the family. However, changes in family and household are also taken into consideration. The old Poor Law arrangements emphasised the responsibilities of household and family, whereas modern social policies gave the family unit new responsibilities in respect of moral values and material well-being. Over the course of the 20<sup>th</sup> century, while social legislation was being reformed, the ways in which families were conceptualised was also shifting.

During the period discussed here, roughly from the 18<sup>th</sup> century to the 20<sup>th</sup> century, the political existence of Finland changed remarkably. Until the

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2 On various providers of welfare in Finland, see Markkola 2007, 207–230.

beginning of the 19<sup>th</sup> century, Finland was an eastern part of Sweden, and as such subject to the Swedish legal and institutional system. In 1809, as a result of the Napoleonic wars, Finland was attached to the Russian empire as an autonomous Grand Duchy. However, the Swedish legal system and the law code of 1734 still applied in Finland, and the Lutheran church was upheld as the established church. Consequently, the country retained the institutional structure of its Swedish period. In 1917, in the aftermath of the Russian Revolution, Finland gained independence and continued to build its social institutions on its Nordic heritage, however, assuming a republican constitution.<sup>3</sup> So the geographical and political area currently known as the Republic of Finland has been in the past an integral part of the kingdom of Sweden and a Grand Duchy under the rule of the Russian Emperor. Amidst the political changes, turning points in the provision of welfare did not always follow the history of state formation; moreover, the history of social structures and social institutions also involve much continuity, often present in the everyday life of the people, not least in the organisation of poverty policies.

## 2. The church in local poor relief

After the Reformation in the early 16<sup>th</sup> century, the Nordic Lutheran churches were state churches and played an active role in the field of welfare. The governing of the churches was gradually integrated into the governing of the state, and the local clergy represented the state as well as the church (Thorkildsen 1997, 138–141; Stenius 1997, 161–171; Knudsen 2000, 20–61). Poor relief was organised by the parishes which, in fact, were often the smallest local administrative bodies in rural areas. The Swedish Church Law of 1686 further specified social responsibilities on a local level. For example, the law required that every parish should build a poorhouse and support those poor living within the boundaries of the parish (Church Law 1686, Chapter

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3 On the history of Finland, see e.g. Jussila (1999); Kirby (2006); Lavery (2006); Meinander (2011).

XXVIII). It was the duty of the local community to take care of its own poor who did not have a family to lean on. However, the Swedish state dictated how the local poor relief should be organised.

Nevertheless, the parishes enjoyed a great deal of autonomy vis-à-vis the state (Soikkanen 1966, 92–93; Pulma 1994, 32–33; on the English system, cf. Innes 1996; Crowther 2002, 209–211). While hospitals and workhouses were state institutions, many forms of poverty policy were based on local arrangements. For example, the 1763 legislation concerning poor relief, hospitals and orphanages demanded that the parishes should fund their poor relief through local taxation. Thus, a principled division of labour between the state, the local authorities and the household developed in the 18<sup>th</sup> century. The household was definitely the primary provider of care, but in the absence of the household, the care of the incurable sick, the control of the able-bodied poor and the punishment of vagrants were regarded as matters for the state, whereas poor relief, child care and moral education belonged to the responsibilities of the parishes, and to some extent to the individual charity (Pulma 1985, 80–89; Satka 1995, 20–21). A certain level of uniformity had been created by the end of the 18<sup>th</sup> century.

In the 18<sup>th</sup> century, concern about population decline, and, more importantly, anxiety about the shortage of the labour force were topical in Sweden. As a consequence, landless people were subjected to the landowners; furthermore, vagrancy and beggary were explicitly forbidden and punished. Fearing the lack of a labour force, the state introduced new restrictions such as limitations on migration and the introduction of compulsory service for the landless population. The system of compulsory service divided the population into two major categories. The families of the nobility, the clergy, civil servants, urban burghers and freeholders (peasants on their own farm) belonged to the independent population. All others were categorised as dependent people who needed to be protected by the independents. In practice, the protection was realised in the form of compulsory service. Those adult men and women who did not belong to the families of the independent population and who were not employed by them were treated as vagrants. Male vagrants were ordered to undertake military service or forced labour in workhouses; female



vagrants were placed in workhouses. Some exemptions were ruled, but in general the position of the poor was very vulnerable (Pulma 1985, 45–46; Markkola 1994, 17–21, 25–26; on restrictions in Prussia and Bavaria, see Dross 2002, 72–76; Stolberg 2002, 118–122).

The landless population lived under many restrictions. Legislation constrained migration and parishes had a right to forbid the poor or even potential recipients of poor relief to settle within their borders. Not only freeholders but also other independent people were occasionally prohibited from recruiting servants from other parishes because outsiders were seen as an economic risk or a potential future burden. The poor only had the right of domicile if they were born in a parish or if they, as young and fit, could be expected to contribute to the prosperity of the parish.<sup>4</sup> Local responsibility was part and parcel of the Poor Laws until the 19<sup>th</sup> century, and some continuity could be found in the strong role of municipalities in the 20<sup>th</sup> century, as well.

As the number of paupers increased in the early 19<sup>th</sup> century, poor men and women faced growing difficulties in finding employment. Consequently, the current legislation demanding compulsory service, i.e. employment, made the situation of the poor extremely paradoxical. The old paternalistic order in which the poor were under the control and protection of their employers or former employers was not functioning any longer. In this context, the state authorities tried to combat social problems in various ways. The governors were demanded to advise parishes, control local poor relief practices and promote private charity. Education and child welfare, in particular, were considered to suit private charities; in the 1810s, 1820s and 1830s, schools and orphanages were founded by benevolent individuals and societies (Pirainen 1958, 40–41).

In the 1840s, the Finnish Senate appointed a committee to prepare an administrative reform of poor relief. The committee published its report in 1843 and made detailed suggestions concerning the organisation of poor relief that would further cement its paternalistic principles. Some commentators argued that in other countries the comprehensive poor relief proposed by the committee had actually increased the number of paupers. Other critics

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4 The same principle of domicile could be found in England and the German states, among others.

demanding a strict organisation of welfare provision based on an English model. The division of labour between the state, the parishes and private charities was carefully discussed. Many liberal ideas were expressed in the public debate, but the Senate ignored them and followed the committee's recommendations in formulating the new Poor Law in 1852 (Satka 1995, 20–21; Pulma 1994, 55–59; Piirainen 1958, 67–81).

According to the 1852 Poor Law, the primary obligation to provide maintenance lay on the family; besides, the Act on Contracted Service required employers to maintain their servants. Mutual responsibilities within a family comprised three generations: grandparents, parents and children/grandchildren were responsible for those family members who could not support themselves. In this regard there were no age limits; maintaining the members of the family was a lifelong duty. Only the poor who were not able to work and whose parents, grandparents, children or grandchildren were not able to provide maintenance were entitled to poor relief. Nevertheless, the family was not an independent unit and this did not replace the division between the independent and dependent population. On the contrary, the Poor Law emphasised maintenance according to the existing paternalistic responsibilities and social relations. The Poor Law, however, expanded the definition of the people who were entitled to public support. In general, those eligible for poor relief included children in need of protection, the insane, the disabled and the aged infirm. Other categories of the poor were also made eligible. Not only the old, sick or disabled people who to some extent were able to work, but also the poor in need of temporary support were entitled to public support (Poor Law 1852, §1, §20–23; Pulma 1994, 59–60). Nevertheless, the able-bodied poor were expected to earn their assistance by working for the community.

The major principles of the Poor Law seemed to be generosity and control: everyone who really needed help had the right to receive it, but the recipients of poor relief were subject to the control of the parish. Therefore, local boards for poor relief were established, a coherent system of compulsory local taxation for poor relief was created, and much work by the local authorities was demanded. The Finnish historian, Panu Pulma, argues that the seeming generosity of

the Poor Law cannot be understood without paying due attention to the simultaneous Act on Forced Labour and Vagrancy of 1852. The Act restored the strict definition of compulsory service, i.e. the division into the dependent and the independent population. Both laws attempted to re-establish the old paternalistic order in the spirit of the 18<sup>th</sup> century (Pulma 1994, 59–61). By bringing the lower classes under paternalistic control, the state tried to resolve the problems of poverty and the threat of social unrest.

Nevertheless, the Poor Law of 1852 was born outdated. The old conception of protection had to give way to emerging ideas on the freedom of labour and to the belief that a free labour force was the best remedy against poverty. The intellectual atmosphere changed after the 1840s, when the principles of the English Poor Law of 1834 were deemed too harsh and inappropriate for agrarian Finland. Crop failures and the increasing number of paupers in the 1850s changed attitudes (Pirainen 1958, 82–83). The English model was suddenly considered attractive.

The growing criticism of the Poor Law fostered initiatives to revise social legislation. As a result, the new laws of 1865 abolished the connection between unemployment and vagrancy, and many restrictions on migration were lifted. The more freedom that the working classes were granted, the more it was feared that the poor would abuse the law and see poor relief as a social right. In an industrialising society, the principles of the paternalistic Poor Law were seen as utterly unacceptable, in particular by industrialists and entrepreneurs (Markkola 1994, 22–26; Rahikainen 1993, 90; Pulma 1994, 61–62). The authorities were determined to find new solutions to the problems of poverty and the organisation of welfare.

### **3. Municipal poor relief**

While the new local administration was established in 1865, with the separation of the church parishes and secular municipalities in rural areas, the central role of the family and household in poverty policies continued. In the new division of labour, poor relief and basic education, previously organised by the

parishes, became the responsibility of the municipalities. The relatively strong autonomy of the parishes developed into the basic structure of municipal self-government. However, municipalities soon encountered major obstacles in organising poor relief. The disastrous crop failures in the 1860s led to an unbearable situation in most parts of the country. As a result of the famine of 1867–1868, in particular, the number of people in need of poor relief exploded. Hospitals and shelters were founded, relief work organised and grain distributed, but the catastrophe could not be avoided. Approximately 270,000 people out of the population of 1.8 million died during these years, and the number of orphans, widows and widowers increased dramatically.<sup>5</sup> After the famine, the old Poor Law arrangements could not be continued.

Moreover, it was a common belief in the 1860s and 1870s that the problems of poverty had been created by the generous Poor Law of 1852. Subsequent studies have shown that the growth of social expenditure was caused by a substantive increase of poverty, but the contemporary belief was that the Poor Law needed a comprehensive reform. The Senate appointed a committee to prepare new legislation on poor relief, vagrancy and migration (Committee Report 1872:3; Jaakkola 1994, 111; Pulma 1994, 64–65). Based on the report of the committee, a new liberal Poor Law was passed in 1879. The law aimed at replacing the old paternalistic order with the social responsibilities of a nuclear family. Able-bodied men and women were to maintain themselves and their minor children up to the age of 15; moreover, husbands were to support their wives. Intergenerational duties continued in the new Poor Law, in which grandparents and grandchildren were kept responsible for each other's maintenance.

The categories of people entitled to the poor relief were restricted. Furthermore, the recipients of poor relief were subject to the guardianship of the municipal authorities. Moreover, the law explicated the division of labour between the parishes and the municipalities: the administrative and economic responsibility for poor relief clearly rested with the secular authorities. The

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5 As the normal level of mortality was exceeded by over 100,000 people, the Finnish famine ranks among the great hunger catastrophes in European history (Pitkänen 1992, 97–116; Pulma 1994, 67–68).

municipalities were to build workhouses where the poor should work under circumstances of severe discipline (Poor Law 1879, §1–6; Markkola 1994, 26–28). One of the declared aims of the workhouses was to discourage the poor from seeking poor relief.

The Finnish reform was not exceptional in 19<sup>th</sup> century Europe. The direct model for Finland was sought from the Swedish Poor Law of 1871, but the Danish and Norwegian Poor Laws of the 1860s had also followed equally harsh principles. In fact, the English Poor Law of 1834, with its workhouses, provided a common model for the Nordic countries. It represented the new liberal idea of economic well-being as an individual's own concern (Rahikainen 1993, 90; Jaakkola 1994, 112; Grell & Cunningham 2002, 11–12). The principles that had been rejected in Finland around 1850 were now approved as appropriate solutions for the problems of poverty.

The most important of the new principles was the division between statutory and discretionary assistance. The poor who were unable to work and did not have a family to support them were entitled to public aid, but the able-bodied poor were to support themselves and their families. If they failed, their place was in forced labour at a workhouse (Thane 1993, 51–55). In Finland, the statutory municipal poor relief covered minors, the insane, the disabled, the chronically sick and the old and infirm poor who did not have anybody to turn to. Temporary need was no longer a legitimate reason for seeking public assistance. For discretionary relief, the municipalities were to found workhouses. Where the earlier legislation ordered the parishes or municipalities to take care of their own poor in the case of economic hardship, the new law did not include a similar provision (Annola 2011, 34–36; Jaakkola 1994, 112–113).

The Poor Law of 1879 enacted the local organisation of poor relief; in addition to the municipal poor relief boards, municipal regulations were made mandatory. The law aimed at educating the poor into decent citizens: local arrangements were subject to state control, and the poor were subject to local control. On the local level, middle-class family values were being introduced to working-class families (Markkola 1994, 27–30). Social legislation was used as a tool in the making of a civic society in which citizens were free

to support themselves in the free labour market. Legislation on the freedom of migration and the freedom of trade was also passed in 1879. When the vagrancy legislation was amended in 1883, all earlier restrictions were abolished and the free labour market was created.

The free labour market, however, seemed to require some public guidelines. The first examples of state intervention in the labour market were the Factory Acts regulating industrial child labour (Cunningham 1995, 140–145; de Coninck-Smith et al. 1997). In Finland, the Factory Act of 1879 restricted the employment of children of less than 12 years of age. In 1883 the Senate appointed a committee to study the working conditions in industry; the Labour Protection Act of 1889 was based on the committee's report. Child labour was further regulated: those under the age of 12 years were banned from factories, and the working hours of other children and young people were restricted. The regulation of child labour in 19<sup>th</sup> century Sweden was related to the making of school legislation. In Finland, too, the Act of 1889 decreed that minor workers who had not completed primary school education had to be provided with a minimum of 12 hours tuition per week (Sandin 1997, 17–43; Markkola 1997, 85).<sup>6</sup> The growing emphasis on the importance of education, connected with the concern for public health, put child welfare on the agenda of social legislation in northern Europe. Moreover, parents could not rely on their children's contribution to the maintenance of families, because children were expected to stay longer in school.

#### 4. Philanthropy and Christian charity

Encouraged by the liberal ideals of the 19<sup>th</sup> century, new actors entered the scene of welfare provision in Finland. While the former legislation had tied the working classes to their employers and to the parishes in which they lived, the new liberal legislation allowed them to move and seek their livelihood wherever they found it possible. Migration between parishes was no longer

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6 Marjatta Rahikainen argues that the low productivity of child labour was a major reason for its decline (Rahikainen 2001, 41–62).

regulated and restricted to certain procedures. The free labour market also brought about new tensions. In the spirit of the Poor Law of 1879, emphasising the role of the family, the local administration and the state did not assume responsibility for everyone in need of care. As poverty and need did not disappear, however, the liberal context fostered the demand for voluntary social work, philanthropy and political initiatives. Throughout the Nordic countries, at the turn of the 20<sup>th</sup> century, Christian philanthropy played an increasing role in the struggle against urban poverty (Qvarsell 1993, 217; Jordansson & Vammen 1998; Markkola 2000a). Philanthropic associations emerged from the 1830s onwards, the first being the Ladies' Societies inspired by an international model. The earliest tasks of the societies were to establish schools for poor girls but also to help the lower classes to help themselves. The philanthropic principle of self-help was particularly promoted by arranging employment for poor women (Ramsay 1993). In this respect, the philanthropic attempts to react to poverty were in line with the liberal principles of the Poor Law. Poor women were expected to maintain themselves and their children; new employment opportunities helped them to meet these expectations.

Gradually, philanthropic associations spread to the major Finnish towns in the 1860s, 1870s and 1880s. Many of them worked on a religious basis; however, the philanthropic principle of self-help formed a cornerstone of their work. Education and employment for the deserving poor were provided for the urban population. The City Missions and other religious organisations included men in their programmes, whereas the Ladies' Societies mainly chose to help women and the children of the poor. Still, female volunteers outnumbered men in the religious charitable organisations (Markkola 2000b, 118–131). Social work based on voluntarism attempted to solve the problems of poor families in urban areas.

Nevertheless, voluntary philanthropy was controlled by the state authorities. In 1893, the Chief Inspector of the Poor Law initiated a central association for charity organisations to coordinate local practices. Thus, the principles of the British Charity Organisation Society were introduced to Finland. Moreover, the inspector was given the right to ensure that the charity associations did not impede the practising of poor relief. Benevolent women, in particular, were

feared to be open-handed in their social work; however, the mixed economy of welfare allowed experienced female philanthropists to engage in welfare provision. In 1889, women were given the right to be elected to the municipal boards for poor relief; moreover, they were recruited to work as voluntary Poor Law guardians. These women, who often had long experience in the voluntary associations, were thought to represent a gentle approach to poor relief (Satka 1995, 23, 40).<sup>7</sup> The prevalent conceptions of gender difference actually paved the way for women in public decision-making.

## 5. New social policy in the 1920s and 1930s

In December 1917, in the aftermath of the Russian Revolution, Finland gained independence. However, the bitter Civil War broke out at the end of January 1918, with a tremendous loss of life. After the war, approximately 25,000 children needed social policy measures, the majority being the children of the Red socialists, who lost the war. The care of the orphans was then seen as the most urgent social problem. The families on the White side were provided with pensions, but the orphans of the Red soldiers were subjected to poor relief. The role given to families was dual and class-based; while middle-class and upper-class families were trusted in their ability to raise good citizens, working-class families, and mothers in particular, were seen as incapable and unreliable educators. Therefore, although the socialisation of Red children was regarded as important in avoiding the recurrence of the disastrous conflict within the nation, their families were not supported in child-minding and upbringing. Instead, several orphanages and a completely new educational institute for social work were established; additionally, the state recruited voluntary organisations for child care by providing them with state subsidies (Kaarninen 2008; Hentilä 1999, 107–112; Satka 1995, 84–87). This state intervention in working-class families gave an impetus to the social policy of independent Finland.

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7 Steven King discusses the role of female Poor Law guardians in England and shows the ways in which women managed to reform social care in a local context (King 2004, 27–46).



The preparation of the new Poor Law started in 1917; in fact, the process was a continuation of prolonged committee work since the turn of the century. The first committee report from 1907 had emphasised parents' responsibility for their children; moreover, the report suggested that symmetrical responsibilities for maintenance should be introduced for spouses. In the same way as husbands had a duty to provide for their wives, wives should be made responsible for the maintenance of their husbands. Intergenerational duties were discussed quite thoroughly by the 1907 committee, which suggested that the obligation to maintain should be restricted to children and parents and not extended to grandchildren. This would have been in line with the Swedish Poor Law of 1871 and the Norwegian Poor Law of 1900. The Danish example was even more radical in its understanding of intergenerational duties. In Denmark, according to the 1891 Poor Law and the simultaneous 1891 Act on Relief in Old Age, parents were to provide for their children, but adult children were not made responsible for supporting their aging parents. This understanding was not acceptable, according to the Finnish committee (Committee Report 1907:9, 18–22; on the Danish Act on Relief in Old Age, see Petersen & Petersen 2007, 149–179).

The Civil War complicated the planning process. Even so, the new Act on Poor Relief, based on the report of the committee set up in 1917, was passed in 1922 (Satka 1995, 73, 80). The new law attempted to break away from the old spirit of the Poor Laws, thus representing the idea of improved social security for citizens. Nevertheless, the family remained the major provider of welfare. As the principal rule, men and women were to maintain themselves, and their responsibility to provide for their minor children lasted until the child was 16, i.e. one year longer than in the previous Poor Laws. The earlier discussions on married couples' symmetrical maintenance duties were now incorporated into the law and husbands and wives had mutual responsibilities to maintain each other. On demand, everyone should also to the best of his or her ability support parents, grandparents and children over the age of 16. Illegitimate children were not bound to support their fathers unless they had been taken care of by him (1922 Act on Poor Relief, §2–3). The earlier, quite

categorical, provisions that did not question the expansion of family duties over three generations were now mildly mitigated.

In the 1920s in Finland, the harsh principles of the 1879 Poor Law were seen as inhuman in modern society. The new law expanded the categories entitled to poor relief. If some people were not able to support themselves or to receive maintenance from the family, the municipality was responsible for helping. Some old forms of poor relief such as the circulation of the poor between private homes, auctions in which the poor were passed over to a caretaker or provider who accepted the lowest payment and public meetings on the maintenance of the poor were forbidden. Outdoor relief, i.e. cash payment to the poor, was defined to be the primary mode of relief. However, in practice institutional care – indoor aid – continued to be the most commonly used form of relief. Moreover, the extensive control practised by the social policy authorities was continued (Urponen 1994, 177–180). The emphasis on institutional care and the intensive control of recipients of indoor aid indicate that the Civil War had put its stamp on the ways in which the poor were treated in a young nation.

As regards interwar social work, a striking feature was the crucial role of civil society. The Civil War widened the division between the charity practised by the winning faction and the self-help of the socialists. On the charitable side, numerous national branches of international religious movements, such as the Salvation Army, the Settlement Movement and the Young Women's Christian Association (YWCA) engaged in social work; in addition, many other associations looked after children, young people and others in need. Because of limited resources and political tensions, social work based on the self-help of the working classes was less visible; nevertheless, their contribution was not insignificant. Additionally, employers provided their employees with social services (Satka 1995, 72; Urponen 1994, 184–186). The diversity of the welfare mix continued and even strengthened during the interwar period.

The end of the 1930s, with its comprehensive reforms, initiated a new era in the field of social legislation. Instead of one act regulating poor relief, a number of separate laws were passed in 1936. Child welfare, the care of vagrants and the care of alcoholics were separated from poor relief, which continued to be

based on the Act of 1922. The Act on Child Welfare covered not only orphans, abandoned, disabled, sick, neglected and abused children but also ill-mannered and criminal children. Parents who neglected their duties towards their children could be warned or prosecuted. Statutory guardians for a child under public protection were made obligatory. Furthermore, social administration and the division of labour between the state and the municipalities were redefined. Moreover, the modest 1937 pension reform gradually introduced the principle of national insurance to Finnish social legislation. However, other forms of social insurance, such as sickness insurance and employment pensions, were not included in the social reforms of the 1930s.

## 6. Towards the welfare state and beyond

In the post-Second World War era, the Finnish government and parliament assumed the principles of equality and universalism in social legislation. The introduction of child allowances in 1948 was the first universalistic piece of social legislation, and the reform of the people's pension in 1956 was based on similar principles. The 1922 Act on Poor Relief was replaced by the 1956 Act on Public Welfare. It was very explicit in the ways in which it divided the responsibility for maintenance into two categories, unconditional and conditional duties. Men and women were still obligated to provide for themselves, their spouses and their children, including adopted children, until the age of 16. Fathers of illegitimate children, who had confessed their fatherhood or were otherwise sentenced to pay maintenance allowance, were also mentioned as liable for the maintenance of their minor children. These were unconditional duties defined in the law. The impact of divorces was particularly mentioned: it was stated clearly that ex-spouses were not responsible for each other's maintenance (1956 Act on Public Welfare).

Conditional duties were wider. Children had a conditional duty to support their parents and parents should support their needy children who were older than 16 but younger than 21 years of age. Parents were, however, freed from any obligations to maintain their adult children. Spouses had a conditional

duty to support each other's children who lived in the same household and were born before the actual marriage. Intergenerational duties were further narrowed; grandchildren were only responsible for the maintenance of their grandparents if they grew up with them at least 15 years. The same rule was applied to illegitimate children's duties to provide for their fathers. The conditional duties were limited in other ways, too. For example, children were not liable for the maintenance of their parent's spouse and spouses were not liable for the maintenance of each other's parents (1956 Act on Public Welfare; Tarasti 1956, 90–97). Moreover, in the 1960s, adult children's maintenance duties towards their ageing parents were lifted, mainly for practical reasons deriving from increasing geographical mobility and migration. Municipalities encountered growing difficulties in getting in touch with children who had moved to urban centres or migrated to Sweden.

From the first Poor Laws until the 1956 Act on Public Welfare, the social responsibilities of families and the internal relationships of family members were regulated and the regulations were stated explicitly in social legislation. In the 1980s, the Finnish welfare state adopted another perspective and concentrated on public responsibilities. The 1982 Act on Social Welfare enacts the provision of social welfare, social assistance and social services. It places its major emphasis on public duties and responsibilities; consequently, it defines what municipalities have to provide for their inhabitants and the general responsibilities of municipalities concerning social welfare. The family is still mentioned as a unit, and it has its evident obligation to provide maintenance, but its duties and responsibilities are not as clearly defined as in earlier legislation. While the former legislation made very clear statements on individual duties, the latest legislation is very explicit on public duties.

Family duties are, however, present in the current social legislation. Every adult is responsible for their own maintenance as well as for the maintenance of their spouse and minor children, including adopted children, until the age of 18, unless other legislation decrees otherwise. In the face of economic hardship, in particular, the crucial role of the family becomes evident. In Finland, social assistance is a last resort form of income security, and it is based on the applicant's explicitly defined essential expenses, such as food,

clothing and minor health care costs, among others. According to the 1997 Act on Social Assistance, “all members of the family are considered recipients of social assistance”. This also means that their income is taken into consideration when the decision on social assistance is made. The ‘family’, as defined by the Act, consists of “parents, a parent’s minor children or adopted children, married couples, and men and women living in circumstances similar to marriage who live in a common household” (1997 Act on Social Assistance). In general, Finnish social legislation treats people as individuals, but the poorest of the poor should resort to their families in the first place.

Simultaneous changes in family policy have had an impact on the economic conditions of families in Finland. Since the 1970s, the welfare state has encouraged women to work, but it has also accommodated the maternity of working women. Maternity leave was extended and parental leave introduced in the 1970s and 1980s. The introduction of subjective day-care rights for children in the 1990s strengthened the idea that both parents are responsible for the maintenance of their children. It also encouraged single mothers and divorced mothers of small children to stay at work. With an established position at work, women can better maintain their children. However, in the 1980s and 1990s, a cash-for-care alternative to public day-care also was introduced. Child home-care allowances are paid for children under the age of three years who are not in public day-care institutions. Parents are entitled to childcare leave with full job security. Since the 1990s, the popularity of the child home-care allowance has been related to the employment situation: in particular, during times of economic recession, an increasing number of children under the age of three are cared for by a parent receiving a home-care allowance. Moreover, in most cases the parent at home is the mother (Anttonen 1999; Repo 2010). Cash-for-care benefits can provide an opportunity for mothers to take better care of their small children, but at the same time they can lead to the marginalisation of women in the labour market and even poverty among families with children, when one parent’s income is missing. The extensive use of the child home-care allowances also has an impact on women’s old age pensions.

## 7. Concluding remarks

Since the era of the Poor Laws, social legislation has both defined the responsibility of family members to provide maintenance and reflected the social significance assigned to families under differing social circumstances. Until the Poor Law of 1879, the household was a more important provider of welfare and social security than the family, if 'family' is understood as a nuclear family consisting of parents and children, and in some cases grandparents. The paternalistic order that the 1852 Poor Law tried to restore was based on the division between independent and dependent population in which the dependent population was tied to the household of their master, who could be a nobleman, pastor, urban burgher, free-holding peasant or other person belonging to the so-called independent population. By working for their masters, poor people earned both their bread and their social position in society. However, this was not an idyllic or ideal state of affairs for anyone. It did not guarantee a decent income or social security for the poor, and the masters were also tied to their servants; moreover, some free-holding peasants could be of rather limited means themselves, thus unable to maintain their ageing servants. In the 19<sup>th</sup> century, it was difficult to adapt the paternalistic order to the wide social changes in Finnish society.

The new keywords of the late 19<sup>th</sup> century were freedom of labour, freedom of trade and free mobility. In this context, the family unit was made the core unit of society and families were made responsible for their members. Ever since the introduction of family responsibilities, instead of a paternalistic order based on households, the frontiers were contested. Who belonged to the family? My brief survey of Finnish social legislation indicates that generation has been one issue in defining boundaries, gender has been another issue and biological versus social relations has been a third issue. The relationship of a parent and a minor child is obviously the least contested family tie, albeit not without nuances, as the case of Red families after the Finnish Civil War suggests. As soon as we add a third generation into the picture, we enter more complicated terrain. Since the late 19<sup>th</sup> century, the relationship

between grandparents and grandchildren has been under dispute, and has been redefined several times in the 20<sup>th</sup> century.

It is also possible to find an inner circle of the family and an outer circle of the family, as the Finnish social legislation has defined them. The inner circle consists very clearly of biological parents and their children, but the ties between grandparents and grandchildren as well as between adoptive parents and adopted children have moved between the inner and the outer circle. While intergenerational relationships have been made conditional and shifted towards the outer circle, social family ties in the form of adoption have become unconditional and entered the inner circle of family relations. Illegitimate children and their mothers belong to the inner circle, whereas their fathers circulate on the outer circle, entering only slowly the core area of families.

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Part II.  
LABOUR MARKETS, MIGRATION  
AND SOCIAL RIGHTS



# Work migration and labour market regulations in the Nordic countries

ÅSMUND ARUP SEIP

## I. Introduction

As regards policies on work migration, the Nordic countries, like most countries in Europe, face three main political challenges: handling an open European labour market; attracting highly skilled workers from third countries (i.e. outside the European labour market); and preventing the immigration of unskilled workers from the same or other third countries. These challenges make legislative regulation an act of balance.

In many cases, the legislation and regulation of migration will have to accomplish goals which seem to be conflicting. Migration policy might be shaped to prevent the influx of one kind of worker, and, at the same time, to stimulate the influx of another kind. For the Nordic countries, it has been essential to protect the local labour market from a foreign labour supply that could result in increasing unemployment. Another goal has been to protect wages and working conditions in the labour market from unfair competition caused by cheap foreign labour. High and stable wages, as well as low wage dispersion, has in the Nordic countries been seen as a key to economic growth and fundamental for social security. The opening of the European market put pressure on the prevailing systems of national regulation. However, recent migration has proved to be fertile for the economies of the Nordic countries. Economic growth has increased the demand for highly skilled workers. This

has led to new regulation of the immigration of experts and educated workers in order to promote their migration.

We will address three aspects of migration to the Nordic countries in the last decade: the opening of the European labour market to the East; the policy to attract highly skilled workers; and the closed door meeting unskilled labour migrants. In the second part of the chapter, mechanisms of regulating the labour market following the consequences of migration will be discussed.

## **2. Work migration to the Nordic countries 2004–2010**

Following the opening of the European labour market to Central and Eastern Europe in 2004, the migration of workers to the Nordic countries increased significantly. Simultaneously, a boom in the economy made it desirable for the Nordic countries to attract highly skilled workers from third countries outside the European labour market. In a world of economic competition, some countries will suffer a brain drain when the rich countries woo their highly skilled workers. At the same time, these countries can be left with their unskilled workers being prohibited from entering the prosperous labour markets in the industrialised world. In a global perspective, this may be seen as an unfair deal.

### *2.1. Expansion of the European labour market*

The enlargement of the European Union (EU) to countries in Central and Eastern Europe in 2004 caused a strong outmigration of labour from Poland, Estonia, Latvia and Lithuania to Western Europe. By 2007, more than 150,000 immigrants had been granted first-time work permits in the Nordic countries combined, and of these more than half were renewed. This influx of workers constituted, especially in Norway and Iceland, a significant part of the labour force, in 2007 over 1.5% in Norway and over 2% in Iceland.

One of the main fears of many of the old EU member states confronting an enlarged labour market in Europe was that the supply of cheap labour from the new member states would affect the wage level in the receiving country, and threaten institutionalised systems of bargaining and wage setting. This fear was eased by transitional measures. The treaty concerning enlargement of the EU provided opportunities for the member states to apply restrictions to workers from the new EU countries through a period of up to 7 years.<sup>1</sup> By using transitional arrangements, the old member states could choose to uphold the requirement for a work permit; require a concrete offer of full-time employment as a precondition for receiving a permit; claim that payment levels should be set according to the nationwide prevailing wage level; and apply a labour market test to ensure that equivalent labour was not available in the domestic labour market or in the other old EU countries. These transitional arrangements could be used by the old member states in order to protect the local labour market from low-priced foreign labour, but the arrangements were not allowed to restrict the general freedom to travel within the EU.

Sweden did not adopt any transitional agreements. Iceland and Finland repealed their transitional arrangements in 2006, while Denmark and Norway maintained their regulations until 2009.<sup>2</sup> When the regulation was lifted by Norway in 2009, the government argued that the migration did not cause such serious disturbances in the labour market that it could justify a special extension of the transitional arrangements. But both Denmark and Norway used the opportunity to apply the same transitional arrangements when Romania and Bulgaria became members of the EU in 2007, whereas Finland, Iceland and Sweden decided not to adopt temporary transitional arrangements with regard to these countries (Dølvik & Eldring 2008, 17).

The transitional arrangements of Denmark and Norway were rather liberal, and gave citizens from the new member countries residence for six months to seek employment. If they could find a full-time job with payment

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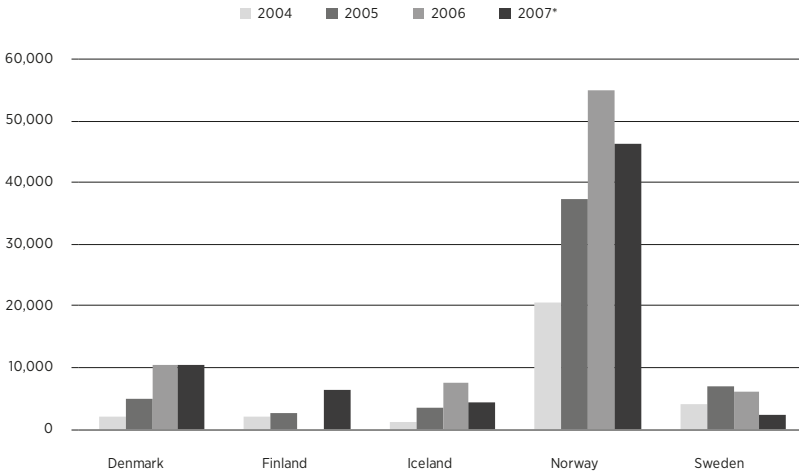
1 The transitional arrangements appear as annexes to the Accession Treaty (EUR-Lex L 236). An equal regulation was provided for members of the EEA (European Economic Area), such as Norway.

2 In 2007, Denmark lifted the requirement for a residence permit for persons employed by companies covered by collective agreements, as well as highly skilled labour (Dølvik & Eldring 2008, 17).



according to the usual wage level or a collective agreement, they were given a residence permit and access to welfare services. However, there seems to be no correlation between the application of a transitional arrangement and the number of immigrants per capita. In relation to the number of citizens, the influx has been strongest to Norway and Iceland, while Denmark saw an increase after the first few years. As Figure 8.1 shows, the number of work permits issued in Norway has been very high. The transitional arrangements that were applied in Denmark and Norway seem to have had little effect on the number of immigrant workers.

Figure 8.1. Work permits (including renewals) issued to individual job seekers from the EU-8 (+2) after May 2004.



\*Figure for 2007 is an estimate. Source: Dølvik & Eldring 2008, Table 2.1.

The immigration from Central and Eastern Europe filled a demand for labour in the Nordic countries in the years before the financial crisis. Young skilled workers moved to take up better paid jobs, although these jobs were often intended for the unskilled (Napierala & Trevena 2007, 19). The migration of workers within the European labour market has in general had a positive effect on the economies of the Nordic countries. In Norway, where more work

permits have been issued than in all of the other Nordic countries combined, the supply of labour gave industries such as construction and ship building great advantages. Over 50% of industrial companies using foreign labour in Norway were recruiting from the EU-8 countries in Central and Eastern Europe in late 2006 (Seip 2007, 23).

However, the influx of cheap labour has challenged the bargaining system of wage regulation and resulted in cases of wage dumping and illegal working conditions. This problem has been most tangible in cases of service mobility, where posted workers are employed by a foreign company, but could also occur when transitional arrangements were repealed. The transitional arrangements applied by the Nordic countries (except Sweden) did not cover service mobility, and EU regulations impose strict limitations on the measures that can be taken by the recipient country without violating the inner market's principle of free movement. We will return to this problem in the second part of this paper, which deals with labour market regulations.

## *2.2. Attracting highly skilled workers from third countries*

The migration of cheap labour from the newly attached EU countries was not the only migration of significance to Nordic industry during the economic boom before 2008. Technologically advanced industries in the Nordic countries were constantly in need of highly educated professionals. Many came from labour markets outside the EU, and employers put pressure on the Nordic governments to renew the legislation. In Denmark, the 2001 legislation has allowed the introduction of later adjustments in order to meet the employers' needs. Sweden adopted an amendment in late 2008 and Norway passed a new law in 2010. In 2009, Finland undertook the process of changing its 2004 legislation. A bill was presented to the Finnish parliament in late 2009 (RP 269/2009 rd) but, with reference to the difficult economic situation in Finland, the parliament refused to pass the amendment. Since then, there have been only minor amendments to the law in order to comply with EU regulations.

All of the Nordic countries are attempting to find the right balance between recruiting highly educated foreign workers from third countries while at the same time protecting the domestic and European labour market from competition. In order to protect the European labour market, all EU Member States, as well as Norway and Iceland, as members of the European Economic Area (EEA), have to subject third-country workers to a labour market test or a quota system, or both. Norway, Finland and Iceland have applied a labour market test conducted by a public authority. Denmark uses a model to measure labour demand as a labour market test, in order to administratively pick out professions entitled to apply for work and work permits in Denmark. Sweden has chosen a different approach. Here it is left to the employer to carry out a labour market test by advertising the job through the European Employments Service (EURES). In Finland, the government presented a bill to the parliament in 2009, suggesting that the same system was introduced in Finland, but the bill was turned down. It is a requirement in all of the Nordic countries that an applicant from a third country, in order to obtain a work permit, must present a work contract or a work contract offer. This, together with the labour market test, means that work migration to the Nordic countries is demand-driven.

All of the Nordic countries have established a demand-driven system for recruiting highly educated workers from third countries. Work immigration is conducted through the employers' demand for labour, and it is the employers' choice of employees which selects the immigrants. This has led to changes in the regulation to make it easier for employers to hire workers from third countries. A demand-driven approach to labour migration has become more common in most OECD countries.

The Nordic governments have, however, introduced special regulations to facilitate the employment of selected groups of third-country professionals. Norway has established a quota of 5,000 specialists and skilled workers that can be filled with third-country employees without any labour market test. However, qualifications must be documented. Denmark, Finland and Iceland have similar regulations covering highly skilled workers or specialists. In the case of specialists, both Norway and Denmark have introduced a wage

threshold above which a third-country specialist may be employed without a test of qualifications. If the employer pays a wage above the threshold, the worker is recognised as a specialist. This simplifies the process by which the immigration authorities approve the qualifications.

Sweden is the country that has gone furthest in giving employers leeway in recruiting. Finland may follow. In Sweden no government or social partners are involved in carrying out a labour market test to single out occupations or industrial sectors open for immigration. Denmark and Norway have opened the same gate, but only for skilled workers and workers with higher education. Regulation is achieved through salary level or quotas.

Supply-driven work immigration has been shown to have limitations. Although the state might succeed in making foreign labour available in the domestic labour market, employers have often been reluctant to hire foreigners. This may be because of uncertainty in determining qualifications, or it may be because the migrants do not have the right qualifications.

Denmark is the country that has gone furthest among the Nordic countries in creating a supply of foreign labour. The introduction of a Green Card scheme is the best example. Denmark has also established a Work in Denmark Centre in New Delhi, in order to woo Indian professionals and attract educated workers to Denmark (Hansen & Boesen 2010, 22–24). Despite the fact that Sweden, Norway and Finland have been the most demand-driven in their political approach to immigration, we find examples of state policy aimed to increase the supply of foreign labour in the local labour market. One example is that foreign students have been allowed to stay longer in the country to seek employment after they have completed their studies.

Awakened by the competition from newly industrialised countries (NIC countries) from the 1980s onward, the industrial OECD countries directed their attention towards the significance of a highly educated workforce to economic growth. Countries like Canada, Australia and the United States decided to stimulate the immigration of highly educated workers from developing countries and NIC countries. In the EU, the migration policy was coordinated after the millennium. Access for workers from third countries was facilitated, particularly for highly educated workers.

### 2.3. *Leaving the unskilled behind?*

The Nordic countries' legislation concerning third country citizens makes it easier for migrants with higher education to get a job in a Nordic country, while in many cases, unskilled workers are denied access to the labour markets. Is that fair? In Norway and Sweden the governments have directed attention to the benefits of labour migration to unskilled workers, and to the concept of circular migration. Circular migration occurs when a work migrant returns to the country of origin or to another country after a certain period with work in a receiving country. Circular migration may increase remittances to developing countries and lead to transfer of knowledge, and it will most likely also give a more productive use of the labour resources. The Global Commission on International Migration (GCIM) has suggested that, "States and International Organizations should formulate policies and programs that maximise the developmental impact of return and circular migration" (GCIM 2005, 31).

However, there are social and personal costs connected to migration, and historically circular migration has proven difficult to achieve, as migrants tend to stay when they have been in the receiving country for a longer period. Two questions can be raised:

- Is it right to prohibit the migration of unskilled workers if such migration promotes development in the sender country and a more equal share of global wealth?
- Can circular migration offer a solution that ensures the interests of both sender countries and receiving countries if migration of unskilled workers takes place?

Western European immigration policy has been strongly influenced by the receiving countries' own needs for labour in terms of unskilled workers as well as highly educated labour. However, the experience of many European countries has been that circular migration proves difficult to achieve. At the end of the 1970s, it was clear that the guest worker system, which presupposed circular migration, did not function according to the theory. Not all of the

workers did return, and immigration continued to rise because of family reunification. A migrant could have several reasons to stay. They could experience changes in the family situation or find it hard to find employment in their homeland, and the right to welfare service and social security in the receiving country would make it easier to stay in times of economic recession.

In a Swedish Government Official Report from 2010, a Swedish committee expects circular migration to increase in the future (SOU 2010:40). The committee points to the relation between migration and development, and encourages the Swedish government to support and facilitate circular migration. The Swedish legislation from 2008 is a step in this direction which includes unskilled workers as well. The legislation does not discriminate unskilled work migrants as the Danish and Norwegian legislation does.

In Norway, the government wishes to promote circular migration for job-seekers from developing countries, but has also signalled that it is important to prevent brain drain from developing countries (St.meld. nr. 18 (2007–2008), 215). The Norwegian government supports special migration programmes for exchange or circular migration. Some of these involve unskilled workers. Migration programs for seasonal workers and au pairs are the most commonly used. Approximately 4,000 resident permits are granted annually for these groups (Seip et al. 2010, 46). A report from the Fafo Institute for Labour and Social Research (Seip et al. 2010) examines these programmes and concludes that to have a significant impact on development through remittances, such programmes have to take in a large number of migrants. Today this is not an actual policy. A study of the au pair scheme in Norway showed that the primary reason to employ an au pair is to manage everyday life at home, including getting help with regular domestic work. The aspect of cultural exchange, as the basis for the au pair scheme, is given little consideration (Øien 2009, 87). The study demonstrates that the demand for domestic workers in Norway is high. The use of foreign labour for different kinds of work in households is much more common in Norway than in the other Nordic countries, according to a survey undertaken in 2006 (Dølvik & Eldring 2008, 35). A smooth running economy and increasing wealth, together with a high rate of women participating in the labour force, has created a demand for

domestic services not seen in a long time in Norway. If this development continues, it may create changes in Norwegian culture and class structure.

If the import of unskilled labour creates inequality and other undesirable changes in Nordic societies, can increased investment in education abroad become an alternative strategy? Access to highly educated workers from third countries will become increasingly important to industrialised areas, including the Nordic countries, in the years ahead. As a result, a global labour market will develop for this category of migrants, followed by a homogenisation of the educational systems and qualification grading, as we have seen in Europe and in the OECD area.

As an alternative, or a supplement, to hunting for highly educated labour abroad, rich countries can contribute to generating more available knowledge through education. Why should the Nordic countries not fund the education of young people in developing countries? This would bring development and prosperity not only to individuals and developing countries, but also to the world economy. A strategy that aims at increasing the number of highly educated people in developing countries as part of a recruitment strategy would make it more legitimate to recruit educated professionals from poorer countries to work in the Nordic countries. If we educated 400 nurses in India, could we not offer employment to 200 of them in the Nordic countries?

### **3. Migration and regulation of national labour markets**

The new conditions in the Nordic labour markets caused by increased migration has ignited a discussion on regulation of wages and working conditions, and a search for mechanisms in accordance with common EU regulations. In Europe, statutory minimum wages are widespread. Their original function was to protect workers against extreme forms of exploitation. Some have argued that minimum wages can be used to reduce wage differences and fight poverty. The increasing migration in the European labour market has brought the debate on minimum wages onto the agenda again. The different

system of labour market regulation in Europe makes it difficult to apply one single definition of a minimum wage to all countries.

### *3.1. Social dumping and low wage pressure*

The significant influx of foreign workers into the Nordic labour markets from EU countries after 2004 was followed by reports on poor wages and working conditions, especially for posted workers. A survey among Polish workers in Norway reported that a significant proportion of these workers had wages and working hours that violated national standards (Friberg & Tyldum 2007). Along with low wages followed problems concerning poor residential conditions, unregistered work, unpaid wages, hazardous work, lack of access to health services and coercion and threats. These social and, in some instances, unlawful, conditions required measures of different kinds. In Norway the government intensified its supervision of the labour market and strengthened the sanctions at the disposal of the Labour Inspection Authority. In all of the Nordic countries, problems concerning the regulation mechanisms for wage levels were discussed.

The problem of social dumping has been brought to a head in the context of posted workers. The EU Posted Workers Directive (PWD) is a directive concerned with undertakings to post employees abroad temporarily to perform work in the territory of an EU member state other than the state in which they are habitually employed (Directive 96/71/EC). Posted workers are employed in the country of origin, and their work is regarded as the transnational provision of services in the internal market. Under the Posted Workers Directive, the host country can enforce laws, regulations and administrative provisions pertaining to minimum wages, working hours and specific social benefits. These minimum standards can also be enforced by collective agreements which have been declared universally applicable.

The EU does not have any authority to issue directives or enact other regulations with regard to wage setting. The EU regulation thus rests upon a presumption that minimum standards exist, or that such standards will



be established if necessary. But is this presumption applicable in all of the European countries? As we shall see, the regulatory mechanisms for minimum wages are different across the European countries. Eldring and Alsos (2012, 8) distinguish between three types of minimum wage:

**Statutory minimum wage.** Determined by legislation or pursuant to legislation. Commonly one rate for all adult employees, valid throughout the labour market. Motivated by a desire to ensure a decent living standard. This kind of statutory minimum wage is not found in the Nordic countries.

**Extended minimum wage.** Expansion of the coverage area of the minimum wages determined by collective agreements to have validity in an entire region, industry and/or profession, irrespective of whether the employer and/or employee is organised. Extension of collective agreements is common in Finland and Iceland, and has been introduced in Norway in recent years.

**Collectively agreed minimum wage.** Negotiated between the parties to form a collective agreement to reflect the employers' minimum ability to pay, but can be supplemented with local rates. Collectively bargained minimum wages are of great importance in the Nordic countries.

Table 8.1. Distribution of statutory minimum wage and extension of collective agreements in the EU (and Iceland and Norway).

	Statutory minimum wage	Extension of collective agreements possible	Scope of extension
Belgium	X	X	High
Bulgaria	X	X	Not used
Czech Republic	X	X	High
Estonia	X	X	Low
France	X	X	High
Greece	X	X	High (recently reduced)
Hungary	X	X	Low
Ireland	X	X	Low
Latvia	X	X	Not used
Lithuania	X	X	Not used
Luxembourg	X	X	Low
Netherlands	X	X	High
Poland	X	X	Not used
Portugal	X	X	High
Romania	X	X	High
Slovakia	X	X	Low
Slovenia	X	X	Low
Spain	X	X	High
Cyprus	X		
Malta	X		
UK	X		
Austria		X	Low
Finland		X	High
Germany		X	Low
Iceland		X	High
Norway		X	Low
Denmark			
Italy			
Sweden			

Source: Eldring & Alsos 2012, 10.

### 3.2. *Statutory minimum wage*

A statutory minimum wage is found in many EU countries. How a statutory minimum wage is determined may vary from country to country. Usually, statutory minimum wages are guaranteed for all employees, with exemptions or reduced rates for young people. Some countries differentiate the rate on grounds of disability or skills.

The proportion of the population receiving the minimum wage varies significantly in Europe. In Greece over 20% of full-time employees received the minimum wage in 2007. In France and Bulgaria, the figure was just over 12%, whereas the UK, Slovakia and Spain all had a proportion below 2% of full-time employees who received the minimum wage.

The minimum wage levels may vary as well. In countries such as Luxembourg, France and the Netherlands, the hourly minimum pay was between 8 and 11 Euro in January 2012. Most countries in Central and Eastern Europe had a minimum wage level below 2 Euro per hour.

### 3.3. *Extension of collective agreements*

In many European countries, minimum wages and other provisions in collective agreements are made generally applicable. The most common procedure is to apply major parts of the collective agreement to the entire industry or profession that falls under the scope of the agreement (Eldring & Alsos 2012, 8). This procedure, founded on the law, makes the regulations and provisions of a collective agreement binding for unorganised employers and non-unionised employees, and thereby establishes a minimum wage level in the industry.

Among the Nordic countries, Finland, Iceland and Norway have made use of legislation to extend the scope of collective agreements by making them generally applicable. In Finland, it is a regular procedure to make all nationwide collective agreements which cover more than 50% of an industry generally applicable (Seip 2010, 26). An amendment to the legislation on

posted workers in 2005 intended to provide a minimum wage to foreign workers who were not covered by a collective agreement (Seip 2010, 29).

Norway has chosen to make use of statutory extension of collective agreements only in specific industries. It is a precondition for enforcing the extension “that it is probable that foreign workers perform work under conditions that are generally inferior to the norms stipulated in nationwide collective agreements for the relevant occupation or industry, or to the general conditions prevailing in the relevant location or trade” (Alsos & Eldring 2008, 447). By an extension, core elements of a valid collective agreement are made applicable to all workers, unionised and non-unionised alike, who perform work of the same type in a specific industry. The effects of these regulations are uncertain. Different studies suggest that the effect of the extension mechanism is stronger in certain parts of the industry (Alsos & Eldring 2008, 453). One of the reasons for this is significant problems with regard to the monitoring and enforcement of the extensions in industries with many small operators, such as the construction industry. In the onshore petroleum industry, the conditions have proven much better (Alsos & Ødegård 2007, 77). As in other European countries, the Norwegian government’s goal has been to facilitate employment across borders in the European labour market, but avoid unacceptable or illegal working conditions for immigrants.

### *3.4. Enforcement of wages by trade unions*

None of the Nordic countries has statutory minimum wage. These countries have based their industrial relation system on high trade union density and bargaining of collectively agreed minimum wages. The minimum wage adopted in a collective agreement will only apply to the parties to the agreement. Employers who are committed by an agreement also have to follow the agreement with regard to unorganised employees.

For this system of minimum wages to have any effect on the lower wage levels, it is important that union density is high and that the coverage of collective agreements is extensive. In Table 8.2 we can see that the trade union

density varies from 54% in Norway to 85% in Iceland, with the three other countries at 69%. This gives a fairly high coverage of collective agreements, even in Denmark and Sweden, which do not make use of the procedure of extending collective agreements. In these countries, the enforcement of minimum wages is left solely to the trade unions. Most employers in Sweden are organised and obliged, as members of an employer's organisation, to follow a collective agreement. This gives very high collective agreement coverage in Sweden without the use of an extension mechanism.

Table 8.2. Collective agreement coverage and trade union density in the Nordic countries.

	Collective agreement coverage 2008/2009	Trade union density 2008/2009
Denmark	80%	69%
Finland	90%	69%
Iceland	99%	85%
Norway	74%	54%
Sweden	91%	69%

Source: Eldring & Alsos 2012, 10.

When it comes to the increasing influx of foreign labour, Denmark and Sweden have based their policy on the ability of the trade unions to negotiate collective agreements with the foreign companies. In Sweden, this resulted in a conflict in Vaxholm, the so called Laval case, where the Swedish legislation was criticised by the European Court of Justice. Before the Laval case, Swedish trade unions regularly forced foreign enterprises to sign collective agreements through the use of blockades, to ensure that the foreign workers received wages in accordance with the Swedish wage levels. When subjected to blockade, the Latvian enterprise Laval claimed that such measures violated EU regulations on the equal treatment and free movement of labour and services. The European Court of Justice found the form of industrial action carried out by the Swedish union against Laval to be in violation of EU regulation. A Swedish commission concluded in 2008 that the Swedish legislation was in conflict with EU regulations (SOU 2008:123).

The verdict from the European Court and the conclusion that the Swedish method of enforcing the use of collective agreement was illegal in the EU has presented a challenge to the Swedish and Danish system of labour market regulation. The trade unions lost their right to use industrial action to force foreign employers to adopt a local collective agreement. Both countries found it necessary to amend their national legislation.

Since neither of the two countries have any schemes for the extension of collective agreements, and national opposition to statutory minimum wages is significant, the countries have decided to rely on a section in the EU directive which makes it possible for countries without a system of extension of collective agreements to ensure that collectively agreed provisions will also apply to posted workers. The EU Posted Workers Directive has an opening in Article 3.8. In the absence of a system for declaring collective agreements universally applicable, member states of the EU can decide to enforce minimum wages and minimum standards in two alternative ways, of which Sweden has chosen the first and Denmark the latter.

If a collective agreement is “generally applicable to all similar undertakings in the geographical area and in the profession or industry concerned”, or if a collective agreement has “been concluded by the most representative employers’ and labour organisations at national level and [... is] applied throughout national territory”, the states can ensure equality of treatment on matters pertaining to minimum wage or minimum standards (Directive 96/71/EC). Sweden has adopted the first strategy, which seems to imply that the collective agreement must de facto cover the whole industry like an extended agreement. Denmark has adopted the latter strategy. Under the conditions stated in the directive, the Swedish and Danish trade unions can use industrial actions to enforce minimum wages.

### *3.5. Dispute over the minimum wage in Norway*

In Norway, minimum wages are stated in collective agreements in combination with local rate supplements. In some industries, the collective agreement is

made generally applicable through a regulation pursuant to legislation. In this system, the minimum wage may comprise several wage elements. This caused a dispute between the employers and the unions over what kinds of wage element would be in accordance with the EU regulation.

In the period after 2004, several shipyards on the West coast of Norway have been using foreign labour in their production. In 2011, one of the largest companies used posted workers in 20% to 40% of the work laid down in the shipyards. According to the regulation in 2008 which made the collective agreement in the maritime construction industry generally applicable, these workers were entitled to a minimum wage per hour. In addition to this, the regulation allowed the workers 37.5 work hours per week; extra pay for overtime work; additional remuneration to the basic hourly wage for work assignments requiring overnight stays away from home; free board and lodging in the case of work assignments that require overnight stays away from home; and coverage of travel expenses for “a reasonable number of home visits”.<sup>3</sup> Employers in the maritime construction industry found that this regulation gave better terms of employment than the minimum standard stated in the EU regulation, and brought the case before the court to void the regulation.

The employers lost the case in the Norwegian lower law courts. But in an advisory opinion from the EFTA Court, the employers were heard. The EFTA Court was established to deal with cases concerning Norway, Iceland and Liechtenstein, as members of the European Economic Area, and was asked to judge whether the terms and conditions of employment provided for in the collective agreement, declared universally applicable within the maritime construction industry in Norway, was compatible with the EU regulation, specifically Article 36 in the EEA agreement, and the Posted Workers Directive (PWD). In the EU and in the European Economic Area (EEA), the work of a posted worker is regarded a provision of service across borders within the territory of the European Economic Area, and the EU regulation (Article 36) prohibits restrictions on the provision of such services.

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3 Regulation FOR-2010-12-20-1764, Forskrift om delvis allmenngjøring av Verkstedsoverenskomsten for skips- og verftsindustrien. My translation.

However, a host country can enforce minimum standards concerning wages and terms of employment. These standards are explicitly mentioned in the mandatory catalogue of the EU Posted Workers Directive (Directive 96/71/EC, Article 3-1). Terms and conditions of employment for posted workers on other matters than stated in Article 3-1 of the directive can only be applied by a member state “in the case of public policy provisions”, interpreted by the EU commission as “those mandatory rules from which there can be no derogation and which, by their nature and objective, meet the imperative requirements of the public interest.”<sup>4</sup>

In its advisory opinion, the EFTA Court found that two of the clauses in the collective agreement could be in breach of the EU regulation. The court stated that the EU regulation, in principle, precludes an EEA state from requiring a foreign company to pay an additional remuneration to the basic hourly wage for work assignments requiring overnight stays away from home. Nor did the Posted Workers Directive permit an EEA State to secure workers posted to its territory from another EEA State compensation for travel, board and lodging expenses in the case of work assignments requiring overnight stays away from home. The EFTA Court found that these terms and conditions of employment in the collective agreement were not compatible with the EU regulation, “unless the provision of such terms can be justified on the basis of public policy provision.” (EFTA Court 2012.) In light of this judgment, the employers of the Norwegian shipyards seemed to have won support of their view, and a victory which in turn would give them lower labour costs.

After a loss in the lower courts of law, the employers appealed to the Norwegian Supreme Court, with the advisory opinion from the EFTA Court representing their best argument. However, the Norwegian Supreme Court found the agreement’s provisions to be in accordance with the EU regulation. The additional remuneration to the basic hourly wage for work assignments requiring overnight stays away from home was founded in the Posted Workers

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4 Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions – The implementation of Directive 96/71/EC in the Member States, 25/7/2003 (52003DC0458).



Directive. The remuneration was a minimum wage provision, and gave the workers concerned a genuine benefit which significantly added to their social protection (NSC 2013, Section 116). The national court disagreed with the employers and the EFTA Court, in that this remuneration, because of the costs involved, would reduce the job opportunities for foreign workers to the extent that the clause on additional remuneration would be to their disadvantage. The Supreme Court added that there will always be a risk that increased social protection will create higher costs and result in a weakening of the labour market. This risk cannot alter the genuine character of a minimum wage as an objective advantage for the worker, the Norwegian Supreme Court argued (NSC 2013, Section 110–115).

Concerning the free board and lodging, and coverage of the travel expenses for “a reasonable number of home visits”, the EFTA Court had found that this could not be regarded as “pay”, neither could it fall within any other of the matters listed in the Posted Workers Directive’s Article 3-1. Hence it could only be justified on the basis of public policy provision.

The Norwegian Supreme Court seemed to disagree, but found it unnecessary to settle whether or not such provisions would fall within the Article 3-1 of the Posted Workers Directive, because this clause regarding free board and lodging and coverage of the travel expenses, “under any circumstances”, is required as a public policy provision (NSC 2013, Section 155). The Supreme Court found it sufficiently proved that the clause under concern, made generally applicable, was necessary for the prevention of the Norwegian model of wage setting and cooperation among the social partners. If the clause were removed from the Norwegian regulation concerning foreign workers in the maritime construction industry, this could a cause chain reaction to other industries, and hereby undermine the institutionalised practice of the social partners in Norwegian working life (NSC 2013, Section 170).

In its verdict, the Norwegian Supreme Court defined the minimum wage in correspondence with the Norwegian system of wage setting in collective agreements. In this system, several elements can make up the minimum compensation which employers have to pay their workers. The verdict shows that it is possible, within the EU and EEA regulations, to defend social

standards, jeopardised by extensive migration within the open European labour market, by means of collective agreements. For the maintenance of the Nordic labour market model, this is important.

#### **4. Conclusion**

The increasing work migration that is occurring all over the world takes place in three different labour markets: the national market; the common European market; and the global labour market. Each of these markets is subjected to specific regulations concerning the nation state involved.

The Nordic countries have chosen a demand-driven migration policy in the global labour market, to pick out the highly skilled workers from third countries that they need. Educated immigrants with a job are welcome. On the other hand, the immigration of unskilled workers from the same third countries is restricted by regulation. These immigrants are not welcome in the Nordic countries, with the exception of Sweden, even with a job offer at hand.

The national labour markets of the Nordic countries have been shaped by traditions and national regulations since the 19<sup>th</sup> century. In this regulation, the use of collective agreements as a means to set minimum wages has been fundamental. When the European labour market was created in 1957 by the founding nations of the European Economic Community, this started a long process of shaping a common labour market through EU regulation. One of the major shifts came with the accession of the new Member States in 2004 and in 2007, and the significant work migration that it created in Europe. This migration led to instances of social dumping in many countries, and gave reason for further regulation, both at a national and a European level. In this on-going process, a political fight is taking place. The question is how to protect social standards without imperilling the free competition of the European market. The different ways in which a minimum wage is set in the European states makes this not only a fight over the interests of employers and employees, but a fight over the interests of states as well.

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## Chapter 9

# Family migration, gender equality and the Nordic welfare state

### *Opposing policy processes*

SAARA PELLANDER

Migrant family relations have shifted from being neglected in both public debates and research to becoming one of the most central migration and integration policy issues in European countries (Kofman et al. 2013). The regulation of family migration can be divided into two different policy logics used by parliamentarians when they defend certain policies that target family migrants. The first policy logic is related to social exclusion and the economy of the welfare state. I call this process ‘economic gatekeeping’, referring to the fact that family reunification policies try to ‘filter’ those migrants who are expected to have a certain socio-economic background. This aspect of regulating family migration will be explored in the first analytical section. In the second part of my analysis, I will show how the migrant woman has moved from the margins of the migration debate to the centre, and now features in political arguments for the restriction of family migration policies and integration requirements. This second policy logic is related to gender equality, and represents what I call ‘moral gatekeeping’ (Wray 2011a). Here, the perception of the oppression of migrant women is used to introduce restrictive policy measures. In the concluding part, I will look at how the aims and outcomes of the policy processes described above contradict one another. Before exploring the processes of economic and moral gatekeeping, I will provide an introduction to the issue of family migration, defining what

it is, how it is regulated in the Nordic countries, and how family migration is linked to welfare state policies.

## **1. What is family migration?**

Family migration is the migration of family members to either form a family or reunite with their family members. Family migration can thus mean immigration by which residents in the receiving country are united with immediate family members who are living in another country. This is often referred to as family reunion: the completion of relocation of a family. Marriage migration also falls under the category of family migration. Marriage migration refers to the migration of one partner to the country of residence of the spouse. Marriage migration can either be inter-ethnic, so between two spouses of different ethnic origin, or in cases of chain migration or so called 'homeland' marriage of the second generation, intra-ethnic (Charsley 2012).

Family ties have grown to be the most common reason for being granted residence permits in Europe. Migration scholarship has for a long time neglected family migration, and viewed it as secondary to labour migration (Kofman 2004). Family members were seen as mere followers of labour migrants. Recently, marriage and other family ties have started to attract scholarly interest, and, besides single country studies, there is a growing body of literature on family and marriage migration across different countries and contexts (see Charsley 2012; Kraler et al. 2012; Grillo 2008). This paper focuses particularly on the way in which family and marriage migration is connected to the gendered norms of the welfare state. The gendered norms of the regulation of family migration have particularly been explored by legal scholars (Wray 2011b; de Hart 2009; van Walsum 2008). A few scholars have explicitly connected family and marriage migration to questions related to the Nordic welfare state (cf. Eggebø 2010).

The interaction of immigration control and family norms offers insight into some of the central debates that have grown ever more topical in the Nordic countries. Immigration critics often refer to the control of immigration

as a way of protecting the welfare state (see for example Pyrhönen 2013). In most of the Nordic countries,<sup>1</sup> migrant residents with legal resident permits have similar entitlements to social benefits to other citizens, because of the Nordic countries' residence-based welfare state system (Lister et al. 2007, 86). While many migrants are subject to a number of exclusionary practices – which will be discussed later – the most effective way of excluding migrants from the welfare state is to not grant them entry into the country in the first place. I will thus first introduce some of the key elements of the regulation of family migration to the Nordic countries.

## 2. Policies and regulations on family migration

Legislation on family migration regulates the immigration of immediate family members. The definition of who is considered to be a family member in immigration regulations differs between EU and non-EU migrants, because the regulation of family migration distinguishes between two different categories. For the movement of citizens of an EU member state or of the European Economic Area (EEA), the applicable regulation is the EU directive on free movement within the EU member states (Directive 2004/38/EC). Each country has national regulations which regulate the migration of people from outside the EU/EEA to join family members living in that country. These two sets of rules interact when EU citizens move to another EU country and exercise their right to move and reside freely. After having lived in another EU country, EU citizens obtain, in addition to other social, political and civil rights, the right to bring their family members. As the definition of family members is broader for family members of EU citizens than for other nationals, some couples in which one of the spouses is an EU citizen migrate to another country in order to become EU 'free mover'

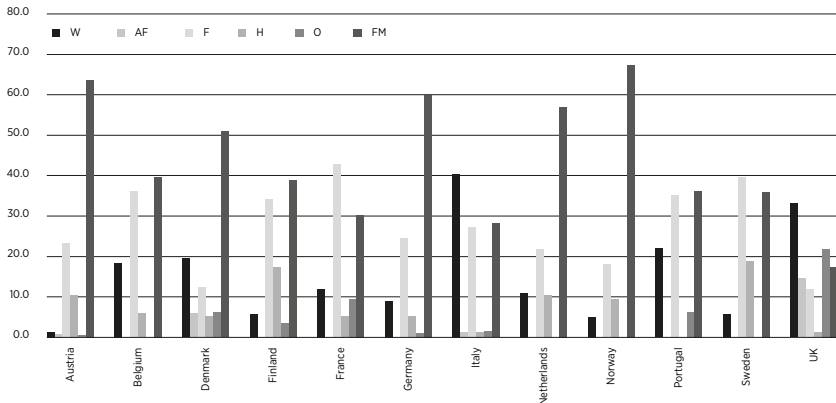
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1 With the exception of Denmark, which has departed from the Nordic principle of universalism in 2002 by introducing a so-called 'start help' for incoming migrants during their first seven years in Denmark. This benefit is lower than social assistance and thus creates a system with two different standards for welfare provisions for native citizens and migrants.

migrants (Carrera 2005). The best known example of this is when couples move from Denmark to neighbouring Sweden to escape the strict Danish rules on family reunification (cf. Wagner 2014).

Generally, three types of family members qualify for family reunion. Family members who migrate through family reunification are either the children of a resident, are the parents or guardians of an under-aged child residing in the country, or are a partner who is married, co-habiting or living in a registered partnership with the resident. In exceptional cases, it can be possible to bring other relatives such as elderly parents. In the case of elderly relatives, most countries require proof that these relatives are totally dependent on the child living abroad and are not able to obtain care in their country of residence. For EU citizens who live in another EU member state and who have family members outside the EU, the definition of a ‘family’ is broader, and parents of adult children can also join their child in another EU/EEA country.

Figure 9.1. Composition of migratory flows. Percentage of flow of permanent migrants.



W = Work, AF = Accompanying family of workers, F = Family (reunification and formation)

H = Humanitarian, O = Other, FM = Free movement

Source: OECD 2013.

The EU directive for family reunification (2003/86/EC) lays out some general rules for the family reunification of so-called third country nationals,



referring to migrants from countries that are not members of the EU or the European trade agreement. However, the directive has not been adopted by Denmark, Ireland or the United Kingdom. Norway is not a member of the European Union, but is obliged, as a member of the European Economic Area (EEA) and party to the Schengen Agreement (borderless Europe), to adopt EU regulations. A working group set up by the Finnish Ministry for the Interior compared Finland, Sweden, Norway and Denmark's regulations, and found that Finland and Sweden have quite similar regulations on family migration, while Denmark and Norway are more similar to each other than to Sweden or Finland (Sisäasiainministeriön maahanmuutto-osasto 2012). Almost all countries require some sort of minimum income from either the incoming migrant or the so-called 'sponsor', the family member who is already a resident and is seeking to be unified with a family member from abroad, with certain exemptions. In Finland, for example, there is only an income requirement for family members wishing to join a non-Finnish/Nordic/EU/ETA-sponsor. Some humanitarian migrants are also exempted. There is no minimum for how long the Finnish sponsor has to have lived in Finland (which Norway requires for family establishment and Denmark for both family reunification and establishment, with certain exemptions). There are no housing requirements in Finland. Denmark has a housing requirement, which is not applied when underage children are moving to be with their parents. Norway only has housing requirements for some groups of migrants coming from outside the 'nuclear family'. Sweden has a housing requirement, but refugees and children are exempted (Sisäasiainministeriön maahanmuutto-osasto 2012). Denmark is the only Nordic country with an age limit for marriage migration – both the sponsor and the incoming migrant must be at least 24 years old.

Family relations are the main ground for granting residence permits in Europe and the Nordic countries. Resident permits on family grounds make up about 30% of all residents permit decisions in the Nordic countries, with the exception of Denmark, which decreased from around 30% between 1988 and 2001 to only 9% in 2010. The number of family migrants has thus

gone down rapidly since Denmark introduced tighter restrictions on family reunification after 2001.

Finland has also recently tightened the requirements for family reunification. Finland introduced biometric residence permits at the beginning of 2012. These cards include a fingerprint, which means that the migrant now has to personally apply for residence permits at the closest Finnish embassy. This might often involve travel to another country, a hurdle that for both financial and practical reasons can be too difficult to overcome. This measure has caused a significant drop in the number of applications for family reunification (Maahanmuuttovirasto 2013).

### **3. The Nordic welfare state and (family) migration**

Before proceeding on to introduce the debates on immigration and the welfare state, it is vital to critically examine the notion of a Nordic welfare state and define what is meant by it. Almost every study that considers itself to be research on the welfare state sets off by quoting Gøsta Esping-Andersen and his distinction of several welfare state regimes (Esping-Andersen 1990). Despite the fact that his distinction into liberal, corporative and social democratic welfare state regimes is widely referred to in welfare state literature, it has been criticised from several perspectives. Feminist welfare state research has argued that these welfare state classifications do not take the gendered nature of welfare states into account (Langan & Ostner 1991; Lewis 1992; Orloff 1993; Daly 1994; Hobson 1994; Borchost 1994; O'Connor 1996; Sainsbury 1996). As a response to this critique, Esping-Andersen introduced the notion of defamilisation, which refers to policies that maximise the individual's independence from family resources (Esping-Andersen 1999, 45). Scholars have criticised Andersen's understanding of defamilisation from the perspective of women's independence, as it measures the support of the welfare state to the family, and not how welfare states enhance the independence of individual women (Bambra 2004). There has also been a growing critique on the way in which literature on welfare state

regimes has neglected ethnicity (see, among others, Banting & Kymlicka 2006; Sainsbury 2012). Another critique of ideal welfare state types highlights the fact that research on welfare state models tends to neglect transnational historical and empirical trajectories, as Kettunen & Petersen (2011) point out. Instead of seeing welfare states as national entities, they argue, welfare states should be conceptualised as the result of a transnational movement of ideas and policy solutions, each of which carries different historical contingencies. Kettunen and Petersen thus suggest that welfare state models should be seen as analytical ideal types rather than empirical realities.

The Nordic model has been conceived of as a model with five exceptions (Christiansen et al. 2006), and, in line with this, feminist scholars have pointed out that the Nordic countries represent five different gender profiles (Bergqvist et al. 1999), and that they also differ in their migration histories and policies (Mulinari et al. 2009). When referring to the Nordic welfare state in this paper, I am not suggesting an ideal type of the Nordic welfare state (see also Kettunen 2001). I am using the notion of a Nordic welfare state as an analytical tool through which I link the topic of family migration to existing welfare state literature that concerns the Nordic welfare states, literature that either analyses individual Nordic cases, or which refers to institutional and legal similarities between the Nordic countries.

The movement of people into the Nordic countries is older than the Nordic welfare state. When scholars speak of the challenge that migration poses to the welfare state, they mean more recent migration flows since the Second World War. For the purpose of this paper, I will also focus on the newer immigration after the Second World War, but still wish to contest the idea that migration in the Nordic countries should be conceived of as a new phenomenon. Most literature on the Nordic countries describes them as being comprised of a rather homogenous population. This perception does not account for the existence of traditional ethnic groups such as the Sami, the Roma and Muslim Tatars, neither does it account for the role that incoming migrants have played in the political, intellectual and economic history of the Nordic countries. However, most research on migration to the Nordic countries tends to state that diversification of the population only

began with the recruitment of a foreign labour force in the post-war period, ignoring migration flows that took place in earlier periods.

A growing amount of scholarship has recently been exploring the inter-relations of immigration and the welfare state (see, among others, Bommes & Geddes 2000; Brochmann & Hagelund 2010; Clarke 2004; Kvist et al. 2012; Banting & Kymlicka 2006; Mau & Burkhardt 2009; Schierup et al. 2006; Vad Jønsson et al. 2012; Sainsbury 2012). While some scholars argue that immigration undermines the reciprocal trust on which the support for an encompassing welfare state is based, empirical findings on the issue are mixed. Some research finds a positive attitude towards distribution to correlate with a larger degree of immigration, while others have identified a weak negative correlation between the number of immigrants and support for the welfare state (Blomberg 2008; van Oorschoot 2006; Senik et al. 2009).

Restricting immigration has often been justified politically by the limits of welfare state resources and the cost of immigration for the welfare state. The universal welfare state has been most severely eroded in Denmark, where immigrants find themselves falling under specific welfare schemes and receiving lower benefits than the national population (Andersen 2007). In her comparison of six welfare states, Sainsbury (2012) finds that regardless of the welfare state type, migrants are disadvantaged in comparison to native citizens. This first systematic comparative analysis of immigrants' social rights across welfare states shows that migrants have fewer employment opportunities, a lower standard of living and less access to benefits.

Mulinari and Neergaard (2004) refer to the position of migrants in the Nordic welfare state as 'subordinated inclusion'. In their research on Sweden, Mulinari and colleagues show how policies and public debates position migrants as a group with a potential claim on welfare state services, and not as active contributors to society (Mulinari et al. 2009, 5). The concepts of 'welfare nationalism' and 'welfare chauvinism' capture the ways in which excluding policy mechanisms define certain groups that are excluded from and discriminated against by the welfare state (Suszycki 2011; Mulinari et al. 2009).

Until the end of the 1990s, immigration policies traditionally targeted work-related migrants. Family migrants were seen as mere dependents of work migrants, and it is only in the past two decades that research as well as policy-making has started to increasingly focus on 'family migrants'. The Nordic countries have recently introduced a number of restrictions on family related migration. Family related migration can be viewed as a form of unwanted migration (Joppke 1998; Staver (forthcoming)), while the immigration of highly skilled labour has particularly been facilitated in several Nordic countries. From a welfare state perspective, the situation of seasonal or circular workers is especially problematic, and there are recurring reports on the exploitative and precarious employment situations of groups such as domestic workers, berry-pickers or construction workers (see, among others, Gavanas 2010; Jokinen et al. 2011; Kontula 2010; Lutz & Palenga-Möllenberg 2010). Also irregular migrants, migrant sex workers and trafficked migrants find themselves on the margins of the welfare state (Lund Thomsen et al. 2010; Nielsen 2013; Skilbrei & Tveit 2011).

Policies that steer and govern migration have been divided into immigration and integration policies. While the two fields of entrance and integration policies are traditionally conceptualised as standing apart from one another, a recent development has been witnessed of putting in place a set of integration standards for the migrant as requirements upon their arrival (Borevi (forthcoming); Kofman et al. 2013). In the case of family migration policies, these include requirements for a certain type of housing and for the sponsor of the moving family not to rely on welfare benefits, as well as requirements for language skills and educational background: Denmark has the most restrictive set of requirements. I will move on to give two examples of this overlap of integration and immigration policies, processes that I call economic and moral gatekeeping. Both are linked to calls for the integration of migrants, but in their actual outcome lead to a reduction of the numbers of incoming family migrants.

## 4. Economic gatekeeping

As stated above, family migration is often considered as ‘unwanted’ migration, because of the expectation that most migrants who move for family reasons will not integrate into the labour market. Kofman et al. (2013) show in their comparative study on family migration policies in Europe that there is a common understanding that the integration of migrants has supposedly failed. Migrants are said to be marginalised and form “an ethnic underclass” (Kofman et al. 2013, 5). In particular, spouses who are uneducated are seen as being unable to raise and educate the next generation, and thus as continuing to uphold social inequalities (Joppke 2007; Kofman et al. 2013). Kofman et al. argue that the policy response to this argumentation logic is to select migrants with a certain background and prevent family formation with spouses who might be expected to not demonstrate labour market participation. This process of selecting spouses with a certain socio-economic background is what I call ‘economic gatekeeping’. In the Nordic countries, this economic gatekeeping for family migrants has been established by introducing certain income requirements for family migrants and/or their spouses. I will discuss how the income requirement has been argued for by policy-makers, and give some examples of Swedish and Finnish policy-making.

As I referred to in the introductory part of this chapter, all Nordic countries now have an income requirement for family migrants. These requirements vary as does the policy as to whether the spouses’ own income is taken into account. The income requirement is often justified with the argument that it will lead to better integration outcomes (Jørgensen 2012). Sweden was until 2010 the last Nordic country to not require a certain amount of income for family migrants. The introduction of an income requirement for family migration in 2010 marks a clear policy change in Sweden, where previously, integration achievements and immigration rights were seen as rather separate from one another. In her analysis, Karin Borevi interestingly notes how the introduction of the income requirement in Sweden has been seen as a clash with understandings of the universalism of the welfare state: “To partially or wholly deprive foreigners of the right to the benefits managed by

society, according to, e.g., the social insurance system, would of course conflict both with the principle that everyone is of equal value and with the norms underlying the welfare society” (SOU 2005:103, 115–116, translated in Borevi (forthcoming)). The Swedish centre-right government set up a working group in 2008 to inquire regarding an income requirement for Sweden. The working group argued that an income requirement would lead to better integration outcomes, and that integration would be facilitated if family migrants joined persons with a job and adequate housing (SOU 2008:114, 19). Opponents to this suggestion argued in an appeal body that an income requirement would hinder and not promote integration, as it would make family reunification more difficult. Interestingly, the family members of Swedish citizens were excluded from the requirement, which clearly shows that the target group of these policies was people with a migration background who rely on public funds. The law that was finally passed in Sweden was more generous than the original government proposal, as within the government, there were also critical voices against introducing it. In particular, the Christian Democrats demanded that families with children be exempted, which made it into the final version of that law. In critical motions by the Social Democratic, Left and Green parties, they accused the government of having a hidden agenda of restricting the immigration of ‘unwanted’ family migrants, and of hiding that agenda behind calls for further integration (Borevi (forthcoming)).

While Swedish politicians were concerned as to whether the policies would hinder or promote the integration of migrants, recent Finnish debates on the income requirement have mostly focused around whether or not Finland would attract family migrants by having more favourable policies than other Nordic countries (Sisäasiainministeriön maahanmuutto-osasto 2012). The Finnish government which was formed in 2011 by a so-called ‘rainbow coalition’ of almost all parties except the agrarian Centre Party and the populist True Finns, introduced in its government proposal that it would tighten regulations on family reunification. It also announced that it would particularly investigate the need for including more groups of humanitarian migrants into the income requirement, as well as investigating the need for a housing requirement. In 2010, under the previous centre-right government,

the Finnish Ministry of Interior had published a report to the Parliament in which it compared European entry regulations on family reunification. The report concluded that “[. . .] the policies on family reunification in Finland in comparison to other states are not more attractive than in other countries” (Sisäasiainministeriö 2010). However, the new government which started its governmental period one year later found the need to investigate the exact same issue, stating in its government programme that Finland’s policies on family reunification might need to be modified to fall into line with those of the other Nordic countries. A report by the Finnish Ministry of the Interior published in 2012 suggests that Finland should also introduce a broader income requirement for more groups of humanitarian migrants.

In Denmark, the spouse living in Denmark is required to have not received public assistance during the three years prior to the application being processed by the Immigration Service. This gives a clear signal that only family migrants who are part of the working population and are able to meet a certain minimum income can be joined by their family members. This restriction also has a gendered bias, as Kofman et al. (2013) point out. On average, women earn less than men and will thus have more problems meeting income requirements. For example the very high requirements that were introduced in the UK in 2012 mean that 61% of employed women in Britain as well as 32% of men in employment do not earn enough to be able to act as sponsor for a family member (Kofman et al. 2013).

Family related migration is not always ‘unwanted’ migration. Certain groups of family and marriage migrants are excluded from restrictive measures and are thus positioned as ‘more desirable’ (see Staver (forthcoming)). Calls for the restrictions of certain groups of family migrants are often embedded in discourses on gender equality, which can also be seen as a normative yardstick that the Nordic countries use in creating dichotomies between liberated Nordic women and oppressed women in migrant families. These dichotomies and how they are related to what I call ‘moral gatekeeping’ will be explored in the next section.



## 5. Moral gatekeeping

Migrant women have moved to the centre of European debates about immigration and integration. In particular Muslim family life is portrayed as incompatible with Western liberal family norms (see also Razack 2004). The governmental measures that follow this logic are those that restrict types of family formation that are deemed oppressive towards women, such as forced or even arranged marriages. These governmental measures can be seen as either the result of political aims to enhance the welfare of migrant women, or as a sign of islamophobic and anti-immigrant tendencies in policy-making.

The dualism between the public perceptions of patriarchal migrant family life and Nordic notions of gender equality is a central element of debates on migration in the Nordic countries. I will next explore how rules, regulations and public debates on family migration are in opposition to notions of equality in the Nordic countries. Gender equality has been found to be a self-understanding and a core value of the Nordic welfare state. Nordic gender equality is often referred to as state feminism (see Kantola 2006) – feminists have been taking part in state politics and thus engaged in creating what Helga Hernes has called a “potentially women friendly welfare state” (1987). The notion of the women friendly welfare state has been very influential in welfare state literature, but has also earned critiques, the most prominent of which is in line with the intersectional critique of the white middle class feminist movement, namely that it assumes a group of women that can and should have a shared interest. In their influential critique of Hernes’ women friendly welfare state approach, Borchorst and Siim (2002) particularly stress the position of migrant women, who are not targeted by many ‘women friendly’ policies. When it comes to immigration and integration policies, gender equality has actually featured as an element of exclusion. Policy makers use normative understandings of gender equality as a means to argue for a range of restrictive policy measures. These state policies and discourses of nationhood draw boundaries between equal Nordic families and patriarchal ‘migrant families’.

The most central way in which questions of gender equality feature in the regulation of family migration is the prevention of forced marriages, which policy makers, particularly in Denmark and Norway, have defined as an explicit policy goal behind restrictive immigration policies (Jakobsen & Liversage 2012; Staver (forthcoming); Eggebø 2010; Razack 2004). As part of these policies, Denmark has introduced an age limit of 24 years for marriage migrants. Jakobsen and Liversage explain that the logic behind the age limit is that young girls are expected to be economically and socially more independent from their families at an older age, and thus would be less likely to be influenced by their parents seeking to engage their children in matrimony with a spouse from the family's country of origin. This argument also carries with it the logic of the welfare state educating young women to become independent from patriarchal family structures, as they have the time to be socialised and exposed to Danish/Norwegian society. It is worth noting that the prevention of forced marriages has been a very explicit policy goal in both Denmark and Norway, but has not featured as prominently in Finnish or Swedish debates on immigration policy.

A central issue related to migrant families, gender equality and the welfare state is the debate on honour-related violence in the Nordic countries as constructions of nationhood. Keskinen (2012) argues that Finnish public debates on honour-relating violence situate Finland as being part of other (Western) European countries with higher number of Muslim minorities, where honour-related violence features as a more central element for national policy making than in Finland. Discourses on honour-related violence that explain violence by referring to a patriarchal and violent culture fail to situate violence in its societal context and to analyse the structural, societal and psychological processes that lie behind all violence in families. Razack (2007) has, in this regard, raised the difficulty of speaking out on issues of honour-related violence without falling into the pitfall of culturalising and dichotomising. Stereotypical figures of the 'dangerous' Muslim man, the 'imperilled' Muslim woman, and the 'civilised' European are prominent elements in migration policy debates that build on the notion of Nordic gender equality versus oppressive migrant culture. The way in which these

racialised exclusions are embedded into institutions of Nordic welfare states and their historical legacies has particularly been explored by postcolonial feminist scholars in the Nordic countries (cf. de los Reyes & Mulinari 2005; Jensen & Loftsdóttir 2012; Keskinen et al. 2009).

## 6. Opposing policy processes

Immigration laws include definitions of relationships, roles or institutions or make underlying assumptions that shape and influence the life and position of migrants in a gendered way (Piper 2006). One very common assumption is that of the male breadwinner, which reproduces the dependency of immigrant women on men. This assumption also influences the way in which immigrants perceive themselves and their families. Particularly when migration takes place on the basis of family reunification, the (in the majority of cases female) migrant is often classified only by her relationship to her male counterpart and not as an independent individual. This dependency relationship makes it more difficult for migrants to obtain legal rights in their own name, as their status is dependent on that of their family members (Boyd & Grieco 2003; Harzig 2003, 51; Jørgensen 2007, 179–180; Lotherington & Fjærtøft 2006, 31; Mahler & Pessar 2006, 40; Palriwara & Uberoi 2008, 45).

The legislation on residence permits for marriage migrants has resulted in a dependency on the providing spouse, even in cases of domestic violence. The so-called three-year rule in Norway, two-year rule in Sweden, four-year rule in Finland and five-year rule in Denmark expects spouses to stay with their partners for that amount of time before being granted an individual residence permit. Apart from Finland, the Nordic countries have explicitly information in their Aliens Act section of the Immigration Office's website on the fact that a migrant can keep a residence permit in the case where physical abuse by the partner can be proven to have taken place. But even though the residence permit would be granted after proving domestic violence, studies show that women rather allow the waiting period to pass, even while being subjected to violence and abuse, as the process of proving abuse and

pressing charges against the husband is difficult (Burman 2012; Lotherington & Fjærtøft 2007, 119; Tanttu 2009, 45–46).

Overall, we can see opposing policy processes at play. While the integration of migrants, particularly into working life, is used as an argument both on the EU level and by national policy makers to introduce income requirements, the law factually creates a dependency on the spouse. Thus, the dependency on the state that these policies are seeking to avoid is replaced by a dependency on the partner. While the policies are claimed to lead to a better integration of family migrants, they factually select migrants with a certain socio-economic background who can afford to be joined by their family members. It is questionable as to whether having a migrant population that has little or no income separated from their family members in their new country of residence improves integration outcomes. I would argue that this can actually lead to the opposite effect, namely a further marginalisation of a certain population.

Another opposing policy process is that of ‘promoting’ gender equality by trying to fight against forced marriages and honour-related violence. The policies and public debates surrounding these issues situate migrant women as oppressed by ‘their’ culture and families, leaving them with little or no agency to claim their own cause (see Razack 2004). Thus, while the argument is that policies that target certain (often Muslim) family practices are motivated by a wish to promote gender equality, they actually do the opposite; namely stigmatise and thus further exclude migrant women.

The regulation of family migration touches upon one fundamental concept that is vital in current debates on the welfare state, namely that of citizenship. As Lister et al. point out, citizenship does not only include the question of rights and obligations, but “[. . .] involves a set of social and political relationships, practices and identities that together can be described as a sense of belonging” (2007, 9). This belonging is particularly problematic for certain groups of migrants who are targeted by the growing restrictions on family reunification, and who, even when they have entered the country, find themselves on the margins of the welfare state. The evaluation of migrants’ private lives for immigration purposes is what Plummer calls ‘intimate citizenship’ (2003). As this chapter has shown, in the Nordic countries,

debates on the way in which these intimate citizenships are negotiated rely on the perception of a shared idea of Nordic gender equality. However, the placing of migrant family life in opposition to shared notions of equality is not only a Nordic phenomenon. Comparative studies have found that the 'migrant family' features as a site of patriarchal practices and as an obstacle to integration across Europe (Kraler 2010). This chapter argues that the Nordic welfare state offers a particularly interesting framework through which these tendencies towards the inclusion and exclusion of migrant family life take place. In order to deepen our understanding of the way in which the welfare state interacts with very topical questions of immigration, it seems vital to further explore the connections and links between feminist welfare state research and migration scholarship.

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## Chapter 10

# Housing policy and the ‘new citizen’ of the Chinese city

*On the social protection of migrant workers  
regarding their residential rights*

KA LIN, LONGFEI YI AND SHUANG WU

### 1. Backgrounds: housing policy and migrant workers

Since the establishment of the socialist regime, China has developed into the kind of society which has the identifiable feature of social dualism. In this structure, the social rights of the urban and rural populations are diverse: urban residents are well protected by the state (and its associated state-owned enterprises) regarding aspects of employment, income, health care and housing, whereas the rural population stands on their own feet, with collectives as the resource of assistance. This feature of social dualism is typically reflected in the housing registration system, which is attached to various kinds of rights regarding welfare entitlement. Taking housing policy as an example, in the past, urban residents enjoyed free allocation by their workplaces, and in the present day, their right to apply for social housing is ensured once they have fallen into the ‘housing poor’ category.

However, this dualist structure of society has become vague during the urbanisation process. Under this circumstance, the social structure has become more open and freedom of moving between cities and countryside

has been increased. This development has given rise to a large body of migrant workers. From 2003 to 2009, the size of the floating population increased from 15 million to 211 million (National Bureau of Statistics of China 2010). By 2012, the number of migrant workers had reached almost 253 million, accounting for 17% of the total Chinese population (Han 2012). In 2009, 63% of those migrants worked in the large or middle-sized cities, and most of them worked in the manufacturing, construction and service industries (Liu & Feng 2012). This trend of domestic migration will continue in the next decade, with more and more farmers pouring into the cities. Within this perspective, some institutes such as the National Health and Family Planning Commission of China have estimated that China's urbanisation rate will reach 60% of the total population by 2020, and therefore, an average annual increase of 13–16 million migrant farmers migrating into the cities is expected in the next ten years (Chinese Government Net 2012). These migrant workers are indeed acting as the main agents of urbanisation in contemporary China.

Evidently, the flow of migrant workers is the outcome of the on-going industrialisation process. From Lewis' dual sector model (Lewis 1958), the 'capitalist' sector will draw labour from a non-capitalist backward 'subsistence' sector in this process, and this implies a large move of labour from agricultural areas to cities (especially before the 'Lewis turning point'). According to Todaro, the factors affecting the rural labour force's migration into cities include wage differences and job opportunities (Todaro 1989). Eventually, these migrant workers will gradually settle down in the cities and become new urban residents. A survey conducted by the Development Research Centre of the State Council demonstrates this trend: in the new generation of migrant workers, 80% of the surveyed respondents indicated their wish to stay in the cities or towns, with less than 10% wanting to go back to the countryside. Despite the fact the actual rate of return in this group is far higher than that illustrated by this data, a large-scale phenomenon of migrants becoming 'new urban citizens' over the years seems inevitable.

However, this process of migration is accompanied by a number of social problems. Since these workers settle in 'stranger' land without having a strong

local context, they meet with many difficulties in housing arrangement (in particular because of their low economic status in urban society). In urban China, social housing programmes targeted at the 'housing poor' consist of various schemes of low-rent housing, affordable housing and low-cost commercial house building (Ran 2012; Jin 2010). These newcomers to the cities prefer to have the chance to enter low-rent and public-rented housing, but these schemes are open only to urban registered households. Since these migrant workers have left their domicile counties to work in the city, they cannot be identified as formal urban citizens. Thus, these programmes fail to meet the housing needs of this population (Li 2002).

Thus, most migrant workers have to find their own solution to their housing problems (apart from those who have accommodation offered by their workplaces). They remain outside the state's compulsory housing saving programme, able to access neither the public-rented housing programme nor the affordable housing programmes or low-rent housing system. This has been confirmed by a survey using data collected from Beijing and Shanghai (Wu & Wang 2002): the respondents have no access to the urban social housing system. Some scholars have underscored this situation by discussing their status of exclusion from the household registration system (Peng & Tang 2012; Chan & Li 1999; Li, Duke & Peng 2008; Cui & Mao 2005), and this situation has made the housing question a serious problem for them to deal with in their daily life. According to the survey data, respondents often list the problem of accommodation as the top factor making life difficult for migrant labour.

Since in most cases, these workers left their hometown to earn a living, they intend to rent houses at a cheap price. For this sake, they often aggregate in urban districts or the so-called 'urban villages'. These areas could not be simply described as urban slums, but they have poor facilities and lack the provision of many necessary public services. Thus, housing issues become not only about their housing arrangements, but take on a general sense of shaping their view on urban life and society. The poor housing conditions give them a sense of social exclusion, and this indeed becomes the major barrier to them forming an integral part of urban life. Accordingly, Zhang (2006) expounds the need to pay attention to the issue of migrant workers

in order to construct a harmonious society, and Li & Wang (2006) explain that migrant workers' sense of relative deprivation will discourage them to adopt a sense of fairness and social equality.

Within this context, we have a great need to study the actual situation of migrant workers in urban life in order to find solutions. Gao (2006) states that the limited housing rights of migrant workers originated from a number of reasons such as institutional design, and the legislative system and concepts, which are harmful to building social harmony. This study will investigate migrant workers' living conditions in Hangzhou and Xiamen cities. Based on the interview data, the study will discuss the problems associated with housing matters and the policy measures undertaken by local government. The study will compare policies and measures taken in both cities in order to promote the proper integration of the floating population into local society. With this background, this study will first of all report on the research data collected from both Hangzhou and Xiamen, and then evaluate the social impact and importance of these policy measures.

## **2. The general conditions of migrant workers in Hangzhou and Xiamen**

In Hangzhou, the number of migrant workers from outside has increased dramatically in the last decade. According to official statistical data, this group reached at 2.18 million in 2005 and increased to 2.74 million in 2006. It was 2.26 million in 2012, accounting for 25.7% of the total population (Hangzhou Net 2013; Hangzhou Commission Science and Technology 2009). As to the occupational distribution, over half of the migrant workers were engaged in the manufacturing industry, with some in the service sector (Yang 2012). These workers have made a great contribution to economic growth in Hangzhou. For instance, during the period of implementing the tenth five-year plan, the floating population of Hangzhou contributed more than 20% of GDP (Hangzhou Net 2009). As to the background information of the migrants

in Hangzhou, around 60% of them hold a high or middle-school certificate, and more than 60% are married.

In Xiamen, the permanent resident population was 361 million in 2012, including 185 million migrant workers (Xiamen Net 2012). The ratio of the registered population to migrants (outside urban household registration) was almost one to one. As shown by our interviews, most of them come from Jiangxi, Henan, Anhui or Shaanxi Province, and some from the areas surrounding of Xiamen, such as Zhangpu and Ningde. The situation seems a bit better for these interviewees, with a more stable employment situation. This group is the most vulnerable to the risk of unemployment, and have had to return to the country once the economic recession happened (Ma & Chen 2008). However, they work mostly in the processing and manufacturing, construction, mining, quarrying, transportation, sanitation, housekeeping and public services industries. Their contribution to the economic development of Xiamen is enormous. They reduce the cost of human resources in production, thereby attracting more foreign capital for economic growth in Xiamen (Research Group on Foreign Population and Economic and Social Development in Xiamen 2003).

In order to gain a better understanding of the living and working conditions of this group in these two cities, we conducted interviews in early 2013. With the help of some non-governmental organisations, our survey team discussed housing arrangements with more than 30 families in Hangzhou. As to general information, these interviewed workers mostly acted as regular employees in companies, but in the service sector some are on a temporary basis, with a small part of this group unemployed. The age of the informants is mainly between 18 and 35 years old, and they hold some training or secondary education. The period of their stay in Hangzhou varies from one to ten years.

In Xiamen, we interviewed around 50 migrant workers from different sectors of the manufacturing construction, transportation, sanitation and service industries. The majority of employees have an education under college level, and about 60% of them are married. Almost 60% of them have been working here for more than three years, and 60% have been to more than two cities before coming to Xiamen. These data are comparable with another



107 samples, which show that the age of this group is mainly between 16–30 (90% of the sample), with 37% of the group married, 60% unmarried and 3% divorced. A total of 89.7% have received middle school and high school education, with 6.6% in higher education, together with 3.7% with a primary school education. About 20% of this group have worked for more than two years, 55% have changed job twice and 25% have changed job more than three times (Zhou & Liu 2006).

In regard to the income level of the migrant workers, research shows that in Hangzhou, 36.15% of migrant workers have an average monthly income of 1,500 to 2,000 RMB, 30.7% earn 2,000–2,500 RMB, 10.9% earn 2,500–3,000 RMB, 5.9% earn 3,000–3,500 RMB, 3.65% earn 1,000–1,500 RMB, 3.35% earn less than 1,000 RMB and 0.45% earn more than 4,000 RMB (Zhan 2012). This is comparable with statistical data that shows urban households' average income as around 2,800 RMB per month, while 73.85% of migrant workers' income is less than 2,500 RMB. Hence, most migrant workers belong to the middle–low income levels (Zhan 2012). In a survey conducted in Xiamen in 2005, 92.3% of migrant workers had an average monthly income of less than 1,400 RMB, 4.8% earned 1,100–2,000 RMB per month and 3.5% earned more than 2,000 RMB per month (Dai 2005).

### 3. Housing arrangements of the migrant workers

In Hangzhou, the most popular housing arrangement among migrant workers is renting in the housing market (Ma & Chen 2008). According to some surveys, around 2% of them have already bought housing in Hangzhou, and more than 90% live in rented houses or apartments provided by their work units. For economic reasons, most of them look for houses at a cheap price, but struggle to save for the future or send money back to their home village. As our survey disclosed, three quarters of the interviewees pay rent which represents around one fifth of their total monthly income in Xiamen and about one third in Hangzhou. This report is comparable with other surveys. For instance, Ma and Chen reported that 67.2% of respondents paid less

than 500 RMB per month in rent (Ma & Chen 2008). This is not very low if compared to Zhengzhou city, where 46.69% of surveyed migrant workers paid housing costs of less than 100 RMB per month (Chen & Xu 2013). Under this circumstance, housing conditions could be expected to be hard, and this makes housing matters the major reason for life difficulties.

Besides this, some people engaged in the processing and manufacturing, construction and extractive industries also lived in dormitories or sheds provided by their work units. In our survey in Hangzhou, about 20% of interviewed respondents are living in dormitory units provided by their work units. Ruan's survey (2012) made in Shanghai reported that 20.5% were renting houses, and 61.7% arranged by dormitory at working unit (together with 12.5% and others by 5.3% in other options). Even so, our survey also shows that most respondents are reluctant to live in dormitory units due to their poor conditions and lack of privacy. In addition, those engaged in domestic service may live also inside urban households.

Regarding living space, the average living space per capita for urban households in Hangzhou was 33.7 square metres in 2011, and in Xiamen, it was 31.97 square metres in 2010. The eligibility standard for applicants to the social housing is no more than 15 square metres per person in Hangzhou and 12 square metres in Xiamen. In comparison, migrants have a small living space. In our survey, 70% of those living with their spouses and children in rental apartments have less than 30 square metres. Among them, 40% of them have two people (usually a couple) sharing a room, and 20% have three people sharing a room (usually a couple and one child). This information corresponds to another survey made on migrant workers in Hangzhou, as the per capita housing area is less than 8 square metres (Zhan 2012). These data are also comparable to those of Zhengzhou's survey, which states that about 67% of respondents had a housing area per capita of less than 10 square metres in Zhengzhou. This presents a huge gap compared to the local residents (with 26.08 square metres of housing area per capita for local residents in 2010) (Chen & Xu 2013).

On the location of living, our survey in Hangzhou shows that 70% of respondents are living on the borders or the outskirts of the city, including

Jianqiao, Liuxia, Jiubao and Xiasha. These areas are known for their high-density floating population, and usually lack facilities and high-quality infrastructure. In Xiamen, half of our respondents are living within Huli District, (including Xinlinguancun and other urban villages). Some are living around the urban villages of Siming District, but most of their living places are far away from their workplaces. Reasonably, they complain that the commute between home and workplace uses too many hours per day.

As for home facilities, our respondents tend to live in a single bedrooms with no separate kitchen and bathroom, and 10% of the migrant workers live in rooms no kitchen or toilet facilities apart from public toilets; 70% of migrant workers live in shabby rooms with a small space for the kitchen and bathroom and 80% in places with poor public health service or property management. This situation is coherent with another survey made in Hangzhou. In Zhan's (2012) survey, 28% had no independent toilet, and 35% no independent kitchen. Thus, they state that sanitation (95.32%) and infrastructure (86.13%) are the most important environmental factors affecting living conditions (Zhan 2012).

During the process of urban renewal, many urban villages are reconstructed, and the migrants living in those areas have to change their accommodation frequently. In our survey, 30% of respondents have had to change living places twice and 20% three times within a year, with only 10% staying stable for a year. The reason for these changes may be job relocation (Chan & Li 1999), but they are often due to the changing surrounding and buildings being demolished during urban renewal. This brings great distress and disturbance for the migrant workers in their daily lives.

#### **4. Housing policy and local administration**

To respond to these problems of housing arrangements, the central and local governments have to make efforts to release the pressure on housing. Since the mid-2000s, central government has released a number of notification concerning housing policies for migrant labourers. Starting in 2005, the Ministry of Construction addressed this issue as one of the central tasks on

its working agenda, and in the following year, the State Council also released a notification including a demand for improving migrant workers' housing conditions (Lin & Gao 2007). Together with other ministries, the Ministry of Construction published *Guidance on Improving the Living Conditions of Migrant Workers* in 2008, which explicitly states that the housing issues of migrant workers should be incorporated into the overall planning of urban development.

This direction of development has been moved forward in recent years. By 2010, the state had issued a document that highlighted the housing issue and the Ministry of Construction had also requested local governments in the developed regions to open up access to public rental housing to those migrant workers who are regular employees and stay in the city for years. Accordingly, many cities introduced a series of housing policies to meet with these requests from the central governments, using the measures of land allocation, financial budgets, support of land-transferral fees, and developing rental markets and investing in social housing. In Guangzhou, Dongguan and Suzhou cities, policies have been created to support migrant workers (Liu & Feng 2012). In Nanning city, for instance, the local government has started to widen access to applying for affordable housing to those migrant workers with labour contracts who have been working for years (Ruan 2012).

In regard to Hangzhou and Xiamen, the People's Congress of Hangzhou promulgated two official documents in 2007 named *Further Plans to Protect and Promote the Rights of Migrant Workers in Hangzhou* and *Interim Provisions of Apartment Construction and Lease Management for Migrant Workers*. In 2011, the Hangzhou municipal government also issued *Implementation Details of Public Rental Housing Lease Management in Hangzhou (Trial)*, to define the purpose, responsibility, operation and leasing management of its public apartment programmes. These official documents all refer to the issue of migrant workers. The government also put together *The City Plan of Housing Construction in Hangzhou (2010–2012)*, *The Outlook of Urban Plan for Housing Construction in 2011–2015*, and *The Regional Plan of the Public Rented Housing in 2012*, with a target of developing social housing programmes in areas with large aggregations of migrant workers. In policy practices, these efforts can

be traced back to 2004, when the Hangzhou government set up the Two Apartments Project for migrant workers. The project was to build dormitories in areas near industrial parks (Yang 2012). In the following year, the Hangzhou government also issued a document to encourage companies and community groups to construct dormitories for migrant workers.

In Xiamen, the local government created the relevant policies in 2008 targeted at migrant workers in industrialised zones. Through the regulations on housing protection for the migrant worker in industrial areas, it called attention to including the housing poor into social housing programmes (The Land Resources Bureau of Xiamen 2008). In 2009, the People's Congress of Xiamen city proceeded the rules on social housing management together with 25 other relevant documents (The People's Congress of Xiamen 2009). And by 2011, the municipal government was concentrating on accelerating the process of constructing public rented housing in Xiamen, with the purpose of renting them to migrant workers at a low price (Xiamen Municipal Government 2011).

Nevertheless, despite these demands from central and local government, it is still outside the bounds of possibility to formulate an effective system of public sector support for housing affairs. Currently, the public housing system in Hangzhou is composed of six programmes, including low-rent housing, economically affordable housing, resettlement housing, public rental housing, dilapidated housing and talent housing (Jin 2010). These programmes are not applicable for migrant workers, apart from public rental housing. This last programme is targeted at two groups, those with low income and new entrants into the labour market (including both migrant workers and college graduates) (Yang 2012). Applicants must hold a residential permit and must have acquired a certificate of professional and vocational qualification. Besides, they should have signed a labour contract and paid social insurance contributions for more than one year. In our surveys, around 10% of our interviewees live in the public rental housing.

In Xiamen, the municipal government started to implement an experiment to open access to public rental housing for the floating population at the district level, but not at the city level. Because of the insufficient amount of this public housing, the programme is restricted and information available

to the public limited. In our interview, about 50% of the respondents are not aware of this programme; even those who know about this programme comment that the access is too narrow to apply. Therefore, most of the respondents are not optimistic about the benefit of government housing policies. Besides, in 2012 the municipal government also set up a Gold-Silver Engineering Project, in which the term 'silver' refers to placement housing for landless farmers, and 'gold' refers to rental apartments in the areas surrounding industrial parks (Huang 2009). This project has been proved to effectively provide cheap rental levels (lower than the rent in the housing market) for migrant workers.

## **5. The solution for migrant workers**

Clearly, there has a serious need for social support for migrant workers in housing matters, as the situation is very tough for them. The state has demanded that local governments improve their work in this direction, but it seems difficult to realise this. There are certain barriers to policy development in this direction. The financial issue is a basic one, as the funds to support social housing programmes mostly come from the local governments, but the floating population is outside the local urban household registration system. Thus, they are ineligible for getting the same housing benefits as urban residents. Besides this, urban resources of land and space are limited and it is unrealistic to expect local governments to build many public rented houses, especially when the flow of immigrants cannot be limited. The large-scale construction of social housing needs a great deal of investment, and will be a huge burden on local governments.

Thus, in theory, local governments should have a moral duty to protect the residential rights of their residents, but in practice, many barriers make it difficult to fulfil this duty. In previous studies, some scholars suggest developing low-rent housing for migrant workers to supplement social and commercial housing (Jin 2010). However, such a proposal could be an ideal but not a realistic solution. Based on our survey, we notice that 10% of our

interviewees live in public rented houses in Hangzhou – a good starting point for developing this orientation of work – but this also implies too limited access to this programme.

Along another line, encouraging enterprises to build more dormitories will be helpful for improving the living conditions of their employees. In our survey, around 20% live in a company-provided dormitory, so strengthening the notion of ‘corporate responsibility’ should be useful for developing company housing programme. This is in particular needed for migrant workers who cannot access social housing programmes. These programmes can contribute to increasing a sense of belonging and emotional attachment of those employees to their workplace. This can also reduce the living costs of their employees and make their life more comfortable, as well as having a positive impact on urban administration.

Still, as many migrant labourers live in urban villages, it is important to improve the facilities of the surrounding area and raise the quality of public service in those villages. Once those areas require reconstruction and restoration, the government should consider the interests of local residents and develop channels of dialogue with local residents (including migrant workers as renters), in order to coordinate interests between renters and the rentees, employees and employers, the government and construction firms as an important way to improve the quality of life of migrant workers.

Again, local governments should also resolve a set of issues concerning social housing programmes in regard to urban design, regulation, investment and management. With its information from Hangzhou and Xiamen, this study reflects the serious demand for public assistance for developing urban housing programmes for migrant workers as ‘new urban citizens’. In regard to urban planning, developing public rental housing system can be a suitable solution to improve quality of life of migrant workers (Chen & Feng 2011), as observed from Hangzhou’s experience: the Xinyan Apartment Project in Xiasha district has had great success, in which the government encouraged various agents to construct public rental housing system under an arrangement unified by the municipal government.

## 6. Conclusions

When human society entered the 20<sup>th</sup> century, to have a place of shelter was claimed to be a basic right of citizens in modern states. This right was announced by the UN's declaration *The Human Right to Adequate Housing*, which commits that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, and housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control" (UN 1991). Accordingly, many countries have developed their housing policy programmes to ensure the right of basic accommodation as the duty of modern states.

In this regard, China has also developed its housing policy system and set up a number of programmes. The housing problems of migrant labourers in China are caused not only by the lack of the relevant programmes but by social dualism, which permits different access for the urban and rural population to social housing programmes. Thus, when discussing social development in China, we must consider the housing situation of these migrant workers, especially as more of the rural population will migrate to the cities in the near future (Long 2011). This makes housing policy the core part of China's new urbanisation strategy, as its success or failure will influence the social integration of Chinese society. Thus, if China cannot cope with this challenge successfully in the long run, it will exacerbate the conflicts and tensions between the floating population and local urban residents, and eventually impose the shortcomings of urbanisation (Lv & Zhou 2008).

In order to promote social integration and social stability, we should treat housing policy issues seriously. This issue concerns not only the matter of the housing poor, but also the future of China's urbanisation. According to some commentators, the issue will affect the speed and quality of the urbanisation process in China and its future of success or failure (Zhao 2013). It touches various aspects of urban living, including urban management, urban environment, urban planning, employment opportunity and social security



benefit. Indeed, under the request of the central government, local government has taken the major responsibility for operating social housing programmes to react to these issues, such as widening access to the public-rental housing system. The real solution does not so much depend on the demands, but on policy implementation. Accordingly, we should develop housing policy to encourage local governments and enterprises to take action. The reform of the household registration system should further allow these workers to protect their residential rights within the status of urban citizen (Zhan 2012).

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# Income inequality between China and India

## *A perspective on structural comparisons*

HENG QUAN

### **I. Introduction: the theoretical framework of structural comparisons**

Comparative studies of China and India are becoming more and more popular now at the international level. A majority of these studies are from the perspective of international relations, less so from the perspective of economics. This paper will focus on the comparison of income distribution and inequality between China and India in terms of their economic development.

There are many similarities between the eco-social structures and development background in China and India which make comparison of the two nations possible on an objective basis. Firstly, China's and India's economies have been influenced by a planned economy, and both them have deemed socialism's justice and equality their common idea. Secondly, these two largest developing countries face many dimensions in inequalities, including inner-urban, inter-rural and rural-urban regional disparities during the process of industrialisation and modernisation. Thirdly, the two nations' societies have typical characteristics of dualistic economic and social structures, and their rural-urban development is unbalanced now; and lastly, they are both experiencing a great transformation of reform and openness, which plays an important role in income distribution and inequality in the two countries.

In addition, the state's role and its redistributive policy have affected their income inequalities deeply.

It is very hard to assess which of China and India has the highest level of income inequality. The purpose of the comparisons made in this paper is to discover the structural differences in income inequality between them, not to claim which has the highest income inequality. Using a structuralism methodology, this paper will compare the structural differences of income inequality in inner-urban, inner-rural and between rural and urban, inter regions between China and India, and their causes and consequences, according to the two nations' eco-social structures and development backgrounds.

The plan of the rest of this paper is as follows: Section 2 reviews and comments on the existing literature on the subject; Section 3 illustrates the data collection and methodology; Section 4 details the structural comparisons of income distribution between China and India, including the dimensions. Section 5 gives some comprehensive explanations for the causes of the structural differences in income inequality between China and India and the last section concludes.

## **2. Literature review**

Much academic research has been undertaken on income distribution in China and India. Most studies have been made on China or India alone. Studies of income distribution and poverty in China are commonly based on two data sources: the State Statistics Bureau (SSB), an official data resource; and three surveys conducted by the Institute of Economics, Chinese Academy of Social Sciences. Scholars consider that China's regional disparities have been expanded increasingly using the above data (Hu & Wang 1995; Hu et al. 2002; Wei 2000). The Chinese Academy of Social Sciences emphasises personal income inequality in China's rural and urban areas: their findings show that the Gini coefficient was 0.45 in 2001; and they also think that the disparities between central-west China and east China have been expanding (Zhao & Li 1999; Li & Yue 2004a), while the gaps between rural and urban

populations in the central-west China area have also been increasing (World Bank 2000; Chen & Ravallion 1996; Kanbur & Zhang 2003; Li & Yue 2004b).

Personal inequality in Indian rural and urban populations and regional disparities are the focus of studies of India's inequality, which are often conducted using National Sample Survey (NSS) data covering most states in India. Most study the overall inequality in India and measure the Gini index by taking consumption or expenditure as a proxy. Other empirical studies have found increasing regional inequality, particularly since 1991, when the economic reforms and openness were launched (Das & Barua 1996; Rao et al. 1999; Kurian 2000).

Very few studies focus directly on the comparison of income inequality between China and India. Many scholars have simply compared the countries based on the World Development Indicators (WDI) which show the most countries' Gini index, pointing out that China's inequality is much higher than India's, according to the latter's low Gini index as shown in WDI. The problem here is that the variables used to measure the Gini indexes are different between China and India: the Chinese Gini Index is measured by income, but the Indian Index is measured by expenditure or consumption. Apparently, in the latter, the Gini calculation comes out lower than in the former (Quan 2006). So it is not appropriate to compare the inequality of the two nations using this method.

It is worth pointing that one comparative study has examined patterns of regional inequality to find the driving forces behind its changes in China and India, using expenditure data covering a number of years (Gajwani et al. 2006). In addition, Borooah et al.'s study uses microdata to compare income inequality in rural China and rural India (Borooah et al. 2006).

All of these studies and findings are very insightful and helpful for our understanding of China's and India's income distribution and inequality. But, of these, some only mention one aspect of income inequality; for example, only regional disparity between the two nations was studied in Kanbur and Gajwani et al.'s comparisons, while only rural inequality was compared in Borooah et al.'s study. The limitations of these studies are that the gross structural income inequality on many dimensions in the two countries and

the structural differences between them have not been studied systematically, and the causes and consequences of these structural inequality differences are also not mentioned.

### **3. Data collection**

Data for Chinese rural and urban income and inter-province GDP all originate from the China Statistical Yearbook (over several years). The other source and reference comes from the three surveys conducted by the Institute of Economics, Chinese Academy of Social Sciences. The Indian data mostly comes from the National Sample Survey Organisation (NSSO), which includes data on detailed personal expenditure, households and labour markets. All of the Indian state GDPs are available from the EPW Research Foundation (EPWRF 2003). In addition, this paper uses the household income and expenditure surveyed by NCAER (2003) as a reference. China's and India's Gini Index comes from the Global Poverty and Inequality Database (GPID) and the UNU-WIDER World Income Inequality Database (WIID) collected by the World Bank. This allows the study and results to be more comparable between China and India.

## **4. Structural comparisons of income distribution between China and India: empirical studies and their evidence**

### *4.1. Income level in China and India*

Economic growth and income growth are the foundation of income distribution and equality. It is very clear from Table 11.1 that GNI per capita in USD in China, at 1,230, was more than twice as high as the corresponding Indian level of 590 in 2004. Undoubtedly, income growth is one matter, income distribution is another, and they do not go together spontaneously, which means that equality does not always become reality automatically.



Table 11.1. GNI per capita in China and India (USD).

	1990	2000	2001	2002	2003	2004
China	320	840	900	970	1,100	1,230
India	390	450	460	470	540	590

Source: The World Bank 2005.

#### 4.2. *Inner-urban income inequality in China and India*

According to the Global Poverty and Inequality Database (GPID) and the UNU-WIDER World Income Inequality Database (WIID) collected by the World Bank, we can observe that inner-urban income inequality in China and India have increased since the 1980s, but apparently, Indian inequality is much higher than that in China, although the latter is increasing rapidly. In fact, the Indian Gini level is measured using consumption which makes it lower than that measured by income; we can conclude that the actual inner-urban inequality in India is much more serious than that in China.

Table 11.2. Inner-urban income inequality in China and India.

Year	Chinese urban Gini	Indian urban Gini
1978		34.71
1981	16.1	
1982	12.1	
1983	15.8	34.08
1987	15.8	36.75
1988	16.9	35.57
1989	17.8	34.80
1990	18.0	35.59
1991	17.5	37.98
1993	28.47	34.34
1996	29.09	37.06
1999	31.55	35.0
2001	33.32	

Source: WIID (Chinese Gini 1981–1991 and Indian Gini 1978–1991); GPID (Chinese Gini and Indian Gini 1992–2001).

### 4.3. *Inner-rural inequality in China and India*

Table 11.3 indicates that inner-rural inequality in India was higher than that in China from 1978 to the beginning of the 1990s, then China's inner-rural inequality became higher than India's after the 1990s; it is very clear that, while Indian inequality in rural areas was declining in the 1970s, and has risen since 1995, China's inequality kept rising from 1978 and then declined after 1996. On the whole, from 1978 to 1999, China's rural inequality has experienced an increase while India's has experienced a decrease.

It is however necessary to state here that the overall inner-rural inequality in China and India is now similar if we consider other information and factors. How can this be? The reason is that the above-mentioned Gini index in China is measured by income but it is measured by expenditure in India, so if we think of the income measurement for the Gini index, the mass poverty of the population in rural areas, and the 40–50% of the agriculture workforce who are landless (Patnaik 2000) in India, we can conclude that the two nations' rural inequality would be similar, or maybe India's situation would be a little worse than China.

More importantly, there are some regional differences in the two nations' inner-rural inequality. According to Borooah et al. (2006), in 1995, the Gini index (0.41) of per capita household income in eastern Indian rural areas was below that (0.44) of western Indian rural areas at the same time, while those (0.42 and 0.49, respectively) of central and west Indian rural areas were above those (0.33 and 0.37, respectively) of central and western China's rural families (Borooah et al. 2006).

Table 11.3. Inner-rural inequality in China and India.

Year	Chinese rural Gini	Indian rural Gini
1978	28.2	30.92
1980	24.99	
1981		
1982		
1983		30.06
1984	26.69	
1985	27.12	
1986		30.22
1987	29.45	30.13
1988		29.51
1989		28.23
1990	30.57	27.72
1992	32.03	29.88
1993	32.13	28.59
1994	34.00	27.65
1995	33.98	30.17
1996	33.62	28.43
1997	33.12	30.56
1998	33.07	
1999	35.39	28.11
2000		
2001	36.33	

Source: GPID.

#### 4.4. *Income distribution between rural and urban areas in China and India*

##### 4.4.1 INTER-PROVINCES' (STATES') INCOME GAP BETWEEN URBAN AND RURAL IN CHINA AND IN INDIA

Tables 11.4 and 11.5 show the inter-province (China) or inter-state (India) income gap between urban and rural areas in 2000. The smallest income gap between urban and rural areas in China is 1.89 (Jiang Su), the ratio in India is 1.18 (Delhi), and the average income gap between urban and rural areas in China is 2.79 and is 2.05 in India. The biggest gap in China is 5.58 (Tibet) and it is 2.08 in India (Orissa). We can conclude that China's income gap between

urban and rural areas is much higher than that in India, whether viewing this in terms of the biggest, smallest or average income gap between urban and rural areas. Furthermore, only one province in China has an urban-rural gap below 2, while the rest are over 2, while there are only four states in India whose urban-rural gap is over 2, the gap for the rest of India being below 2.

Table 11.4. Inter-province urban-rural income gap in 2000 in China (RMB).

Province	Per capita annual disposable income of urban households	Per capita annual net income of rural households	Ratio of urban to rural	Rank
Jiang su	6,800.23	3,595.09	1.89	1
Shanghai	11,718.01	5,596.37	2.09	2
Zhejiang	9,279.16	4,253.67	2.18	3
Tian Jin	8,140.50	3,622.39	2.25	4
Bei Jing	10,349.69	4,604.55	2.25	5
Liao Ning	5,357.79	2,355.58	2.27	6
He bei	5,661.16	2,478.86	2.28	7
Heilongjiang	4,912.88	2,148.22	2.29	8
Fu Jian	7,432.26	3,230.49	2.30	9
Ji Lin	4,810.00	2,022.50	2.38	10
Jiang Xi	5,103.58	2,135.30	2.39	11
He Nan	4,766.26	1,985.82	2.40	12
Hu Bei	5,524.54	2,268.59	2.44	13
Shang Dong	6,489.97	2,659.20	2.44	14
Hai Nan	5,358.32	2,182.26	2.46	15
Shan Xi	4,724.11	1,905.61	2.48	16
Neimenggu	5,129.05	2,038.21	2.52	17
Guang Dong	9,761.57	3,654.48	2.67	18
An Hui	5,293.55	1,934.57	2.74	19
<b>National</b>	<b>6,279.98</b>	<b>2,253.42</b>	<b>2.79</b>	
Ji Nan	6,218.73	2,197.16	2.83	20
Ning Xia	4,912.40	1,724.30	2.85	21
Si Chuan	5,894.27	1,903.60	3.10	22
Guang Xi	5,834.43	1,864.51	3.13	23
Chong Qing	6,275.98	1,892.44	3.32	24
Gan Su	4,916.25	1,428.68	3.44	25
Qing Hai	5,169.96	1,490.49	3.47	26
Xin Jiang	5,644.86	1,618.08	3.49	27
Shang Xi	5,124.24	1,443.86	3.55	28
Gui Zhou	5,122.21	1,374.16	3.73	29
Yun Nan	6,324.64	1,478.60	4.28	30

Source: Author's calculations, based on National Bureau of Statistics of China 2002.

Table 11.5. Inter-states urban-rural income gap in 2000 in India (INR).

State/ urban territory	Per capita annual disposable income of urban households	Per capita annual net income of rural households	Ratio of urban to rural	Rank
Delhi	29,364	24,852	1.18	1
Haryana	18,134	14,855	1.22	2
Chandigarh	34,509	27,256	1.27	3
Punjab	21,413	16,540	1.29	4
Pondicherry	18,938	13,215	1.43	5
Rajasthan	15,850	10,693	1.48	6
Assam	17,231	11,109	1.55	7
Gujarat	22,742	14,574	1.56	8
Goa	17,440	11,017	1.58	9
Karnataka	18,394	11,300	1.63	10
Kerala	17,372	10,342	1.68	11
Andhra Pradesh	19,143	11,033	1.74	12
Bihar	12,404	6,976	1.78	13
Uttar Pradesh	12,257	6,738	1.82	14
Himachal Pradesh	19,881	10,816	1.84	15
Tamil Nadu	24,246	12,888	1.88	16
Maharashtra	23,747	11,769	2.02	17
All India	19,407	9,481	2.05	
Madhya Pradesh	14,719	7,079	2.08	18
Meghalaya	20,714	9,284	2.23	19
West Bengal	23,892	8,792	2.72	20
Orissa	15,993	5,704	2.80	21

Source: NCAER 2003. Note: not including Arunachal Pradesh, and other states.

#### 4.4.2 URBAN-RURAL CONSUMPTION GAP IN CHINA AND INDIA

Tables 11.6 and 11.7 show the data on the consumption gap in China and India, respectively. Table 11.6 shows that China's urban-rural consumption gap was 3.13 in 1957, then it declined to 2.04 in 1984; since 1985, particularly after 1991, it has been increasing gradually and reached 3.29 in 2003, which was over the ratio (3.13) found in 1957. At the same time, India's consumption gap remained stable with a slight decrease from the 1950s to the 1980s. Very similarly, it increased since 1985, particularly after 1991. Compared to China, the urban-rural consumption gap is very small in India. The biggest ratio in 2000 in India was 2, still smaller than that in China (the ratio was 3.13 in

2000). It is very clear that China's urban-rural consumption ratio is always higher than India's.

Table 11.6. Urban-rural consumption ratio in China 1957–2004 (RMB).

Year	Per capita consumption of urban households	Per capita consumption of rural households	Ratio of urban to rural
1957	222	71	3.13
1978	312	116	2.69
1979		135	
1980	437	162	2.70
1981	457	191	2.39
1982	471	220	2.14
1983	506	248	2.04
1984	559	274	2.04
1985	673	317	2.12
1986	799	357	2.24
1987	884	398	2.22
1988	1,104	477	2.31
1989	1,211	535	2.26
1990	1,279	585	2.19
1991	1,454	620	2.35
1992	1,642	660	2.49
1993	2,111	770	2.74
1994	2,851	1,017	2.80
1995	3,538	1,310	2.70
1996	3,919	1,572	2.49
1997	4,186	1,617	2.59
1998	4,332	1,590	2.72
1999	4,616	1,577	2.93
2000	4,998	1,670	2.99
2001	5,309	1,741	3.05
2002	6,030	1,834	3.29
2003	6,511	1,943	3.35
2004	7,182	2,185	3.29

Source: Author's calculation, based on SSB 2005. Note: the urban per capita consumption in 1980 is an estimate due to a lack of specific data.

Table 11.7. Urban-rural consumption ratio in India 1954–2001 (INR).

Year	Per capita consumption of urban households	Per capita consumption of rural households	Ratio of urban to rural
1954–55	24.7	15.0	1.65
1956–57	25.1	17.0	1.48
1959–60	27.5	20.0	1.38
1961–62	30.9	21.7	1.42
1964–65	36.0	26.4	1.36
1966–67	41.5	30.9	1.34
1969–70	50.4	34.7	1.45
1973–74	70.8	53.0	1.34
1977–78	96.2	68.9	1.40
1983	164.0	112.5	1.46
1986–87	222.0	140.9	1.58
1987–88	245.7	157.7	1.56
1988–89	266.9	175.1	1.52
1989–90	298.0	189.5	1.57
1990–91	326.8	202.1	1.62
07–12/1991	370.3	243.5	1.52
1992	399.0	247.2	1.61
01–06/1993	383.4	244.1	1.57
1993–1994	458.0	281.4	1.63
1994–1995	508.1	309.4	1.64
06/1995–06/1996 <sup>a</sup>	599.2	344.3	1.74
01–12/1997 <sup>a</sup>	645.4	395.0	1.63
01–06/1998 <sup>a</sup>	684.3	382.1	1.79
06/1999–06/2000	971.6	486.1	2.0
07/2000–06/2001 <sup>a</sup>	914.6	494.9	1.85

a) The results are based on thin samples

Source: author's calculation, based on NSSO 2006; CSO 2004. Note: the urban and rural consumption is monthly.

#### 4.5. *Regional disparities between China and India*

Table 11.8 shows the two nations' Gini index measured by per capita GDP (at province or state level). We can observe that the two nations' regional disparities have been increasing gradually and, furthermore, India's increase has been faster than China's since 1991, particularly speeding up after 1995, while China's regional gap seems to be declining. Secondly, China's regional differences were higher than those in India before 1990–1991; this could be seen as a product of the lower Gini coefficient in India than that in China. But India's gap has been growing since 1991 and became higher than China's after that year.

Table 11.8. Regional disparities between China and India 1980–2002.

China's Gini coefficient, provincial per capita GDP		India's Gini coefficient, state per capita GDP	
Years	Gini coefficient	Years	Gini coefficient
1980	0.236	1980–81	0.209
1981	0.226	1981–82	0.202
1982	0.220	1982–83	0.211
1983	0.217	1983–84	0.200
1984	0.220	1984–85	0.205
1985	0.223	1985–86	0.211
1986	0.226	1986–87	0.214
1987	0.227	1987–88	0.217
1988	0.228	1988–89	0.216
1989	0.226	1989–90	0.220
1990	0.216	1990–91	0.224
1991	0.229	1991–92	0.228
1992	0.242	1992–93	0.244
1993	0.251	1993–94	0.239
1994	0.254	1994–95	0.248
1995	0.253	1995–96	0.250
1996	0.247	1996–97	0.262
1997	0.249	1997–98	0.264
1998	0.252	1998–99	0.276
1999	0.256	1999–00	0.278
2000	0.245	2000–01	0.292
2001	0.263		
2002	0.267		

Source: China's Gini measured by provincial per capita GDP, data from China Statistical Yearbook 2003; Chen & Xu 2004. India's Gini measured by state per capita GDP, data from EPWRF 2003.



Here we choose the top five states (Maharashtra, Tamil Nadu, Gujarat, Punjab, Haryana) in India whose per capita GSDP (Gross State Domestic Product) is the highest and the bottom six states (Uttar Pradesh, Madhya Pradesh, Bihar, Rajasthan, Orissa, Assam) whose per capita NSDP is the lowest and look at the disparities, comparing this to China, where the top five are (Guangdong, Zhejiang, Shanghai, Beijing and Tianjin) and the bottom six are (Guangxi, Yunnan, Shanxi, Guizhou, Gansu and Tibet).

In India, the gap between the top five and the bottom six states has widened. In Table 11.9, the top five states, which accounted for 24.7% of the country's total population, had a share of 34.6% of all of the states' GSDP during the early 1980s, and this share increased to 38.2% at the end of the 1990s. On the other hand, the bottom six states which accounted for 41.6% of the country's total population, have suffered a decrease in their GSDP share from 35.3% to 26.9% between these two periods. In Table 11.10, the top five provinces in China had a share of 22.1% during the early 1980s and the share increased to 23.5% and 27.3% during the mid-1990s and 2001, respectively. On the other hand, the bottom six provinces have also suffered a decrease in their share of GDP from 19.8% to 12.6%, 10.4% and 8.7% during these three periods.

In India, if we compare the highest state (Punjab) to the lowest state (Bihar) in per capita NSDP, we can find that the gap between them moved from 3.02 in the eve of the 1980s to 4.52 in 2001. Likewise, in China, the ratio of the per capita GDP of the highest province (Guang Dong) to the lowest province (Tibet) moved from 2.1 in the early 1990s to 2.6 in 2001.

Table 11.9. Percentage share of GDP\* of the top five and bottom six states in India (three-yearly annual average).

Annual averages from 1980–81 to 1982–83		Annual averages from 1990–91 to 1992–93		Annual averages from 1993–94 to 1995–96		Annual averages from 1998–99 to 2000–01	
<b>Top five, total</b>	<b>34.6</b>	<b>Top five, total</b>	<b>36.2</b>	<b>Top five, total</b>	<b>37.5</b>	<b>Top five, total</b>	<b>38.2</b>
1. Maharashtra	14.0	1. Maharashtra	15.3	1. Maharashtra	15.3	1. Maharashtra	15.6
2. Tamil Nadu	6.9	2. Tamil Nadu	7.1	2. Tamil Nadu	8.2	2. Tamil Nadu	8.3
3. Gujarat	6.4	3. Gujarat	6.4	3. Gujarat	7.2	3. Gujarat	7.4
4. Punjab	4.4	4. Punjab	4.3	4. Punjab	4.0	4. Punjab	3.9
5. Haryana	2.9	5. Haryana	3.1	5. Haryana	3.0	5. Haryana	3.0
<b>Bottom six, total</b>	<b>35.3</b>	<b>Bottom six, total</b>	<b>33.4</b>	<b>Bottom six, total</b>	<b>28.1</b>	<b>Bottom six, total</b>	<b>26.9</b>
1. Uttar Pradesh	13.3	1. Uttar Pradesh	12.6	1. Uttar Pradesh	10.8	1. Uttar Pradesh	10.2
2. Madhya Pradesh	6.6	2. Madhya Pradesh	6.2	2. Madhya Pradesh	5.1	2. Rajasthan	5.1
3. Bihar	6.2	3. Rajasthan	4.6	3. Rajasthan	4.8	3. Madhya Pradesh	4.8
4. Rajasthan	4.0	4. Bihar	3.0	4. Bihar	3.0	4. Bihar	2.8
5. Orissa	3.0	5. Orissa	2.4	5. Orissa	2.4	5. Orissa	2.2
6. Assam	2.2	6. Assam	2.0	6. Assam	2.0	6. Assam	1.7

\*) At 1980–81 prices.

Source: EPWRF 2003.

Table 11.10. Percentage share of GDP\* of the top five and bottom six provinces in China (three-yearly annual average).

Annual averages 1981–1983		Annual averages 1991–1993		Annual averages 1994–1996		Annual averages 1999–2001	
<b>Top five, total</b>	<b>22.1</b>	<b>Top five, total</b>	<b>23.5</b>	<b>Top five, total</b>	<b>23.8</b>	<b>Top five, total</b>	<b>27.3</b>
1. Shanghai	6.3	1. Guang Dong	9.4	1. Guang Dong	9.7	1. Guang Dong	10.8
2. Liao Ning	6.0	2. Liao Ning	5.7	2. Zhejiang	6.0	2. Zhejiang	6.8
3. Hei Longjiang	4.7	3. Shanghai	4.2	3. Shanghai	4.2	3. Shanghai	5.1
4. Beijing	3.0	4. Beijing	2.6	4. Beijing	2.4	4. Beijing	2.8
5. Tianjin	2.1	5. Tianjin	1.6	5. Tianjin	1.6	5. Tianjin	1.8
<b>Bottom six, total</b>	<b>19.8</b>	<b>Bottom six, total</b>	<b>12.6</b>	<b>Bottom six, total</b>	<b>10.4</b>	<b>Bottom six, total</b>	<b>8.7</b>
1. Henan	5.2	1. Henan	4.8	1. Sichuan	4.3	1. Guangxi	2.3
2. Sichuan	5.2	2. Anhui	3.1	2. Jiangxi	2.1	2. Yunnan	2.2
3. Anhui	3.6	3. Jiangxi	2.1	3. Shanxi	1.7	3. Shanxi	1.9
4. Guangxi	2.3	4. Guizhou	1.3	4. Guizhou	1.1	4. Guizhou	1.1
5. Yunnan	2.0	5. Gansu	1.2	5. Gansu	1.0	5. Gansu	1.1
6. Guizhou	1.5	6. Tibet	0.1	6. Tibet	0.1	6. Tibet	0.1

\*) At constant prices.

Source: Author's calculation: data SSB 2005 (years 1981–1996); National Bureau of Statistics of China 2001–2003 (years 1999–2001).

Interestingly, China's regional development shows that the coastal area is always much better than the central and western area in terms of economic growth and social progress during the period of reform and openness. Compared to China, India's regional growth and income gap is much more diversified, which means that not all growth and development in coastal areas is good: for example, Orissa, located in the coastal region, is still very poor in terms of economic growth and social development. Another point of difference from China is that not all of the poorer states lagged behind. For example, Rajasthan, one of the poorer states, experienced much stronger growth in per capita SDP, more than double that of the other states (Ahluwalia 2000). So we can say that the trend of regional divergence is very similar between China and India since the initiation of reform and openness in both countries, but on the other hand, there are also structural differences in the regional disparities between them.

## **5. Structural differences of income inequality between China and India: some sources and explanations**

Considering that many scholars and researchers have presented good explanations for the causes of the transformations of China's and India's income distribution, this paper concentrates on the causes and consequences of these structural differences of income inequality between China and India, particularly from the international perspective.

### *5.1. Land reform, education, government's role and rural inequality in China and India*

Land institution plays a very important role in rural growth for the two countries. China underwent relatively successful land reform during the 1950s: all farmers' land distribution was equal at the national level and this was the foundation of rural economic growth and farmers' increased income. After

1978, another rural reform called the household contract responsibility system was implemented, greatly improving farmers' incentives to production. At the same time, China had a good basic education and health service in rural areas after the establishment of the new system, and this created a great deal of human capital to support the development of non-agricultural industry<sup>1</sup> and also allowed educated farmers to grasp the opportunities that that market provided during the reform and openness period. It should be noted that all of these reforms and policy measures created a very positive effect on farmers' income and rural poverty reduction. Farmers' income increased very rapidly in 1980–1984, and rural poverty population declined very remarkably.

However, some other factors have had a negative effect on rural income distribution: the rural household education is different in every family for several reasons. Those with a good education always achieve much more human capital and apparently have more opportunities to become richer than those who have no or less education. Furthermore, regional differences plays a role in regional rural income disparity, for example, farmers who live in the fast-growing eastern China have a higher income than those living in western China. The high dependence on agriculture is another cause of farmers' low income. In addition, the government's supportive policy on rural area has been reduced with the movement of reform and openness to urban areas since 1985. In particular, during this time, Chinese farmers' burdens became very heavy due to many kinds of fees and charges, such as education fees, health service fees and the so-called "unwarranted pooling of funds, arbitrary requisition of donations and exaction of fees from enterprises" ("San Luan" for Chinese abbreviation). Thanks to these factors and influences, inner rural income distribution has worsened and income inequality has increased gradually since liberalisation and openness. In particular, the part-privatisation of hospitals and the destruction of the traditional health service system in rural areas have actually exacerbated the inequality.

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1 In the countryside, if growth is primarily concentrated in the non-farming sector, its ability to reduce poverty depends on the quality of human resources and initial development conditions (such as infrastructure and power) (Datt & Ravallion 1996).

Similarly to the early years in China, Indian farmers benefited from the early land reforms, such as the dismantling of the Zamindari system. From 1963–1964, India adopted Green Revolution-type technologies which accelerated agricultural growth and farmers' income increases, and also a considerable drop in poverty, which could explain the decline in rural inequality from 1970–1990.

However, compared to China, India's land reform is not good and there still exists a massive inequality in land distribution. From all the India Report on Agricultural Census, we can see that about 62% of the population who hold the land have only 17.2% of the area of operational land holdings, while about 1.6% of the land-holding population have 14.8% of the land holdings. Medium and large holdings together cover 40% of the land, but these holders together represent only about 7.3% of the land-holding population. So, about 92% of land holders (marginal, small and semi-medium) have less than 60% of the land area (GOI 1998; Chanda & Sundaram 2000; GOI 2003; IAMR 2004).

More importantly, with the India's integration into globalisation and the reform of liberalisation, the unequal distribution of land has generated many problems and issues for farmers and increased rural inequality much more since 1991. Firstly, most farmers who have no or only a little land could not access finance to develop non-agricultural means of production that could increase their household income. Sometime they were forced to borrow money from an unorganised financial sector where the interest rate was usually very high,<sup>2</sup> to an extent where they could not repay it, with some farmers committing suicide owing to heavy indebtedness (Mohanakumar & Sharma 2006). Secondly, although the Green Revolution produced a positive effect on agricultural growth and farmers' income, it also brought other negative effects such as higher and higher costs of seeds, irrigation and technology, and at same time agricultural product prices declined due to India's entry

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2 The Punjabi farmer today leads the country in rural indebtedness. We have reached a situation where the total annual rural debt of the state – INR 24 000 crore in 2003–04 – is more than its gross annual earnings from agriculture. According to a recent report of the Indebtedness of Farmer Households report published by National Sample Survey Organisation (NSSO) in 2005, each Punjab farmer has a debt of INR 41,576, against the national average of INR 12,505 (Ghuman 2006).

into the WTO regime. As a result, farmers' income increases have actually slowed and agriculture growth has become very unstable since 1991.

On the other hand, India's government public services, such as the basic education and health service system, in rural areas are still poor, although they provide the rural population with some public goods such village roads, drinking water, and electricity because of democracy and electoral promises. In many Indian villages, even in Punjab and Gujarat where economic growth is better than in other states in India, there are not sufficient education resources in many public schools, for example not enough classrooms or desks in schools, or poor teaching quality in classrooms, with students forced to sit under the trees or on the ground to study.<sup>3</sup> This has led to less and poorer human capital being created and, as a result, non-agricultural development has been very slow in rural areas, so the effects of rural growth on poverty reduction have not been as remarkable as those in China.

The roles of India's public distribution system (PDS) played in the assistants to rural poor farmers were less; particularly, it was very weak for offering the poor improved access to food. Actually the targeting and coverage of the PDS have been inadequate (Mundle & Tulasidhar 1998; Jha et al. 1999). So, poor government's policy could not help improve the worsening income inequality in rural. Actually, there is compelling evidence that the liberalisation and the integration into globalisation have exacerbated the rural inequality in India (Kabra 2005; Alternative Survey Group 2005).

### *5.2. Economic growth, employment, abnormal income and urban inequality in China and India*

Marketisation reform and openness have accelerated urban economic growth in China and India and particularly made an important contribution to urban poverty reduction (Datt & Ravallion 1997; Datt 1999). But, interestingly, the

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3 The researcher observed this situation in many villages when they visited Gujarat, Punjab and other places.

urban inequality in these two nations has been increasing very rapidly and, comparatively, India's urban inequality is much higher than that in China.

There are three main reasons: firstly, the rapid development of service sectors in urban areas in India would be a key to high inequality. In India, the leading service sectors such as finance, IT, real estate and R&D absorbs only a few skill-intensive workers and highly educated talents in terms of employment; they usually have high human capital and consequently, can get higher income than other workers. Furthermore, India's manufacturing period was very short and could not absorb a larger share of employment, so very high unemployment has been produced in urban areas. In contrast, in China, the leading urban sector is a very highly developed manufacturing industry that has generated many jobs and so had a positive effect on urban inequality.

On the other hand, the employment and income gap between the organised and the unorganised sectors in urban areas is another source of inequality in urban India (Kumar 2005). In China, although SOE reform has produced new groups of laid-off workers, many private economies and FDI created many more new job opportunities in urban areas, helping to reduce urban inequality.

The urban slums are another source of inequality, although they are a consequence of the disparity between rural and urban areas. Now nearly 40 million live in Indian urban slum areas: they are still very poor and have no stable job, so most are relegated to urban poverty. In urban China there are no slums due to the very strict residents' registration system (Hukou), which includes no permission for labour mobility, but there is a big gap between rural and urban China because of Hukou.

Finally, black market income in China and India plays a very important role in urban inequality. China's black income was about 10–15% GDP in 2004, while India's black economy was about 40% of GDP in 1999–2000 (Kumar 1999). In China, corruption and smuggling or other abnormal income produced a very negative effect on income distribution. In the latter, according to Kumar, if taking the white economy alone, the ratio of per capita income

between the bottom 40% and the top 3% would have been 1:11.5, but if we consider black market income, this ratio is 1:57 (Kumar 2002).

### 5.3. *Democracy, labour mobility and urban-bias policy and the urban-rural gaps in China and India*

Whether viewed from a perspective of income or consumption, the urban-rural gaps in India are smaller than in China. The basic reason is that in India, free labour mobility plays an important role in narrowing the gap, although it becomes one of the sources that increases inner-urban inequality. In addition, there is a close positive relation between democracy and the provisions of rural public goods. According to the author's survey, Indian governments (including central and states governments) can pay much attentions to rural public goods and provide villages with basic education, health services, roads, drinking water and electricity, etc., or at least would like to provide these in terms of gaining votes.

From the beginning of 1985, China's reform and development policies moved to urban areas and many policies and projects were implemented to develop urban economy and industrial sectors. This caused the urban areas to develop faster and faster, and at the same time, rural growth became slow; farmers' incomes increased slowly in the 1980s and 1990s. So, the urban-biased policy has played a key role in the increase of the rural-urban gap in China.

Certainly, comparing free labour mobility, China complemented the strict Hukou system to limit migration, so the rigid labour policy had a negative effect on rural-urban gaps in China.

### 5.4. *FDI, human capital, governance, policy and regional inequality in China and India*

The integration of FDI and sufficient human capital has played an important role in determining regional growth in China and India. To further compare,



location advantages, infrastructure, FDI and supportive government policies together play much more of a role in regional inequality in China. There is no doubt that the ‘let some of the regions become richer first’ policy has been the biggest policy contribution to regional inequality in China.

In India, the Green Revolution that happened in some states first which had good weather, irrigation and initial conditions, gave rise to unequal regional growth effects, meaning that just a few states like Punjab, Haryana and Tamil Nadu have achieved high growth in agriculture, but other states where the initial conditions were not good enough to support the Green Revolution, fell behind. India’s regional disparities in growth may also have arisen because some states are better managed and therefore able to create a good environment (in terms of education, human capital, infrastructure and transparency) to support growth. On the contrary, some poor states, like Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh (BIMARU), have poor governance, corruption and low administrative efficiency.

## **6. Conclusions and significance to policy**

This paper has systematically examined China and India’s income inequality in many dimensions and emphasised the study of the structural differences between them, and the causes and consequences of these structural inequality differences.

Through the perspective of structural comparisons, the main findings are that: 1) The inner-urban income inequality in China and India increased in the 1980s, but apparently, Indian urban inequality is much higher than in China, although the latter’s inequality is also increasing rapidly; 2) The two nations’ rural inequality is similar but the distribution of inner-rural inequality is characteristic of some regional differences in the two nations; 3) Whether in terms of income or consumption, the rural-urban gaps in India are smaller than in China; 4) The two nations’ regional disparities have been increasing gradually and comparatively: China’s regional differences were higher than India’s before 1990–1991, but India’s regional gap has been increasing more

rapidly since 1995, while China's regional gap has seemed to be declining in recent years.

The causes of the above trends of inequality and structural differences between China and India are very complex and various factors have had positive effects on the two nations' income inequality while others have produced negative effects. On the positive side, the two nations' reform and gradual openness has been eliminating many obstacles resulting from old institutions and systems, which has helped to create a good institution and environment for socio-economic progress. For China, continuous high growth has established a substantial foundation for poverty reduction and inequality improvement. Likewise, India's democracy could provide its poverty reduction with a good political term and in particular has had a positive effect in narrowing the substantial urban-rural inequality through the provision of basic public goods for villages and farmers.

On the negative side, some other institutions still represent blocks and resistance to the improvement of inequality and, furthermore, these blocks have actually eliminated the positive effects of high growth on poverty and inequality reduction; to a large extent, they have become the main contributor to the increasing inequality in the two countries. For India, the half-completed land reform has played a key role in agricultural development and inner-rural inequality; for China, the strict Hukou system to limit migration is a main source of enormous rural-urban gaps.

In terms of economic growth, India's disequalising growth and unbalanced industrial structures are also an important source of unequal income distribution and urban inequality, particularly through employment.

Regarding policy, the Indian government's supportive policies, such as the public education for the poor, PDS, could not actually help to improve the poor in rural and urban areas effectively, while China's urban-bias policy works to promote regional disparities.

In brief, institutional factors and governmental policy bias plays much more of a role in China's inequality and changes, while economic structural and disequalising growth and education plays much more of a role in India's

inequality and its trends. Some other social factors, which affect social inequality, such as caste, should not be ignored in India.

From the development perspective, the worsening income distribution and increasing inequalities have become one of the biggest challenges for the two nations: for China, it will block the construction of a socialist harmonious society; for India, this problem will become a political threat to reform and openness and will also reduce people's support of the government.

Therefore, some policies should be proposed for the two countries. The recommendation for China is to make a further adjustment to the idea of income distribution policy and change the urban-bias growth policy; further deepen institutions and try to increase transparency and reduce abnormal income. For India, the recommendation is to implement equitable land reform, adjust economic structures and build a labour-intensive industrial pattern. At the same time, India should improve public education, particularly rural basic education, by using democracy and its proper practices.

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Part III.  
AGEING POPULATIONS AS  
A CHALLENGE TO SOCIAL  
SECURITY SYSTEMS





## Meeting the demographic challenges

### *Ageing and pension systems in the Nordic countries, in a European perspective*

JØRGEN GOUL ANDERSEN AND AKSEL HATLAND

#### 1. Introduction

One of the most impressive steps forward in human life conditions during the last century has been the decrease in mortality and longer lives. Since the 1950s, life expectancy at birth has increased globally by more than 20 years, from 46.9 years in 1950–1955 to 68.7 years in 2005–2010. One of the most remarkable examples is China, where life expectancy rose from 44.6 to 74.4 years during this relatively short historical period. In the early 1950s, longevity in the Nordic countries was about 30 years above China. By 2005–2010, this lead had shrunk to 5.5 years.

But every shining coin has a reverse side. And this reverse side is costs. How should we respond to this demographic revolution and develop sustainable pension and health policies for future generations of senior citizens?

This chapter describes the demographic challenge in the Nordic countries and how it has been dealt with by reforming the pension systems. As regards the demographic challenges, these are relatively minor, as compared to other European countries. Much of this is an effect (initially an unintentional side

effect) of pro-natal policies: At least by European standards, fertility has remained high in the Nordic region.

The financing problems have been solved by rather thorough and systemic reforms. Initially, the solution was to send a bigger bill to the taxpayers. But this has changed. A central element in the new strategies has been to shift the costs of 'the positive risk' of longer lives from the shoulders of the younger taxpayers to the shoulders of the pensioners themselves. Moreover, to a large extent the reforms take automatic account of changes in life expectancy.

With universal, flat-rate pensions as the point of departure, all of the Nordic pension systems have ended up as multipillar pension systems with a state pillar, an employment-related pillar, and an entirely private pillar. In different ways, these pillars combine to cover basic needs (protection against poverty), income replacement and fulfilment of the gap between income from employment and pension income. Because an important proportion of the pensions are funded, and because these funded pensions incorporate deferred taxes, the states indirectly possess substantial assets that are not registered in official accounts. In a Europe haunted by sovereign debt crises, all of the Nordic welfare states except Iceland stand out as being without any net state debt. In Norway, Sweden and Finland, the state even has substantial net assets; in the Danish case, the net assets would be positive if deferred taxes in pension funds were accounted for. In fact, during the deep economic crisis of Europe and the USA, the Nordic welfare states stand out as being among the few European countries with very healthy economies.

From an economic perspective, many reforms of the type we have seen in the past should be superfluous in the future. Basically, the Nordic welfare states are well adapted to demographic change. From a political perspective, the future is more difficult to foresee. We do not imply that governments will abstain from change. Even though economic pressures may be moderate to low, there always remains a *political* struggle between conflicting welfare state preferences.

The chapter is structured as follows: First, we present the projected demographic changes. Next, we analyse the Nordic pension reforms, arguing that they are to quite an extent functionally equivalent, in spite of institutional

differences. This is followed by an account of government finances in the Nordic countries, as compared to the rest of Europe. Finally, we emphasise the embeddedness of retirement policies in the over-arching concern for maximising labour supply that has been the dominant solution to demographic and other pressures on the welfare state.

## 2. The demographic challenge

The single most important factor behind the long-term demographic transformation in all countries is decreased infant mortality. However, mortality has gone down in all parts of the life span. Until around 1980, there was little improvement in life expectancy at the age of 60, but this has changed very substantially in recent decades. Below, we focus on increasing life expectancy during the period of life when people have usually retired from work.

Table 12.1 illustrates the historical growth rates in the five Nordic countries after 1960. We see the biggest improvements in Finland. Finnish women, who retired at age 65 in 1960, could on average look forward to living until they turned 79. When their granddaughters retired at the same age in 2010, they would live, on average, until they reached 86.

There is almost full agreement among demographers that life expectancy among elders will continue to grow. But there is no agreement about the growth rates. According to OECD (2011) “life-expectancy projections have consistently under-predicted mortality improvements, often to a substantial degree”. There is reason to believe that this also applies to the OECD projections in Table 12.1. The projections indicate that life expectancy will grow by from 2.3 years (Danish men) to 3.8 years (Icelandic women).<sup>1</sup> In

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<sup>1</sup> Demographic projections are usually made on the basis of national data and may sometimes be extrapolated from temporary deviances, projecting ever-increasing divergence. In the Nordic case, it might be more reasonable to expect convergence in the future. If this is the case, life expectancy in Denmark should not grow *less* than in the other countries, but rather grow *more* (the most recent national data covering 2011 and 2012 in fact confirm this).

other words, life expectancy will grow by some 15% for Scandinavian elders during the next 40 years.

Table 12.1. Life expectancy in the Nordic countries and China at age 65. Years.

A. Males	1960-1965	2005-2010	2045-2050 (OECD)	Increase 2005-2050
Iceland	15.1	18.3	21.4	+3.1
Sweden	13.9	17.8	20.7	+2.9
Norway	14.2	17.5	20.5	+3.0
Finland	11.5	17.0	19.4	+2.4
Denmark	13.6	16.5	18.8	+2.3
China	7.7	14.7	17.1	+2.4
B. Females	1960-1965	2005-2010	2045-2050 (OECD)	Increase 2005-2050
Iceland	16.6	20.6	24.4	+3.8
Sweden	15.6	20.8	23.8	+3.0
Norway	16.0	20.8	24.1	+3.3
Finland	13.8	21.0	24.3	+3.3
Denmark	15.4	19.3	22.6	+3.3
China	9.9	16.8	20.1	+3.3

Source: 1960-2010: UN (2012); 2045-2050: OECD (2011).

The demographic changes as regards life expectancy are roughly similar across Western Europe. The Nordic countries, however, are under less pressure than most European countries. As Esping-Andersen (2009, 4) puts it, “pension reform begins with babies”, and because of their ‘pro-natal’ child policies, all of the Nordic countries have maintained relatively high fertility rates, close to 2.0 (Table 12.2).<sup>2</sup> Even though the ratio of elderly people (65 years or more) to

2 High-quality child care, parental leave and child benefits are the main aspects of what is sometimes described as a ‘Nordic fertility regime’ (Andersson et al. 2009). Empirical evidence regarding determinants of fertility remains disputed. But it is agreed that several socio-economic determinants of fertility have reversed (Billari & Kohler 2004; Myrskylä et al. 2009; Bloom & Souza-Poza 2010), and most studies converge towards seeing pro-natal policies embedded in a (policy-nourished) family-friendly culture as fertility-enhancing (Sleeboos 2003; Hilgeman & Butts 2009; Hoem 2008).

By contrast, the impact of cash benefits is contested. Here, Denmark to some extent provides a natural experiment. In an economic package in May 2010, child benefits were put under a cumulative ceiling. This was a concession to the anti-immigration Danish People’s Party. Initially, most families with three children would reach the ceiling, but as the incidence of three-child families among ethnic Danes became clear, the ceiling was redesigned so that most families with three dependent children would not be affected. In addition, the package contained a limitation in government payment for fertility treatment. As some 10% of children owe their lives to fertility treatment, the impact of the latter was quite substantial. In 2011, the total fertility rate in Denmark fell from 1.88 to 1.76. As of

the working age population (15–64 years) is expected to increase substantially from about 25% to slightly above 40% from 2010 to 2050, the Nordic countries will remain quite ‘young’ by European standards (Figure 12.1). Besides this, the delineation of the ‘working age population’ as including only 15–64-year-olds becomes increasingly irrelevant with changes in pension age.

Table 12.2. Fertility and life expectancy at birth, selected countries, 2011–2012.

	Fertility	Life expectancy	
		Men	Women
Iceland	2.04	81.6	84.3
Norway	1.85	79.5	83.5
Denmark	1.73	78.1	82.1
Sweden	1.91	79.9	83.6
Finland	1.80	77.7	83.7
France*	2.01	78.7	85.7
UK*	1.96	79.1	83.1
Netherlands	1.72	79.3	83.0
Belgium	1.79	77.8	83.1
Germany	1.38	78.6	83.3
Austria	1.44	78.4	83.6
Switzerland	1.52	80.6	84.9
Italy*	1.40	80.1	85.3
Spain	1.32	79.5	85.4
Poland	1.30	72.7	81.1
Japan*	1.39	79.4	85.9
USA*	1.90	76.3	81.1
China*	1.66	73.8	76.4

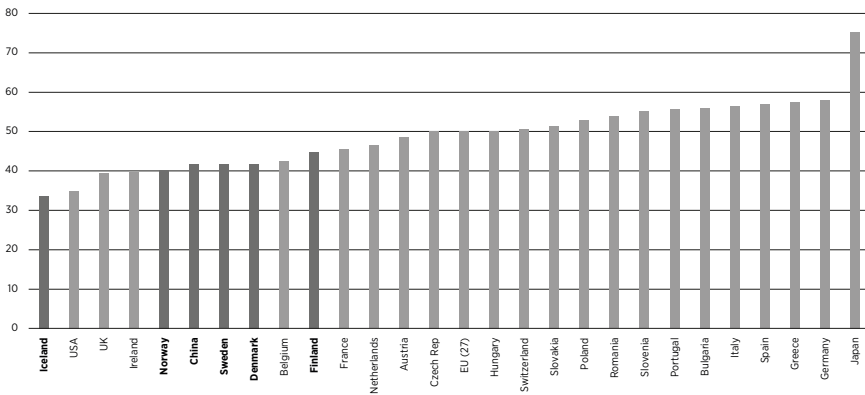
2011 data marked with a \*

Source: Europe: Eurostat (Table tps00025m tsdde220); USA, Japan, China: WDI. Accessed 19 December 2013.

2012, the 2010 regulation was repealed, but in return the incoming government introduced uncertainty about the means-testing of child benefits. This was settled by the tax reform of June 2012 which included an income test for child benefits. This situation comes close to a natural experiment. By 2012, Danish fertility had dropped even further, to 1.73. Comparing pre-crisis figures (2003–2008) to the 2012 figures reveal a change of  $-.09$  for Denmark, but almost no change for the other countries (increase of  $.10$  in Sweden;  $-.01$  to  $-.02$  for the other countries). Furthermore, the Danish decline in 2010–2011 was 12% for third and subsequent children, but only 5–6% for the first and second child (Statistics Denmark 2013). This seems to indicate that cash benefits *do* have an impact.

By comparison, the old age dependency ratio in Japan will pass the 40% level as soon as 2014, and in Japan, the old age dependency ratio is expected to reach nearly twice the Nordic level in the 2050s (Table 12.3 and Figure 12.1). China is expected to reach approximately the same old age dependency ratio as the Nordic countries by 2050.<sup>3</sup>

Figure 12.1. Projected old-age dependency ratios in selected countries, 2050. Population 65 years or more as percentage of population 15–64 years.



Source: Eurostat (<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&plugin=1&pcode=tsdde510>); Statistics Japan (2013); UN (2012); UN, *Probabilistic Population Projections: Old-age Dependency Ratio*.

3 Needless to say, this depends crucially on fertility rates. The figures presented here are almost equivalent to the low fertility (1.50) variant in Wei & Jinju (2009).

Table 12.3. Old age dependency ratios, 2000, 2010 and 2050 (projections).

65 y.+ as per cent of 15–64 y.	2000	2010	2050
Denmark	22.2	24.9	41.8
Norway	23.5	22.5	40.3
Finland	22.2	25.6	44.9
Sweden	26.9	27.7	41.7
UK	24.3	24.9	39.4
Netherlands	20.0	22.8	46.5
France	24.3	25.6	45.5
Belgium	25.5	26.0	42.5
Germany	23.9	31.4	58.1
Italy	26.8	30.8	56.3
Spain	24.5	24.7	56.9
Poland	17.8	19.0	53.0
Japan	25.5	36.1	75.3
USA	18.7	19.5	35.0
China	10.2	11.4	41.7

Source: As Figure 12.1.

Nevertheless, the Nordic countries have adopted encompassing policy changes in order to address the demographic challenge. This includes not only pension reforms, but also an ‘activation’ of the entire social and tax policy in order to stimulate labour supply. The latter has aimed at postponing retirement, and at improving employment incentives and incentives to work longer hours. The ‘activation’ of social protection and taxes has addressed short-term goals as well, but worries about dependency ratios in an ageing society have been a major underlying concern. Even during the financial crisis from 2008 onwards, stimulating labour supply has remained a core policy goal, especially in Denmark. This paper only briefly addresses this ‘broader’ adaptation to the challenge of ageing, but includes a short description of changes in early retirement.



### 3. Ageing, pensions and retirement

Even though their long-term demographic problems are small, comparatively speaking, the Nordic countries have been proactive in changing their pension/retirement systems (NOSOSCO 2009a; 2009b; Kangas et al. 2010). Formally speaking, at least, this has happened in highly different ways. All of the Nordic countries have departed from their former people's pension model, but in different directions. The people's pension was a universal, flat-rate state-funded minimum pension for all citizens. The classical problem of such schemes is that they provide too little income replacement for the growing middle class.

In the 1960s, Sweden, Finland and Norway added a second, earnings-related tier to the people's pension. The Danish labour movement, however, was divided on the issue as people feared this would lead to increasing inequality among pensioners. Instead, they were successful in improving the people's pension to a very generous level (Albrekt Larsen & Goul Andersen 2004). Still, income replacement for the middle classes remained modest, and occupational pensions for white collar workers began to mushroom, in particular in the public sector. Like other 'laggards' failing to introduce a public earnings-related pension during the 'golden age' of the welfare state (Myles & Pierson 2001), Denmark moved directly to a multipillar system (resembling Australia, Switzerland, and to some extent the Netherlands and the UK).

In Denmark, the transformation of the pension system was carried through without any formal pension reform, in fact without any legislation at all (even though it was negotiated with the government). Instead, a layer of fully funded labour market pensions was introduced as of 1991 to nearly all employees via collective negotiations between the trade unions and the employers. Initially, the contributions were very small, but over the course of 15 years they grew to a minimum of 12% of the wage. Through this process of layering and differential growth, labour market pensions gradually changed from a supplement to the backbone of the pension system when the system matures.

In principle, Danish labour market pensions are *private* pensions, unlike the public pensions in Sweden and Norway, but most collectively negotiated

‘private’ arrangements in the Nordic countries have the same impact in practice. In the case of pensions, employers without a collective agreement normally include in the labour contract an equivalent pension scheme provided by the pension funds or by pension companies. In Denmark, furthermore, the classical people’s pension (and other first pillar state pensions) were maintained, albeit in a more targeted version (Goul Andersen 2007; 2011a); see also below.

In the other countries the two-tier people’s pension (with a defined benefit<sup>4</sup> earnings-related supplement) was replaced by notional (partly funded, however) defined contribution schemes with social minima (Figure 12.2).<sup>5</sup> Arguably, these countries moved closer to a Bismarckian system, that is, from a mixture of notional defined contribution/defined benefit principles towards more strict (notional) defined contribution systems. This strengthening of the defined contribution principle of strictly relating pensions to contributions and thus providing unmodified incentives to work is similar to the situation that is found in most countries. The defined contribution principle is also fully embodied in the funded Danish labour market pensions.

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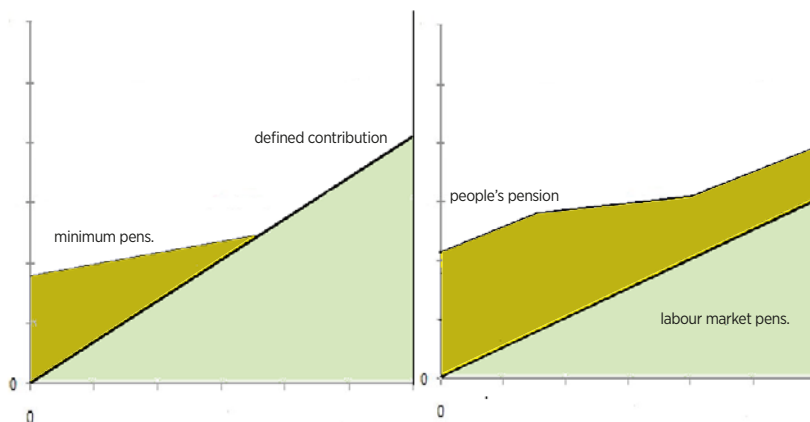
4 Pension entitlements can either be based on the principle of defined benefit or on defined contribution. The latter means that entitlements are directly determined by contributions and revenues from the investment of the money (also labelled actuarial fairness). Defined benefit means that entitlements are politically defined in a way that modifies the strict calculation of pensions from contributions and returns on investments. Typically, such pensions have been defined as flat rate, or as a fixed proportion of the wage over a certain number of years, provided that some minimum requirement is fulfilled (for instance, 30–40 years of contributions).

5 The Icelandic pension system comes closer to the Danish one. The public pension scheme pays a basic pension from the age of 67 and a means-tested supplementary pension after retirement. But the most important part are the fully funded occupational pensions, as in Denmark. This took a major leap in the wage negotiations of 1969 between the unions and the employers. From 1974, membership of occupational pension funds became compulsory for wage earners, and from 1980, also for self-employed (Gudmundsson 2001).

Figure 12.2.

(A) Defined contribution pensions with a social minimum pension (Sweden, Norway and Finland).

(B) Multipillar system with people's pension and labour market pension (Denmark).



In practice, the difference between the Danish (and Icelandic) system (Figure 12.2.B) and the other Nordic ones (Figure 12.2.A) is not extremely large. In some instances, a targeted people's pension and a minimum pension, combined with a defined contribution pension scheme, are equivalent. The difference in outcomes depends mostly on the size of the minimum pension. With appropriate settings of the minimum pension, the Nordic systems may produce roughly the same outcome.

Denmark, Sweden and Finland have very generous housing benefit schemes for pensioners<sup>6</sup> which should be counted as part of the first pillar (state) pensions. These schemes are highly important as regards protection against poverty. In practice, the minimum level in Denmark is higher than in the other countries if the preferential rules for pensioners' housing benefits are taken into account (see below). The after tax value of pensions and other

6 For Finland, see e.g. <http://www.kela.fi/in/internet/english.nsf/NET/270808144314HS?OpenDocument>. For Denmark and Sweden, see Goul Andersen (2007, 2011a). In Denmark there was a direct link, since payments of contributions to a Social Pension Fund for unspecified pension improvements (1971–1982) were finally decided to be applied to housing benefits.

benefits for a single pensioner without any other income is roughly equivalent to the benefits for an unemployed person receiving maximum unemployment benefits (Goul Andersen 2007).

The Danish system,<sup>7</sup> which is the most complicated (Figure 12.3), is in fact a socially balanced variant of a World Bank (1994) system, but it was introduced several years before the World Bank issued its recommendations (Ploug 2001; Green-Pedersen 2007).<sup>8</sup>

Sweden also has a comprehensive system of collectively negotiated occupational pensions that are formally private, but contributions are significantly lower than in Denmark. In addition, individual pensions are growing (Kangas & Luna 2011; Lindquist & Wadensjö 2011; Goul Andersen 2011a), but they remain substantially smaller than in Denmark, where combined employer/employee contributions are typically made up of 12–17% of the wage.

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7 To some extent, the Danish pension system could be described as the lucky outcome of short-term economic stabilisation policies. With one exception, all of the changes in the pension system since 1964 were triggered by short-term economic policy goals, in some instances by political decision-makers who were not fully aware of the long-term implications. This may also run in the opposite direction. In 2009, a fully funded component of the pension system (SP) was sacrificed by the government, and the money was paid out in order to stimulate the economy.

8 Collectively negotiated occupational pensions were not entirely new. They had been introduced gradually over several decades to a large minority of workers, in particular to white collar workers in the public sector (Andersen & Kristiansen 2009, 18–21, 39–47).

Figure 12.3. Pillars and tiers of the Danish Multipillar Pension System.

First Pillar			Second Pillar	Third Pillar
State pensions and special arrangements for pensioners			Occupational pensions	Personal pensions
Third tier (topping up / replacement gap)				Rent pension Capital pension/ Age pension Rate pension (Index contracts)
	Civil servants' pensions (Company pensions) <sup>*)</sup>		Semi-mandatory labour market pension	
Second/third tier (income maintenance)	SP: Special Pensions savings (terminated 2009)* <sup>*)</sup>		Civil servants' pensions (Company pensions)* <sup>*)</sup>	
First tier (basic security/ poverty protection)	ATP: Supplementary Labour Market Pension			
	People's pension	Basic Amount		
		Pension supplement		
	Supplementary pensions benefits			
	Individual supplements (health, personal, heating)			
	Preferential housing benefits			

Notes: Dark grey: Means-tested. Light grey: Fully funded

+) People had to pay 1% of their gross income for the SP Pension scheme (introduced as a temporary scheme to calm an overheated economy in 1997 but made permanent in 1998). From 1999–2000, pensions from the scheme were nearly flat-rate, but from 2001 this was changed in favour of ordinary defined contribution principles by the incoming Liberal-Conservative government.

\*) For civil servants in municipalities, pensions are often funded through insurance in order to avoid financing the labour power of the past through current expenses. Employee contracts as civil servants have declined very significantly. The huge majority have ordinary employment contracts.

In most countries, inequality among pensioners is expected to increase. Changing the basic principles towards defined contributions means that inequality among the employed are reproduced at pension age. Denmark is an exception, however: Inequality among pensioners is not expected to increase when the labour market pensions mature (Government of Denmark 2005, 14).

### 3.1. *Basic security: Minimum pensions*

Although there are many differences, some common characteristics of the Nordic pension schemes should be emphasised.

All residents, irrespective of citizenship, are mandatory members of the national old age pension schemes. However, three years of residence are required in order to be eligible for a pension, and 40 years are needed to get a full pension. Everyone fulfilling the residence requirements is guaranteed a minimum pension, irrespective of any contribution. As seen in Table 12.4, Denmark and Iceland are the most generous countries for people with little or no previous income. In these countries, the ‘basic security’ component remains strong. In Denmark, it is possible to defer the public old-age pension for up to ten years (the later the pension is taken up, the higher the annual pension). At the opposite end, we find Finland, which to a larger degree is an ‘earnings-related’ welfare state resembling those in Continental Europe. In between, Norway and Sweden to a larger degree combine basic security with income related benefits.

Table 12.4. Guaranteed minimum pension including housing allowance for a single pensioner. Percentage of average national pay, after tax. 2007.

Denmark	56%
Iceland	55%
Norway	52%
Sweden	46%
Finland	38%

Source: NOSOSCO 2009b.

### 3.2. *Earnings-related pensions*

All of the Nordic countries have second tier earnings-related pensions. Apart from in Denmark, they are regulated by law. But there are major differences

between the schemes and major differences in strategies for handling growing life expectancy.<sup>9</sup>

In Denmark, the ATP (the Danish Labour Market Supplementary Pension) is a statutory, insurance-based, defined-contribution scheme. Contributions are small (about 1% of the wage). Contributions are negotiated in collective agreements between the social partners and diverge somewhat between different segments of the labour market. ATP provides a lifelong pension from the formal pension age (currently 65 years). It covers all wage earners. The unemployed have a double ATP contribution paid by the state. ATP membership is voluntary for the self-employed and for disablement pensioners. ATP covers almost the entire population and comes close to absolute universality. The contribution is a fixed amount, varied only against the number of hours worked (28 hours count as full-time). In a defined contribution scheme like the ATP, higher life expectancy results in lower pensions per year, but the ATP uses a number of financial instruments to cover the risk of unexpected changes.

The main income replacement scheme for Danish pensioners is labour market pensions (see below). In addition to pensions, there is also an important early retirement scheme which is *de facto* being phased out according to a retirement reform negotiated in 2011 and formally adopted in 2012 (see below).

In Finland, all economically active citizens are covered, but by different schemes for different sectors of the economy. The pensions are based on lifetime earnings, but earnings at later ages count more than early ages. From 2005, the accrual rate is 1.5% of pensionable earnings at ages 18–52, 1.9% at ages 53–62, and 4.5% at ages 63–67. This provides a strong inbuilt incentive to participate in the labour force for middle-aged and elderly people. The pension age is flexible between 63 and 68 years. Pensions are increased if they are started to be drawn beyond 68 years of age. From 2010, new earnings-related pensions are reduced according to increases in life expectancy from 2009. The adjustment takes the form of an annuity calculation using a discount rate of 2% per year. The adjustment expected in the year 2040, based on the

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<sup>9</sup> The following text is to a large extent based on the contributions in Ebbinghaus (2011), and on OECD (2011).

mortality projections, is to reduce benefits to 85.2% of their value under the pre-reform rules.

Iceland has mandatory schemes for employees. The law requires contributions with accrual rates of 1.4% each year. This adds up to 56% of income after 40 years of employment. Many schemes pay higher pensions based on voluntary agreements. The ordinary pension age is 67, but reduced pensions may be drawn from age 65, and retirement may be postponed with higher pensions until the age of 70. So far, no elements to adjust for increased life expectancies have been introduced in Iceland, but the retirement age in Iceland is extremely high by European and even by Nordic standards.

Sweden has a mandatory earnings-related pension for employees and the self-employed. Contributions of 18.5% of income from work are credited and then uprated in line with average earnings. The retirement age is flexible and possible from age 61. At retirement, the accumulated capital will be converted into an annual pension. This calculation will be based on individual retirement age and life expectancy. So there is an inbuilt automatic adjustment to changes in life expectancy. The longer a cohort of pensioners is supposed to live, the lower the annual pension. If a person wants to increase their annual pension, they may postpone retirement and work longer.

Norway has reformed its pensions system, to a large extent along the same lines as Sweden (West Pedersen 2008). The new system is being gradually implemented from 2011. But a major difference is that in Norway there is no link between contributions and pensions (like in Sweden) but between income from work and pensions. Each year's acquired pension right is equivalent to 18.1% of annual income. The system covers both employees and the self-employed. Flexible retirement for the age group 62–75 was introduced in 2011. This system is cost neutral. The earlier you take out a pension, the lower the pension will be. It is possible to combine work and pension fully or partly from the age of 62 without an earnings test. In 2011, a life expectancy adjustment of the pension for new old-age pensioners was introduced. The life expectancy adjustment will be determined for each cohort, based mainly on remaining life expectancy.



By 1979, Denmark had introduced a voluntary early retirement scheme enabling people to withdraw from the age of 60 if they were members of an unemployment insurance fund and had paid contributions (the contribution requirement was gradually increased). Until the most recent reform adopted in 2012, the allowance was equal to the maximum unemployment benefit. By 1998, it was decided that people who retired at the age of 60 or 61 would receive only 91% of the allowance. Besides this, a substantial deduction for pension assets was introduced.

By 2006, the early retirement age and pension age was indexed to life expectancy at the age of 60 (see below), and by 2012, the duration of early retirement was cut to three years, with a very substantial deduction for pension assets, even for people with relatively low incomes. In practice this means that the voluntary early retirement scheme is being phased out. In 2012, people were allowed to withdraw their contributions paid between 1998 and 2011. Some 40% of those insured did so. As tax deductions for contributions to the scheme have been progressively reduced (to a target of 25% by 2019), contributions have become increasingly expensive.

De facto, the 2012 reform means that the scheme is being phased out.<sup>10</sup> However, as retirement age was increased in the 2006 reform as an alternative to abandoning early retirement, and as early retirement is phased out, this means that the lowest retirement age has increased very radically in Denmark. For birth cohorts until 1953, early retirement at the age of 60 is possible; for birth cohorts 1970 and onwards, the retirement age is 70 years, projected to increase even further if life expectancy at 60 increases. Due to substantial (and increasing) social differences in health and life expectancy, this will bring quite large numbers of working class men and women into trouble, as the criteria of disablement pensions have at the same time become more tough. A so-called 'senior pension' was introduced as a sort of compensation in the 2012 reform, but this was partly a case of symbolic politics, as the criteria are largely the same as for ordinary disablement pensions. The main modification

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10 Ironically, even though the reform becomes effective only as of 2014, the number of recipients of early retirement allowance has decreased by itself by about 35% from 2007 to 2013.

in the law was that the procedure is less complicated and takes less time (Goul Andersen & Jensen 2011).

### 3.3. *Automatic adaptation of retirement to longevity*

The automatic adaptation of retirement age to longevity is not a particularly Danish phenomenon. In fact, all of the Nordic countries except Iceland have been heading towards automatic adaptation of retirement to longevity. The models are different, however.

Pension ages in the Nordic countries have traditionally been relatively high, and labour market participation for people in their sixties has been correspondingly high. Initially, the pension age was 67 years in all countries, and this remains the case in Norway and Iceland. In Denmark, Sweden and Finland, the pension age was reduced to 65 years.

Fixed pension ages, however, play a lesser role than they did previously. One reason is that many retire before the official pension age, in most cases on a disability pension or pre-retirement scheme. But, more importantly, the size of the pension the individual can withdraw will depend increasingly on the age of retirement, because of the defined contribution principle.

Table 12.5 provides an illustration of the first point. It shows the age at which people who were working at the age of 47 actually withdrew from the labour market in 2006. In practice, retirement happened up to five years before the pension age (women in Denmark and Finland). From a cost perspective, this is exactly what the recent reforms have addressed. Finnish women, for instance, who retire at 60, will live on their income from pensions for on average 26 years.

Table 12.5. Average age of exit from the labour market 2006. People who were economically active at age 47.

	Denmark	Finland	Iceland	Norway	Sweden
Formal retirement age, men and women	65	65	67	67	65
Actual retirement age, women	60.3	60.5	66	62.2	62.7
Actual retirement age, men	61.8	60.8	68.1	63.2	63.3

Source: NOSOSCO 2009b.

This is why the Nordic countries have been heading towards the automatic adaptation of retirement to longevity, only in different ways. In Sweden, Finland and Norway, pension contributions are fixed, and pensions are adjusted downwards according to life expectancy by a special formula. This means that people from the younger generations have to work for longer if they want to maintain the same pension as previous generations.

In Denmark, the same happens automatically for the labour market pensions, as they are fully funded. As regards public pensions, the age brackets for the pension and early retirement are fully indexed to life expectancy for 60-year-olds, and according to population projections, the formal pension age in Denmark will be 70 years for people born after 1970. This is projected to increase even further later on. As the baseline of the indexation of age brackets was life expectancy for 60 years old 1979–1995, and as life expectancy has increased by three years since then, the number of years for which people will receive public pension in Denmark will gradually *decline* by about three years as compared to 2013. In other words, regardless of future increases in life expectancy, there will be fewer years to live as a pensioner.

Still, people are allowed to withdraw labour market pensions and other private pensions up to five years before formal retirement age. Accordingly, as in Sweden, people face a choice between relatively early retirement and lower annual pensions, or late retirement and higher annual pensions.

### 3.4. *Social inequality*

Provided that health conditions improve roughly in accordance with life expectancy, and that there are no significant social differences, these reforms represent ‘natural’ adaptations to higher life expectancy and healthy ageing. The problem, however, is that there is a strong and even increasing social gradient in health conditions and life expectancy, with only modest improvements at the lower level of the social ladder.

Since health improvements are not equally distributed across social classes, the reforms are tantamount to a privatisation of social risks that aggravate class inequality. This may be particularly pronounced in Denmark (Brønnum-Hansen 2006; Brønnum-Hansen & Baadsgaard 2008), but the basic pattern is most likely the same in the other Nordic countries. If there were no class differences in health and longevity, there would be a free choice between duration of retirement and annual pension; but unfortunately, this choice is not free for those who experience deterioration in health before pension age. If the health deterioration is furthermore insufficient to obtain a disability pension, the economic responsibility is completely privatised.

In short, even though their demographic changes are comparatively small, the Nordic countries have acted radically to the challenge of ageing. Increasing longevity will affect the size of pensions, retirement age, or both. There is uncertainty about the effects, as there are many pathways to retirement, but in order to avoid deterioration of retirement income, people will have to work for longer if they are able to do so.

### 3.5. *Pensions, early retirement and work incentives*

Via the defined contribution principle, pension reforms in most countries also aim at strengthening work incentives and postponing retirement. As mentioned, Finland has furthermore introduced a progressive accrual rate for people above 53 years to discourage early retirement (Kangas 2007, 285). Throughout the period under discussion, Sweden maintained the highest

employment rates in the EU among 55–64-year-olds, both for men and for women (76% and 70%, respectively, by 2012). The Norwegian figures are just below this. Finland resorted to early retirement for older workers during the severe crisis in the 1990s, but from 2000 to 2012, employment rates increased from 44% to 57% for men and from 41% to 60% for women (Table 12.6).

In spite of generous early retirement provision from the age of 60,<sup>11</sup> Danish employment rates were higher than in Finland and Continental Europe during the 1980s and 1990s. According to the OECD figures, the Danish 1998 reform (fully implemented by 2004) was not too successful, but register-based data show more improvements towards the end of the period, and the take-up of the early retirement allowance declined by nearly 35% from 2007 to 2013 (see also Goul Andersen & Jensen 2011). However, Continental European countries have moved even faster. Employment rates among German and Dutch men have overtaken the Danish figures. Among 55–64-year-old women, Danish employment rates remain slightly higher than in Germany and the Netherlands, but by 2012, they were the lowest among the Nordic countries.<sup>12</sup>

11 Moreover, from 1994–1996 there was access to pre-early retirement for the long-term unemployed from the age of 50 (the so-called ‘transitional allowance’ until the ordinary early retirement allowance from the age of 60).

12 OECD data are survey-based. Reliable register-based data reveal more improvement for Denmark. This even holds for labour force participation rates. From 1997 to 2009, labour force participation rates for 55–59-year-olds increased from 80% to 83% for men, and from 62% to 78% for women. Among 60–64-year-olds, the corresponding figures were 43% and 52% for men, and 18 percentage points lower for women.

Table 12.6. Employment rates (percentage of entire age group) among 55–64-year-olds, by gender. 1990–2012.

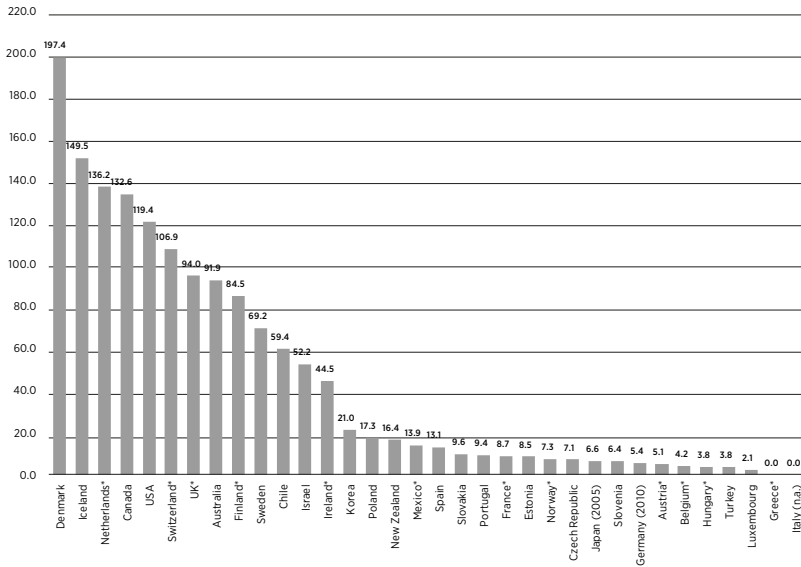
	Men, 55–64 years				Women, 55–64 years			
	1990	2000	2012	2000–2012	1990	2000	2012	2000–2012
Denmark	65.6	61.9	65.9	+4.0	42.4	46.2	55.8	+9.6
Finland	46.3	43.7	56.7	+13.0	39.7	40.9	59.7	+18.8
Sweden	74.5	67.7	76.4	+8.7	64.7	62.4	69.8	+7.4
Norway	70.7	73.1	74.8	+1.7	52.8	61.2	66.9	+5.7
Iceland	92.6	94.2	83.0	–11.2	78.3	74.4	75.5	+1.1
Austria	-	40.5	52.5	+12.0	-	16.8	34.1	+17.3
France	37.0	32.8	47.4	+14.6	25.0	26.0	41.7	+15.7
Belgium	34.3	35.1	46.0	+10.9	9.4	15.4	33.1	+17.7
Germany	52.0	46.4	68.5	+22.1	22.4	29.0	54.8	+25.8
Netherlands	44.5	49.7	68.1	+18.4	15.8	25.5	49.1	+23.6
UK	62.4	59.7	65.4	+5.7	36.7	41.4	51.0	+9.6
Switzerland	85.2	76.7	79.5	+2.8	43.5	50.3	61.5	+11.2
USA	65.2	65.7	65.5	–0.2	44.0	50.6	56.1	+5.5
OECD	62.2	59.2	64.5	+5.3	33.5	36.7	47.2	+10.5

Source: OECD 1999; 2013a.

#### 4. Economic sustainability and government finances

As regards sustainability, the Danish pension system is in an exceptionally good situation. By the end of 2012, the accumulated value of fully funded state, labour market and individual pensions amounted to nearly 200% of GDP (see Figure 12.4). This was roughly equivalent to the value of the assets accumulated in the Norwegian state's oil fund at that time. The pension savings belong to the pensioners, not to the state, but they contained deferred taxes amounting to some 80% of GDP. Figures are smaller in the other Nordic countries, but assets are none the less substantial by comparative standards, except in Norway.

Figure 12.4. Pension savings in OECD countries, as percentage of GDP, 2012.



\*) Figures from 2011.

Source: Calculated from OECD statistics (all funds' assets and GDP, in current prices, national currency). Accessed 9 November 2013.

From a micro perspective, this means that quite a large proportion of Danish pensioners will remain net contributors to the welfare state throughout their lives, or at least until they experience serious illness. They will pay taxes from their pensions, and their pension supplements are reduced. In many cases, people will pay more in income tax than they receive in pension. This will almost uniformly be the case for professionals, whereas groups like nurses, school teachers, or metal workers are likely to pay about the same as they receive. By 2012, a single pensioner earning 50% of an average worker's wage (OECD definition) in addition to the state pension pays about the same in income tax as they receive in state pension. In addition, this person will pay 25% value added tax, and other taxes on consumption, motor vehicles, property, etc.

This also means that the old age dependency ratio can be misleading: The conventional age brackets will become obsolete, and a significant proportion of pensioners will not be 'dependent'. They will become net contributors to the welfare state. According to calculations based on the main Danish long-term economic model (called DREAM) the impact of ageing on public budgets, including extra health care and elder care costs, will be roughly neutral (Forsikring & Pension 2012).

As contributions to private pensions are tax deductible – taxes being paid when the pensions are paid out – there is a substantial accumulation of deferred taxes which is not accounted for. If we estimate the tax rate at 40%, the Danish state possesses a 'hidden' asset of nearly 80% of GDP in terms of deferred taxes. The other Nordic countries are in a similar situation, but the accumulated assets are much smaller.

Even excluding these unaccounted assets, the financial situation of the Nordic welfare states is very healthy by comparative standards (Table 12.7 and Table 12.8). With the exception of Iceland, the Nordic countries have maintained surpluses or small deficits on their state budgets throughout the crisis since 2008. In addition, they have no net debt.

Apart from Iceland, the Nordic countries belong to the 9–12 top countries of the world as regards creditworthiness in 2013. This should come as no surprise. Their balances of payment are also extremely good. In fact, the Danish labour market pensions were initially 'invented' as a means to improve the trade balance: Consumption was too high, savings too small. After 30 years of permanent balance of payment deficit, Denmark changed to a permanent surplus alongside the universal introduction of labour market pensions. Oil in the North Sea (less than for Norway, but considerable) contributed to this as well, but pensions have played a major role.

In addition, Denmark and Sweden receive revenues from taxation of the current returns on pension savings (15% and 20%, respectively). In Denmark, this constituted about 2% of GDP in 2010–2012.



Table 12.7. Net lending/net borrowing of general government, and net financial liabilities.

	Budget surplus/deficit				Net public assets/debt			
	2007	2010	2011	2012	2007	2010	2011	2012
Denmark	4.8	-2.7	-2.0	-4.1	+3.8	+1.7	-3.1	-7.0
Sweden	3.6	0.8	0.0	-0.7	+22.4	+23.8	+20.5	+23.3
Finland	5.3	-2.8	-1.1	-2.3	+72.6	+65.6	+54.1	+54.6
Norway	17.3	11.1	13.4	13.9	+137.9	+162.7	+166.3	+173.6
Iceland	5.4	-10.1	-5.6	-3.4	+1.0	-48.2	-55.1	-60.5
Germany	0.2	-4.2	-0.8	0.2	-42.6	-49.4	-50.8	-50.9
France	-2.7	-7.1	-5.3	-4.9	-35.7	-57.5	-62.5	-70.7
Netherlands	0.2	-5.0	-4.4	-4.0	-27.8	-34.4	-38.7	-42.0
Belgium	-0.1	-3.9	-3.9	-4.0	-73.1	-79.7	-81.1	-82.0
Italy	-1.6	-4.3	-3.7	-2.9	-90.4	-103.0	-97.5	-112.9
Greece	-6.8	-10.8	-9.6	-10.0	-86.5	-121.2	-142.6	-102.8
Spain	1.9	-9.7	-9.4	-10.6	-17.8	-40.1	-49.7	-61.0
Portugal	-3.2	-9.9	-4.4	-6.4	-49.7	-71.7	-78.5	-88.5
Ireland	0.1	-30.8	-13.3	-7.5	+0.3	-40.8	-76.8	-79.5
UK	-2.8	-10.0	-7.9	-6.5	-28.3	-53.8	-67.8	-70.9
USA	-2.9	-11.4	-10.2	-8.7	-48.0	-74.3	-81.6	-87.1
Switzerland	1.0	0.3	0.5	0.7	-6.7	-6.9	-6.3	-5.5
Japan	-2.1	-8.3	-8.9	-9.9	-80.5	-113.1	-127.4	-135.9
Euro (15) area	-0.7	-6.2	-4.1	-3.7	-42.7	-57.6	-60.6	-66.3

Source: OECD 2013c. Accessed 9 November 2013.

Table 12.8. Current Accounts as per cent of GDP, 2011, and average 2006–2011. OECD.

	2010	2011	2012	Average 2006–2011
Denmark	5.9	5.6	5.7	+3.9
Sweden	6.3	6.4	6.0	+7.4
Finland	1.4	–1.6	–1.9	+1.5
Norway	11.9	12.8	14.4	+13.7
Iceland	–8.1	–6.5	–5.6	–13.8
Germany	6.1	6.2	7.0	+6.5
France	–1.4	–1.8	–2.2	–1.4
Netherlands	7.4	9.5	9.4	+7.4
Belgium	1.1	–1.2	–2.2	–0.1
Italy	–3.5	–3.1	–0.5	–2.4
Greece	–10.2	–10.0	–2.5	–10.7
Spain	–4.5	–3.8	4.7	–3.5
Portugal	–10.6	–7.0	–1.5	–9.1
Ireland	1.1	1.2	4.4	+1.5
UK	–2.7	–1.5	–3.8	–2.2
USA	–3.0	–2.9	–2.7	–3.8
Switzerland	15.0	8.9	11.1	10.0
Japan	3.7	2.0	1.1	+3.1
Euro (17) area	0.0	0.1	1.2	–0.1
China	4.0	1.9	2.3	+5.9

Source: OECD, *Key Short-Term Economic Indicators*. Accessed 9 November 2013.

Briefly, the Nordic welfare states are very rich and very economically solid, unlike most other European countries. At the same time, the Nordic welfare states have much less to fear as regards demographic change, due to their high fertility rates, net immigration and reformed pension systems.

## 5. Increasing labour supply, activating social protection

As indicated in the introduction, the discussion about ageing and the declining labour force, relative to the population, has catalysed more general efforts to increase the labour force. As in other countries, such efforts go way beyond the issue of retirement and include an activation of the entire system of social protection and taxation (Barbier 2002). Employment efforts have successively been extended to all of the groups that were previously given low priority: The disabled, the sick and recipients of long-term social assistance (Goul Andersen 2011b). Besides this, special exemptions for the elderly unemployed and other difficult-to-place workers have been abandoned. Furthermore, the Nordic countries have also put much more emphasis than previously on the labour market integration of immigrants. And finally, tax systems have been adjusted in accordance with the new conventional wisdom that marginal taxes affect labour supply.

As elsewhere, the number of people receiving disability pension has shown a long-term growth in the Nordic countries. This has been particularly noticeable in Norway, where figures increased from 236,000 in 1995 to 339,000 in 2008 (NOSOSCO 2009a, 171; Øverbye 2006); in Denmark and Sweden, the increase was halted earlier. But figures close to 10% of the working age population (OECD 2010, 103, 134, 145, 162) have been a source of concern everywhere, and solutions have been difficult to find. A large number of measures have been applied in the attempt to reverse the trend. All of the Nordic countries have underlined the fact that a disability pension should only be granted on the basis of medical criteria, and only as a last resort. All of these countries have experimented with enabling people to take a job and have a 'sleeping pension' meanwhile, or with granting disability pensions on a temporary basis. In Sweden, the term 'disability benefit' was even formally abolished by a reform (2003) in favour of an 'activity and sickness benefit' (NOSOSCO 2004; Riksrevisionen 2005).

Comprehensive changes in rules and procedures were introduced in Denmark in 1998 and onwards alongside the idea of an 'inclusive labour market' (OECD 2003, 129; Bengtsson 2009; Bredgaard 2004), and of

‘corporate social responsibility’. Besides this, the instrument of ‘flexible jobs’ was introduced as an alternative to disability pension for people with reduced work capacity.<sup>13</sup> From 1998, application for disability pension should only take place after all possibilities of treatment, activation and rehabilitation had been considered. This was embodied in a disability pension reform adopted in 2001 and implemented in 2003, based on the principle of focusing on the remaining resources rather than on lost capacities. These programmes have enjoyed some success, and after a slow start the number of people working in permanently subsidised ‘flexible jobs’ has grown significantly.

Even though a flexible job was considered a last resort before disability pension, some deadweight losses were entailed. Flexible jobs did contribute to reversing the increasing number of disability pensioners, but to a lesser extent than had been hoped for, and, as in the other Nordic countries there was an increase in the number of young applicants for disability pensions. By 2012, a new flexible job/disability pension reform was adopted in Denmark. It aimed at providing higher participation rates and budget cuts, but the reform dramatically reduced subsidies for flexible jobs, and disablement pension for people below the age of 40 was only to be granted in exceptional circumstances.

The growth in the number of disablement pensioners seems to have halted in all four countries by 2010.<sup>14</sup> It is noteworthy that except for the Danish 2012 reform, the countries did not resort to lower disability pensions (which are comparatively generous) in order to improve work incentives. Nor did the systems converge. In Denmark, the disability pension has remained a flat rate universal benefit accessible (in principle) regardless of employment record. In the other Nordic countries, benefits are earnings-related (NOSOSCO 2009a, 169; Blekesaune et al. 2010). However, as some supplementary compensation is typically included in Danish labour market pension agreements, the outcomes are not that different. But it remains true that the Danish scheme is the most generous for people with low wages (or no income), and benefits

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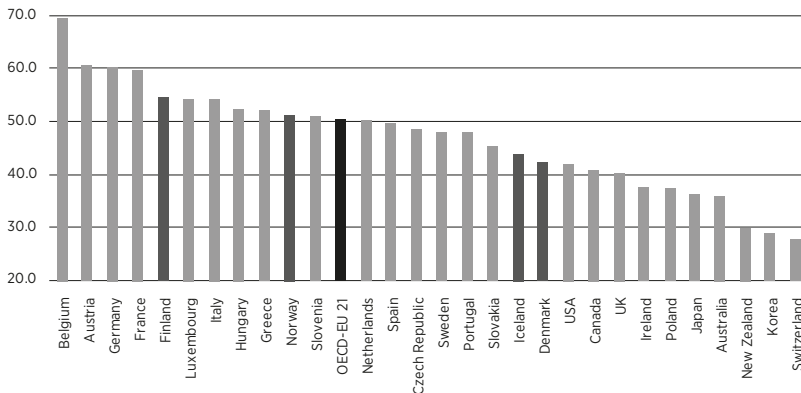
13 Flexible jobs typically allow people to work shorter hours and/or with less demanding tasks while still maintaining an ordinary wage following collective agreements, and in principle maintaining the same rights as ordinary employees. The subsidy is normally 50–66%.

14 As pointed out by Hytti (2006), comparisons are difficult, as sick, disabled and unemployed overlap; differences over time or between countries may reflect political decisions and administrative praxes.

were furthermore improved, both by the 2001 reform (for a single person, pension is roughly equal to the maximum unemployment benefits), and by new supplements for some of those who remained under the old rules. Even though one could expect that restricted access to disablement pensions would mean a higher take-up of voluntary early retirement, Danish and Norwegian figures do not indicate such a correspondence.

In addition, it should be underlined that nearly all of the policies of the 1980s and 1990s aimed at reducing labour supply have been terminated. In Finland, schemes from the crisis of the 1990s encouraging older workers to retire were gradually phased out. In Denmark, it was decided as early as the mid-1990s to scrap sabbatical leave and to abolish the ‘transitional allowance’ enabling the long-term unemployed to retire from the age of 50 (both schemes were introduced in 1992 and extended/improved in 1993). Educational leave was terminated a few years later, in favour of a ‘work first’ approach. In addition, the right for elderly workers in Denmark to maintain unemployment benefits indefinitely, and to be exempted from activation, was cut off bit by bit, and eventually fully abolished.

Figure 12.5. Marginal tax rate for an average worker (single, no children), selected OECD countries. 2012. Percentage of labour costs.



Source: OECD 2013b.

This holds true for taxation as well. Average tax rates as well as marginal tax rates for labour have been reduced. In Denmark and Sweden, the highest marginal taxes remain slightly above the European average, but in general Nordic taxes on labour are quite modest – with some significant intra-Nordic differences. Figure 12.5 reveals the marginal tax rate for an average worker, which has become lower in Sweden and Denmark than in most European countries. One may question the impact of this, but it at least reveals a considerable willingness to reform welfare and tax systems in accordance with the waves of reform that have swept across Europe, and it illustrates the concern for maintaining sustainability vis-à-vis the challenge of ageing.

## 6. Conclusions

Not least because of the perceived challenge of ageing, the Nordic countries have reformed their pensions and retirement systems thoroughly. In addition, they have put much effort into increasing the labour supply from the working age population.

In a way, this is an irony, since these countries are benefiting from their pro-natal policies, which are ensuring (alongside net immigration) that the changes in the demographic structure will be less pronounced than in most other European countries. Besides this, unlike most European countries, they have a strong financial point of departure.

This does not mean that all challenges of ageing are met, but it does seem certain that ageing cannot affect the foundations of the Nordic welfare model. Roughly speaking, pensions do not constitute a problem – what remains are increasing costs for health care and for elderly care. However, increasing labour force participation rates among the elderly are likely to neutralise this effect as well.

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# Status, challenges and innovative solutions for elderly care in China and the Nordic countries

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An ageing population is seen as a challenge in many countries. But the size of the ‘problem’, its composition and the solutions proposed vary between countries. Many countries are seeking new and innovative solutions to these challenges. China and the Nordic countries are in quite different situations, but still there may be common elements in how they meet the challenge, and maybe they can learn from each other

## 1. Innovations

In this chapter we focus our attention on how the challenges in elderly care are met, especially in new and innovative ways. Innovation is therefore a key concept.

Innovation has for some decades now been seen as the engine for success in competition in the marketplace. Schumpeter (1975 [1942]) has been seen as the founder of the imperative for innovation within a competing economy. He used a wide definition of innovation, including new products, production processes and new organisation methods. The numerous definitions of innovation focus to a large extent on the implementation of new ideas (inventions), or ideas that are new in a specific context. In this context, bringing organising principles from the private sector to the public sphere, as New Public Management (NPM) did (Christensen & Lægread 2011),

is definitely an innovation in that area, although the principles themselves were already well known. Many definitions stress that innovations are also improvements. At least some people must see it as an improvement when it is implemented, but the result gives rise to an empirical question. In a situation full of conflicts of interest, such as the public sector, it is relevant to ask for whom this is an improvement. It has been common in the Western world to see the private sector as innovative and the public sector as non-innovative. Recent research has challenged that view and pointed out that innovations are just as common in the public as in the private sector (Windrum 2008).

New products or technologies are easily seen as innovations, but it has been more difficult to see services as innovations. However, in Western economies now, more than 70% of GDP comes from services. And elderly care is definitely a service in which great challenges make it imperative to innovate. In this paper we will describe the situation and challenges in elderly care in China and the Nordic countries, and comment on some of the efforts to find innovative solutions to these challenges.

## **2. Status and challenges of the ageing population in China**

China is facing a rapid development of ageing. At the end of the 1940s, the average life expectancy in China was about 35 years. The figure had risen to 67.8 years by 1981 and 71.4 years in 2000. In 2010, the average life expectancy reached 74.8 years based on the 6<sup>th</sup> National Census in Mainland China. People aged 60 and over represented 13.3% of the total population in China, adding up to 178 million. Compared to the 940 million working-age population (aged 15–59 years), the elderly dependence ratio was 18.9%. It is expected that there will be 202 million people aged above 60 in 2013, accounting for 14.8% of the total population. But the working-age population will have reduced to 936 million, so the elderly dependence ratio rises to 21.6%. The percentage of elderly people of an advanced age is increasing quickly. The percentage of those aged 80 and over out of the total population was 0.96% (12 million) in 2000. In 2012, there were 22 million persons aged 80 and over, and it will

be 23 million in 2013. It is expected that the number of people aged 80 and over will increase annually by one million until 2025. There will be more than 101 million elderly aged 80 and over in 2050, accounting for 6.9% of the population, and there will be a further increase of 5.9% within 50 years.

Together with the development of the ageing society, the progress of urbanisation is accelerating. Between 2000 and 2010 the percentage of the urban population among the total population in Mainland China increased from 36.1% to 49.7%. The trend is expected to continue: only one year later, the percentage of the urban population had reached 51.27%, and it is expected to be 70% in 2030. Urbanisation has multiple implications for ageing. The family structure immediately changes from the extended family which is the norm in rural areas to the more common pattern in urban areas, the nuclear family. Urbanisation usually starts with young adults moving away from rural areas, often leaving their children behind to be looked after by elderly relatives. A study on Chinese elderly left behind in the countryside by Ye Jingzhong in 2006 estimated that there were about 20 million left-behind elderly in the countryside of China in 2006. Among them, 36.3% felt alone, and 35.8% experienced anxiety, irritability, and depression (Ye 2008). Another study indicated that the percentage of the elderly aged 60 and over in empty nests in China increased from 32.9% in 2000 to 45.6% in 2010 (Ping & Gang 2009).

A higher percentage of elderly in the population will increase the prevalence of chronic diseases, disability and dementia. For example, there were 97 million elderly people with chronic diseases and 36 million disabled elderly people in 2012, and this will reach more than 100 million elderly people with chronic diseases and 37.5 million disabled elderly people in 2013. Based on a report on the status of the elderly in urban and rural areas made in a follow-up study (Wu 2013), the self-reported prevalence of non-communicable diseases (NCDs) among the elderly was 72.3% in urban areas and 57.5% in rural areas. But the prevalence of self-reported health was higher (27.9%) in urban areas than that (21.0%) in rural areas. More than one fifth of the elderly were partially (15.9%) or completely (6.8%) disabled. It was estimated that there are 9.71 million elderly people who are partially disabled (12.4%)

and 4.38 million with complete disability (5.6%) in urban areas, as well as 18.47 million partially disabled (18.6%) and 7.75 million with complete disability (7.8%) in rural areas. Depression and dementia are the two predominant mental health disorders among the elderly. It was found that 16.5% and 28.6% of elderly felt lonely in urban and rural areas, respectively. These frail people will probably need extra attention from family, society and the government.

Facing the challenges of the disease burden in the ageing society, the Chinese government is expanding the coverage of basic medical insurance to reduce the economic burden imposed by health problems on individuals and families. In 2010, the coverage of basic medical insurance for elderly was 95.3% in urban and 98.3% in rural areas. As the result, the percentage of older patients who did not see doctors but should have done so, because of their health conditions, decreased from 13.7% in 2003 to 9.7% in 2008. And the percentage of older patients who were not in hospital but should have been, due to their health conditions, decreased from 35.1% in 2003 to 31.9% in 2008.

### **3. The elderly population's mental health and social capital**

As mentioned above, mental health among the elderly is a major problem. With the acceleration of urbanisation and population ageing, protecting and promoting the mental health of the elderly has attracted more and more attention, in addition to cardiovascular diseases, cancer, respiratory diseases and diabetes. Research has indicated an association between social factors and mental health. The reason for this has been explained by the changes in social life and relationships when people retire from their work positions. The personal social ties and relationships that had been established during their working life, and took place outside their residential communities, are weakened. They do not know their neighbours and cannot easily share information with each other. Such a lack of social integration in the resident communities where the elderly spend most of their time after retirement influences their mental health. These mental health problems could be even worse if they have some kinds of chronic disease and a sense of loss due to

retiring. The phenomenon described above can be seen as a lack of social capital (Kreuter & Lezin 2002). Social capital is a relatively new concept which has attracted significant attention in recent years. A burgeoning body of literature has linked social capital to mental health, which reflects increasing acknowledgement that social capital is an important determinant of mental health. The research on social capital's influence on mental health may further demonstrate the social model of mental health. Social capital is connected to socio-cultural background, and represents the resources that a person can draw from their social relationships (Esser 2008).

There has been relatively little research on social capital in China, and no empirical evidence regarding the direction and strength of these linkages between social capital and mental health among the elderly in urban communities exists so far. A study was therefore conducted to explore the manifestation of social capital in among the elderly urban Shanghai, in order to assess the influence of social capital on the mental health of the elderly in urban communities in Shanghai.

Focus group discussions were conducted among 104 residents over 60 years old from three different types of community in Xuhui District, Shanghai. Twelve groups were set up based on the participants' age and social economic status. Questions including structural/cognitive social capital were adopted to explore social capital among the elderly. Adopting multistage stratified cluster random sampling, a cross-sectional study was conducted among 1,225 elderly people aged 60 and older in three communities in Shanghai, China. Mental health was measured with a 12-item General Health Questionnaire (GHQ-12). The instrument was used to measure social capital, including structural and cognitive social capital, and the items included in the social capital questionnaire were based on qualitative interviews and existing studies. The statistical methods included factor analysis, univariate and multivariate methods, etc.

Our study captured and analysed perceptions and experience related to social capital among the elderly. Structural social capital comprised organisation participation, social support and civic participation. Cognitive social capital included trust, social cohesion and social control. We found

that 17.4% of the sample was experiencing probable cases of mental ill health. Respondents in younger age groups, currently married, with higher housing satisfaction and higher income satisfaction had significantly better mental health status. In our factor analysis, we used four social capital components including social connectedness, social cohesion, social control and trust. Social connectedness included organisation participation, social support and civic participation. Female respondents with higher housing satisfaction as well as higher income satisfaction, had significantly higher social capital. After multiple adjustments for age, sex, marital status, education, income stratification and housing satisfaction, we found social capital to be a protective factor in the mental health problems of the elderly (OR=0.569, 95% CI: 0.479–0.676). The social capital components of connectedness and trust showed statistically significant associations with the GHQ-12 scores. We also found that age and housing satisfaction were the main factors influencing mental health of the elderly. The mental health of older people with low housing satisfaction is worse than that of those who are younger with high housing satisfaction. Our study demonstrated that social capital is a protective factor in mental health problems, particularly two of its major components: social connectedness and trust.

#### **4. Innovation in the management of chronic non-communicable diseases in the elderly**

Levels of trust, civic involvement, organisational cooperation, social engagement and reciprocity are important determinants for social capital, which mediates and influences mental health and quality of life, especially for the ageing population with chronic diseases. In addition, an ageing population will probably increase the burden of non-communicable diseases, as mentioned earlier. The prevention and management of chronic diseases is important to the health of the elderly. Since the present major health care systems are unable to deal with chronic conditions, there is a need for a prompt policy and new approaches to those with chronic conditions. Self-management for

elderly people with chronic diseases is now widely recognised as a necessary part of treatment. Innovative approaches should focus on improving the mental health and quality of life of elderly people with chronic diseases. After reviewing international and domestic literature and the wide debates among researchers, we decided to adopt a chronic disease self-management approach to solve this urgent health problem for the elderly.

The Chronic Disease Self-Management (CDSM) approach has already been demonstrated to be useful for maintaining and improving patients' health behaviour and health status while lowering health care utilisation through improved self-management skills, self-efficacy and better communication with health providers in the United States, Canada and Great Britain (Lorig et al. 1999; Holroyd & Creer 1986; Lorig et al. 1993; Watson et al. 1997; Fu et al. 2003).

In 2002, we conducted a randomised controlled trial of chronic disease self-management in Shanghai, China (Fu et al. 2003). The study showed that treatment subjects, when compared with controls, demonstrated significant improvement in one of four self-management behaviours. The people who were given treatment increased their scores by 0.33 in average when practising cognitive symptom management, and we found that the treatment group increased 0.69 and 0.63 in their scores, respectively, in self-efficacy (SE) to manage symptoms and SE to manage disease in general. They also demonstrated significant improvements in nine indexes of health status (self-rated health, health distress, fatigue, shortness of breath, pain, disability, illness intrusiveness, depression and social/role activity limitation). They also had on average fewer visits to the emergency room and fewer hospitalisations. This study demonstrated that CDSM programmes were culturally acceptable to the Chinese. This generic self-management education programme improved participants' health behaviour, self-efficacy, parts of their health status, and involved fewer visits to the emergency room and hospitalisation after 6 months through locally based delivery models and the integration of routines of community government and community health services.

In the second half of 2007, the Health Promotion Committee of Shanghai adopted the recommendation of the study of a "community-based project of



self-management of hypertension” run by the School of Public Health, Fudan University, and disseminated chronic disease self-management in Shanghai. Powerful policy support, defined responsibilities for the different actors and active participation from the relevant population promoted CDSMP as a tool for the prevention and control of chronic illness. Up until 2012, 280,000 people (mostly elderly) participated in these activities. Under the principles of doctor-patient cooperation, mutual aid and self-management, CDSMP succeeded in creating a supportive environment for chronic disease prevention and control.

Based on an evaluation of the CDSMP by us in 2011, 63.6% of group members had sufficient interactive health literacy. The survey of community residents indicated that the percentage of residents who participated in the chronic disease self-management groups and had sufficient interactive health literacy is higher than those who did not attend. Gender, age, education, having a chronic disease and self-efficacy are related to the interactive health literacy score. Out of the whole chronic disease group, members with hypertension had the highest morbidity. The others are arthritis, cerebrovascular disease and diabetes, in sequence. Gender and social support are related to the control of hypertension. In addition, 34.6% of group members increased their physical activity significantly, and 45.1 slightly; 32.5% of members increased their vegetable and fruit intake significantly and 46.0% slightly; 24.9% and 58.0% of members decreased their salt intake significantly and slightly respectively; and 28.3% and 55.4% of members decreased their oil intake significantly and slightly respectively. Women tend to be better at life behaviour improvement than men.

The qualitative analysis showed that after members had participated in the self-management group, mutual exchange and gaining a good mood are the biggest harvest. The quantitative results show that education, self-efficacy, interactive health literacy and social support are influencing factors for resilience. The quantitative and qualitative analysis indicated that group members participate widely in community activities. We found that 58.8% of members take part in voluntary activities, 50.6% take part in activities organised by residents’ committees or street agencies and 47.8% participate

in interest activities. Partial correlations analysis showed that structural social capital is positively correlated with cognitive social capital. The more members participate in social activities, the higher reciprocity and degree of trust they will have. While social role limitation is related to structural social capital, the social support that members obtain is related to cognitive social capital.

In conclusion, the effectiveness of the implementation of CDSMP in Shanghai is remarkable. The following actions are key elements: recruiting participants and volunteers through public announcement; providing a place with facilities, including teaching and training; linking with physicians and health providers; training across the levels; organising group activities, and; ensuring sustainability. Identified responsibilities, the integration of multiple resources, and emphasis on evaluation can make CDSMP an efficient and effective mechanism for preventing and controlling NCDs and achieving improved health outcomes in patients suffering from NCDs, especially the elderly.

## 5. Innovations in elderly care in the Nordic countries

### 5.1. *Introduction: Situation and challenges*

Many European countries are experiencing concern about the demographic changes in the population. The declining fertility rate and numerous cohorts from the post-Second World War baby boom fading out of the labour market are challenges for both the pension system and the economy, as well as the caring system. The challenges faced by the caring system are the focus for this section, especially the need for labour, or caring hands. The diagnosis is that too few people have to care for too many frail and elderly people. But the Nordic countries<sup>1</sup> do not have the most challenging ratios between the generations. In Japan, 15% of the population is already more than 70 years old, and the UN demographic trend analysis expects that by around 2050, 40%

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1 Only data from Denmark, Finland, Sweden and Norway are included in this chapter.

will be more than 70 years old. Many countries in the South of Europe, as well as Asian countries such as South Korea and Singapore may have 30% of the population over 70 years by 2050. The Nordic countries are expected to be closer to 20%, rising from the situation today where about 10% of the population is aged above 70 years.

Immigration and a relatively high fertility rate are the reasons for the Nordic countries being in a comparatively fortunate situation. But there still is a demanding task to find a sustainable solution for care in the future. The rest of this discussion is about the efforts to find solutions to handle the situation. We find many similarities between the Nordic countries, but also some variations. These variations will not be covered in this chapter. Much has been written about the Nordic model: is it still a common model, and what are the main features? A relatively large public sector and public responsibility for elderly care are still common features, but different solutions are being tried and used to meet this responsibility. Most attention will be paid to the Norwegian situation. Because of the fortunate economic situation in Norway, the country has probably been able to maintain the model with the strong public responsibility to a larger extent than its neighbours.

This chapter is about three of the main paths to innovations in elderly care in the Nordic countries, which we have labelled privatisation, use of caring technology and extended use of voluntary work.

It is important to underline that the choice of innovative solutions to the caring problem is not only a function of the democratic challenges and their connected needs: the choices of solutions are filtered through the ideological lenses of the decision makers as well. This is especially true for the debate about use of private providers.

One important starting point for discussing innovations in elderly care in the Nordic countries is that it is a public responsibility. Offspring are not automatically committed to caring for their parents. Many sons and daughters are heavily involved in helping their parents, but they cannot be expected to do it. Sustainable solutions for the elderly cannot take family care for granted.

## 5.2. *Privatisation*

From a historical point of view, elderly care in the Nordic countries was for a long time a private concern, a duty for the family and the local community. With the introduction of the welfare state, and especially after the Second World War, the public authorities took the responsibility for establishing basic pension schemes, to ensure the economy. The pension system was constructed mainly to meet the demands in the workforce, modelled for male workers. Later on, public caring services were established (kindergartens, elderly services, etc.). This made it easier for women to join the workforce (Anttonen 2002). At the end of the last century, all of the Nordic countries had a public caring system with nursing homes and home care as the cornerstones. The municipalities were responsible for most of the expected services within their borders. But the municipalities had difficulty meeting the expanding demands and costs. Since the 1980s, the political climate had changed in the Nordic countries, influenced by neo-liberal politicians such as Thatcher and Reagan. In some countries, right-wing political parties gained power in the elections, but in other countries the socio-democratic parties (left-centre) stayed in power, but adapted to the strong political winds and introduced New Public Management (NPM) ideas as part of their own policy (for instance, Persson in Sweden and Stoltenberg in Norway).<sup>2</sup> In terms of elderly care, this meant that nursing homes and home care could be contracted out to private actors. Using market mechanisms in this context was supposed by its supporters to result in better and more efficient services.

Privatisation here means that we have private providers. But the responsibility for having an offer for the elderly, and the responsibility for financing the services, is still a public task. And the situation is far from a perfect market, since the ‘customers’ (the frail elderly) are not actors on the market. The actors on the market are public employees, acting on behalf of the municipalities. The level of service is decided by politicians and public officers in the municipalities. Seen in a ‘Post-Second World War’ perspective, the use

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2 Both were prime ministers from the Social Democratic Party

of private actors was an innovation, and this way of using the market had never been tried before. Privatisation in the old days meant the involvement of civil society, mainly the family.

Contracting out services means that many actors can be invited. In some places, public employees were enabled to be a group in the competition, and both for-profit and non-profit actors participated in the competition. Non-profit actors have often been idealistic organisations like the Salvation Army, The Church City Mission, the Red Cross and others. For-profit actors have been national and international firms.

In Denmark, 'free choice of provider' in home care was introduced in 2003. This implies that the municipalities are obliged to ensure that there is both a public and a private provider to select from, so that users have a real choice. By 2011, 34% of home care users were making use of a private-for-profit provider. So far, no studies have reported economic effects, or changes in quality, caused by the introduction of private providers (Bertelsen & Rostgaard 2013).

Finland had a late start of the market for for-profit provision in the 2000s. Within eldercare, intensive service housing is most extensively outsourced by municipalities: the share of public provision was 38% in 2010. Marketisation has been most intensive in services designed for people in vulnerable life situations (as eldercare) and in housing services (Anttonen & Karsio 2013).

In Sweden, 20% of home care hours and 20% of the beds in nursing homes are contracted out to private providers, and the large majority to for-profit providers, in the form of international firms (Erlandsson et al. 2013). Statistics Sweden (2012) has estimated that the profit for private providers in welfare in 2010 was about 8.1 billion SEK (1 billion euro), equivalent to the salaries for 20,000 jobs in the services.

Norway still seems to be the most reluctant actor in privatising elderly care, since only 6.5% of the work was being conducted by private actors in 2011 and only 8% of the total costs bought from private actors. Out of a total of 1,050 nursing homes, only 16 are run by for-profit private actors. (Vabø 2013.)

Both Sweden and Norway have had scandals in private nursing homes, where the media has documented unacceptable conditions for both employees

and pensioners. The main expenditures in elderly care are salaries to the employees and the costs of the supplies given to the elderly (food, extra activities, etc.). If private actors are to be profitable for their shareholders, the firms will often have to find reductions in these areas.

A large status report on research about contracting out public tasks, based on international studies in 2000–2011, concludes that so far there is no support for a conclusion that private actors conduct their tasks cheaper or better than the public sector itself does. The documented effects for employees are mainly negative (Petersen et al. 2011).

### *5.3. Use of caring technology*

None of the Nordic countries have been front-runners in developing technology in caring, in spite of many projects testing single elements. New solutions for lifting and carrying patients have been used in nursing homes. Lifting patients is an important factor causing musculoskeletal problems for employees in the field. While lifters are obviously a great help in institutions, there has been hesitation to use this in home care, so as not to transform the private homes into mini-institutions.

As a general conclusion we may say that ethical considerations have been a constraint factor in using the available technological solutions. Using microchipping technologies on elderly people with dementia would make it easy to track them if (when) they wandered away. Up until now, the use of such chips has been seen as not respecting the dignity of the users.

But now the authorities recognise that they must take advantage of technological developments. Norway can serve as an example. In a White Paper to the Norwegian parliament (Meld. St. 29 (2012–2013)) many supporting devices are mentioned, and it is recommended that the public sector now tries to use accessible technological solutions in an innovative way, to improve matters for both users and employees. Saving money is a driver for change.

The White Paper lists different sorts of devices, but it also mentions that these technological devices must be placed into their organisational context. Technology influence the organisation, and organisational frameworks may stimulate or undermine the use of technology.

*Alarms, sensors and detectors* have already been introduced, especially equipment that makes it possible for the frail elderly to call an alarm centre when needed. But much more advanced technology is available for checking sufficient dressing, whether the kitchen has been used, etc. the ‘intelligent home’ is a concept that can be filled with solutions that make it both safer and easier for frail people to stay in their own homes longer – which is seen as an important goal for elderly care in the Nordic countries.

*Equipment for travelling* are of course used already, both walkers and motorised chairs/cars. This is probably the area where it has been most easy to introduce technology, because it so obviously benefits the users. If mobile lifters are included in this category, they represent, as mentioned above, a more problematic device.

*Robots* are not used as assistants in care so far: here the non-human approach is seen to impact the dignity of the elderly. Robot animals are randomly used, and they seem (from the newspapers) to have been a success, but we do not yet have any systematic evaluations. Here the costs are also high now. Robot suits (external skeletons) that can make it possible to use limbs with reduced capacity are mentioned in the White Paper, but not used systematically so far.

Home carers in the Nordic countryside spend much time travelling to and between the users. Communications technology which enables helpers and the receivers to communicate can be time-saving and lead to better care, since some of the saved time can be used for contact. The field of telecommunications has developed quickly over recent last decades, and we used to say that the young generation adapted fastest to new technologies. But it is not impossible to use the new possibilities to improve the situations for the frail elderly. ‘Skype-parenting’ is used for parents at a distance. The Skype-grandparent is a similar category, but more important are the possible

innovations in care. Technology that is already available can be used much better for caring tasks, and this is a challenge for the authorities.

Much can be gained by using available technology, both in capacity and quality, but it will not give a dramatic reduction in costs. Technological devices can be expensive, need to be used by competent personnel and require maintenance.

#### *5.4. Extended use of voluntary work*

Despite the fact that the family has no formal obligation to give assistance to their elderly, many people do. In Norway, it is estimated from research that the voluntary work in caring is equivalent to 100,000 full-time workers (Rønning et al. 2009). Voluntary work for family, friends and the neighbourhood has always been important in the Nordic countries. Social capital at the system level is based on trust, and people can build up social capital helping others (Rønning & Starrin 2009). It is obvious that if all voluntary contributors withdrew their activity, the caring system in the Nordic countries would break down immediately. This is a good argument for nurturing the voluntary helpers and developing a systematic policy for more voluntary work. The above-mentioned Norwegian White paper (Meld. St. 29 (2012–2013)) about innovations in care introduces a programme for expanding voluntary work as an innovation.

Voluntary work in care can be organised in different ways. Traditionally, large non-profit organisations such as The Red Cross, the Salvation Army, and other religious and humanitarian organisations have been active in care. They have also been innovative at different stages, in building new institutions and establishing new services. They engage a many people in their caring activities, and they even give them training to practise their unpaid caring tasks in the proper manner. The non-profit organisations have also participated in competition for running nursing homes and other care tasks, but they do not seem to compete well with international firms in this respect (Erlandsson et al. 2013). Many people do not want to become a member of the above-



mentioned organisations, and do not want to commit themselves to long-term duties, but would like to do some voluntary work. To make use of these resources, voluntary centres have been set up to engage them. These centres are organised by different actors, or groups of organisations. They can also be organised by public actors, and obtain public support. Many kinds of care work can be done from these centres: visiting people, assisting them visit the doctor, shopping for (and with) them, etc. Studies show that many voluntary hours of care are accumulated from these centres (Rønning 2011), but there is also a cost involved in the administration of the centres, which have to be registered. In a city with 10,000 inhabitants, the work generated was equivalent to 4.7 full-time jobs, but they needed one full-time position to organise it, so the gain for the community was only 3.7 full-time jobs.

A small study among people caring for family members (spouses) with dementia at home, revealed, amongst other results, two elderly persons (88 years) who were full-time care workers. It is estimated that 2.5 employees are needed to take care of one person in an institution, so these two elderly people saved society the cost of 5 full-time carers. It is therefore obvious that more money can be saved if spouses and other family members are supported to take on care duties that they can, and want, to take.

This can be a main reason why cooperation with the informal voluntary caring activities (family, friends, neighbours, etc.) is focused on in the above-mentioned White Paper.

The first thing to recognise is that there is not a large pool of unused caring resources out there. We do not have any empirical evidence to support such a conclusion. But we must believe that there is some unused capacity for more care, if the conditions are optimal. Besides the volume of the informal care, it is important that the quality of care given by people with a personal relation to the receiver is good. It is important to take care of the relation for the sake of both the giver and the receiver.

Innovations in this field can take different forms. It is important that public services are organised to meet the demands and situation of the voluntary actors. Voluntary actors cannot be forced to do anything. The public sector

has to take the role of a gardener who should nurture the voluntary resources to make them blossom.

This implies some challenges for public (and professional) services. The public services are formally organised and have their models and routines. If they believe that the informal helpers can be fitted into this same system, they may run into problems. Informal help must be met on the voluntary helper's terms and conditions. The formal system will tend to use standardised (and evidence-based) models if possible, while cooperation with informal helpers needs to be flexible. If the public care services want to cooperate, they need to see every person's informal network as unique and discover how they can find the best interaction. Contracting out home care may imply difficulties here, because an established relation between a purchaser (the municipality) and a provider will be based on a contract which defines duties and costs, since the duties towards informal carers not can be defined in advance. Use of contracts for the providers will imply a rigidity that make a flexible cooperation difficult.

Another challenge is for the professional actors to accept the competence of amateurs. What kind of tasks can be left for non-professionals to conduct? On one end of the scale, we have medical tasks that definitely should be left to qualified personnel. On the other end we have caring given to people with whom the carer has an affective relationship, where both parties want to give care to the other person. Here we are all amateurs. But in between is a large grey area. Reports from the field, and a nursing home that has tried to include volunteers systematically for twenty years, show that professionals are still sceptical about the presence of volunteers (Rønning 2011). In a study many years ago we clearly observed how professionals tried to avoid sharing tasks with informal helpers. The tasks that can be covered by amateurs can be expanded if the professionals educate them. This would be an innovation and could improve the quality of the care, give more tasks to the informal carers and result in a closer relationship between the two groups.

Models for better cooperation between voluntary carers and professionals can easily be seen as incremental innovations and may result in improvements in terms of both quality and capacity. This can lighten the burden on the

public system, but it will not change the situation dramatically. Neither is there a huge pool of unused carers in the field, nor is it free to engage them in a cooperation. A voluntary/public model will need administrative resources.

A conclusion that can be drawn from this dive into the Nordic, and especially the Norwegian, debate about the future organisation of care is that no radical innovations have been mentioned so far. Technological innovations can be developed to show radical innovations, but it may be difficult to get political support for a model that leaves the elderly to robots and non-human contact.

In Norway, the most radical proposal was mentioned in the Green paper on Innovations in care (NOU 2011:11), precursor to the above-mentioned White Paper. This proposes that all young people take a mandatory 'Solidarity service' in care. Mandatory military service has been reduced to only a small part of the cohort, so this opens up a new use of this group (including women). This proposal would expand the capacity in care significantly, and could be a radical innovation. But politically it may be controversial, and this proposal was omitted in the eventual White Paper.

The Nordic municipalities have an imperative to improve their services continuously, and some of the efforts here may also be quite useful for the care sector. Many municipalities are involved in LEAN work, more or less based on the Toyota model. If they can make services 10–15% more efficient without reducing the quality, that will help a great deal.

One of the most interesting and best known innovations in the Nordic countries is the Fredricia model, developed in the municipality of Fredricia in Denmark. Many municipalities both in Denmark and neighbouring countries have visited Fredricia to learn and draw inspiration. Their model for innovation in elderly care is well known now. The project is called 'As long as possible in your own life', and the basic idea is to see the elderly as active people with resources that can still be activated. Fredricia has a population of about 50,000 inhabitants, and two years ago 600 people receiving home care were reported to have gone through a rehabilitation programme. Of this group, 4% came out as self-reliant, and 41% needed less care than before. The programme reduced the use of caring hours delivered by the public sector by 33%, which gave a

significant saving for the municipality (Danske kommuner 22/2011). If this model should turn out to be sustainable in the long run, this is probably the most innovative caring model with a documented effect so far.

## **6. Conclusion**

The dimensions of the challenge of the ageing population are different in China and the Nordic countries. But both places are experiencing the need for the public authorities to engage in taking care of the elderly. In China, social changes, such as rapid urbanisation, have created a caring deficit. In the Nordic countries, the public authorities have long accepted the responsibility for taking care of the frail elderly. Different ways of solving the care deficit problem have been tried, but no one has found a robust way of handling it. A further exchange of ideas and innovations is needed.

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The so-called Nordic model is a benchmark and concept that has attracted international attention. At the same time, China's ever-more significant role in the globalised economy has increased international interest in the preconditions of China's economic growth and associated structural transformations. For their part, the social aspects and impacts of these transformations have inspired discussion, in China, as well as internationally, of various models and paths of welfare policies. Debates on models may focus on persistent path dependencies or on transferable knowledge about best practices to be utilised in policy learning.

*Reshaping welfare institutions in China and the Nordic countries* contributes to this current discussion. Nordic and Chinese researchers on welfare policies discuss normative and institutional characteristics of the Nordic and Chinese societies from a historical perspective. Furthermore, two major areas of current welfare policy in both China and the Nordic countries are examined, namely the problems and solutions associated with migration and labour market mobility, and those associated with the ageing society.

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