

Chapter 2

Employment and Social Security Under the Planned Economy: 1949–1978

2.1 Origin of the Employment Security

2.1.1 *The Original Ruling Purpose to Protect Laborers and First Systematic Experiments*

On October 1, 1949, the People's Republic of China was declared to be founded. After 18-year-long fights, the CPC finally won the state power and began to realize its promise of seeking benefits for laborers, workers, and peasants, but it was not easy.

Right after Liberation, China just stopped suffering from long-term wars. Not only did the economy lag behind, but also materials, even necessities like coal, food, and cotton were severely scarce. Kuomintang Government issued excess currency, leading to a hyperinflation. And immoral merchants cornered the market, leading to soaring prices. What was worse, the traffic was almost completely ruined. In 1949, total unemployment in cities reached 4 million and war victims in rural areas reached 40 million. The most urgent task for the CPC was to restore production, stabilize price, guarantee supply, and improve people's livelihood.

To rebuild China with a weak economic foundation, especially when immoral merchants bid up prices, the Central Government first worked on the labor system. It abolished the "labor-contractor system" in factories, mines, portage, and building industries, eliminated some gangsters' excessive, irrational salaries and benefits, and decided to calculate salaries based on goods such as food and other living necessities. Thus, fluctuating prices could no longer impact workers' life because salaries also changed according to the market. For example, for workers in Beijing, their salaries were calculated according to the level before Liberation and converted into a certain quantity of millet which would be converted back into currency according to the list price of state-owned companies on the payday. In Tianjin, salaries were calculated with maize flour. Later, more necessities were used, such as wheat, cooking oil, salt, homespun, coal, and rice. In this way, laborers

were assured of necessities even in case of great price fluctuations, and the market was gradually stabilized. But obviously, to implement a risk-shared social insurance system through levying tax became impossible. So this distribution method was just an expedient, and the CPC would realize its promise for laborers in a more fixed way.

The first document to realize this promise is the *Common Program of the Chinese People's Political Consultative Conference* (hereinafter "Common Program") passed on the First Plenary Session of CPPCC on September 29, 1949. The Common Program, working as a Provisional Constitution, proclaimed the establishment of the People's Republic of China, and stipulated New China's state system as well as form of government. Most important, it confirmed that the state power was based on the alliance of workers and peasants, led by the working class and was of the people's democratic united front composed of the Chinese working class, peasantry, petty bourgeoisie, national bourgeoisie, and other patriotic democratic elements.

Protecting laborers' benefits was the ruling basis for the new government. The Common Program clearly pointed out that the People's Republic of China must protect the economic interests of workers, peasants, the petty bourgeoisie and the national bourgeoisie, and protect women to enjoy equal rights with men. It also stipulated that "an eight to ten-hour day shall be enforced," "minimum wages shall be fixed" and "inspection of industries and mines shall be carried out." Article 32 proposed, "labor insurance shall be gradually established," which was a promise the CPC had always insisted on since its establishment. In order to implement the Common Program, the Government Administration Council entrusted relevant labor departments with the task of summarizing the CPC's practice in Liberated Areas as well as Base Areas and learning from experience in other countries to draw up the *Labor Insurance Regulations of the People's Republic of China (Draft)* in 1950. The government publicized this draft to the whole society and sought suggestions. On the day of publication, newspapers were immediately sold out and people of all classes actively participated in the discussion. Later after amendment, the *Labor Insurance Regulations of the People's Republic of China* (hereinafter *Labor Insurance Regulations*) were passed on the Council's 73rd meeting on February 23, 1951,¹ stipulating insurance benefits for laborers and their dependents under such circumstances as illness, childbearing, old age, injury, and death.

In terms of laborer protection, the Regulations showed essential differences between old and new state powers, and consolidated the new power's legitimacy. The slogan "Socialism is great. No need to worry about childbearing, old age, illness or death thanks to the labor insurance." became very popular. Li Lisan, then Minister of Labor wrote on *People's Daily*:

Workers all over country applauded the labor insurance system. Although there are many difficulties to overcome: our national finance and economy have just begun to improve, and the Korean War is ongoing, we still implement the labor insurance and offer subsidies,

¹Labor Insurance Regulations of the People's Republic of China (1951b).

indemnities and relief in order to solve problems including childbearing, old age, illness, death, injury and disability from which workers suffered the most. It is obvious that the government is highly concerned about workers' sufferings and problems. In discussions, some workers said, "Factories only focus on young people who are vigorous enough to work while old workers are always laid off. We have never imagined to get pensions after retirement." Some talked about their own experience, "My father, working for a railroad, died from an accident. At that time, we even couldn't afford a coffin for him. My mother with me went to the railroad bureau, kowtowed and begged for compensation, but only got some pieces of wood, without any indemnity." A woman said, "I worked for five years and was fired for four times because of childbearing. Now I can have an eight-week-long maternity leave with payment, and even birth allowances. I really cannot believe it." Thus naturally, after comparing life in the past with benefits of the *Labor Insurance Regulations*, laborers would shout, "Long live the government! Chairman Mao is our savior." This response illustrated the great political significance of the *Labor Insurance Regulations*.²

In early documents, labor insurance and social insurance were always confused. In the New China, the Common Program provided a clear definition of the "labor insurance system," which was different from the "social insurance system" generally used in industrialized countries. Beneficiaries of the "labor insurance" in the *Regulations* were specific workers, mainly those in key industries, not including peasants, handicraftsmen, merchants, and other workers. They represented just a very small part of workers. As Article 2 of the *Labor Insurance Regulations* stipulated

Their application shall be limited to the following enterprises for the time being:

- (1) State-operated, joint state-private, private and cooperative factories, mines and their subsidiary units and business management organizations, each of which employs more than 100 workers and staff members.
- (2) Each railway, shipping or postal and telecommunication enterprise and its subsidiary units.³

Even in Shanghai, the largest industrial city at that time, only 14% enterprises employed more than 100 workers and staff members. Thus, the *Labor Insurance Regulations* covered neither rural population nor many urban residents.

In the draft, banking industry was covered by the labor insurance but in the final version, banks, government agencies, and education institutions were all excluded. On December 10, 1950, when the draft was publicized, the former vice-president of All China Federation of Trade Unions (ACFTU) Zhu Xuefan said in the training class for labor insurance officials in Tianjin ACFTU Official School:

The essence of our *Labor Insurance Regulations* is to protect laborers all over China, which is already clearly pointed out in the first Article. Article 1 stipulates that these Regulations are formulated for the purpose of protecting the health of paid laborers and easing special difficulties in their livelihood.⁴

²Li (1951).

³Labor Insurance Regulations of the People's Republic of China (1951a).

⁴The Labor Insurance System of the New China—Remarks of Zhu (1953).

According to calculation, at that time, there were 15–20 million laborers in China.⁵ In 1952, urban residents only accounted for 12.46% of the total population, paid laborers were even lower. Thus, although the labor insurance was applicable to all laborers, the coverage was still very small compared with China's total population.

After 3 years' economic recovery to the end of 1952, China's gross value of industrial and agricultural output increased by 77.5% compared with 1949, 145% for industrial output and 48.5% for agriculture. People's livelihood began to be improved, with an average growth of 70% for salaries. But our economic foundation was still weak, individual economy (mainly small-scale peasant economy) represented 71.8% of national income, while state-owned economy was only less than 20%. That is why labor insurance could not be implemented in a full-scale.

With further economic recovery, labor insurance coverage gradually expanded. In 1953, the Government Administration Council amended the *Labor Insurance Regulations* to improve benefits and cover more people, including staff in state-owned construction companies and construction units of factories, mines, and transportation enterprises. Later around 1956 when socialist transformation of handicrafts and private commerce was almost completed, the government extended labor insurance to all state-owned companies. Some large collective enterprises in good economic conditions also implemented or referred to the Labor Insurance Regulations and improved retirees' benefits. People who enjoyed the labor insurance were mainly nonagricultural population in cities, which according to statistics in 1957, only accounted for 15.39%⁶ of the total population. And among these urban residents, many still had no access to the labor insurance.⁷ Therefore, although insurance coverage was expanded, beneficiaries were still the minority.

In the book *Wage, Welfare and Social Insurance for Contemporary Chinese Employees*, three important reasons were given to explain why in early days of the New China, we chose such social security system: (1) Limited government financial resources could not afford a large system that covered all enterprises, so the government had no choice but to enable part of workers to enjoy benefits first and then expand insurance coverage when the country got richer. (2) At the initial stage, the new government lacked experience, so it needed to accumulate experience through pilot programs and then spread successful models. (3) Enterprises with more than 100 workers and staff members were more stable in employment and operation, and were able to pay insurance premiums regularly. While for small companies, to pay a fixed amount of insurance costs at fixed time was difficult, so this system was not suitable for them.⁸ In conclusion, the small coverage of our first labor insurance was

⁵Ibid.

⁶Central Archive of Chinese Academy of Social Sciences (2011).

⁷According to statistics in 1958, among urban residents at an age of between 16–61, only 60.87% were employed.

⁸Yan (1987, pp. 302–305).

decided by financial resources, national development requirement, and labor organization.

Above explanations clearly illustrate major issues to which the new government paid attention when planning the New China's social security system. Limited coverage of the labor insurance is determined by realistic conditions instead of political will. Among the three explanations given in the *Wage, Welfare and Social Insurance for Contemporary Chinese Employees*, the first two are from the perspective of the country, illustrating that the new socialist country should take improving people's welfare as its governing goal, but at the same time, it should also prudently choose appropriate method and occasion to achieve its basic goal of protecting and serving people. Thus, it had no other choice but only pragmatic idea and method for governing. The third explanation points out that the social security system should be established in accordance with the law of development, namely, the social security should be linked with employment, and rights should be linked with responsibilities. Although neither documents nor explanations concretely illustrated connection between employment and labor insurance, it is obvious that without regular insurance payment, social insurance could hardly cover all people or laborers due to limited financial resources in our country. Minister Li Lisan further pointed out that, in such financial conditions, the government could hardly fulfill its commitment to provide protection over laborers.

Li Lisan's Opinion on the Coverage of *Labor Insurance Regulations*.⁹

Article 1 in the draft stipulates that the Labor Insurance Regulations are applicable to all paid laborers. However, current economic conditions and our lack of experience decide that we could only try out in key enterprises first, namely, to try from factories and mines with more than 100 workers and staff members and some industrial sectors with national administration and sound industrial trade unions, because in such factories with sound administration system and trade unions, labor insurance is easier to implement and manage. Although these factories are less than those with fewer employees, they have more workers. For example in Shanghai, among 16 industries, there are 5315 factories and 415,596 workers, factories with over 100 employers only account for 14%, but their workers account for over 80% (333,400 people). What's more, the draft also stipulates that with regard to the labor insurance of the enterprise beyond the limits of Article 2, the administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract to stipulate it on the principles of these Regulations and in accordance with the actual conditions of the enterprise. We know workers in small factories live a more difficult life and thus need more protection, but these scattered and disorderly factories can hardly be organized in short time to implement labor insurance. When insurance system functions well in big factories, experience is accumulated and trade unions are established in small factories, we could spread this system to small factories and

⁹Li (1951).

enterprises. Staff in government organs, educational institutions, and other organs who are not included in the Article II also badly need the labor insurance, but since the current national financial resources are limited, and the state needs to concentrate resources on the urgent task of national defense construction, they could not enjoy the insurance for the moment, when the economic condition turns better in the future, the insurance coverage will be gradually expanded. This approach is also in line with the Article 32 of the Common Program which stipulated the progressive introduction of the labor insurance system. In addition, the Article II in the draft included bank employees in the labor insurance, but after careful study, we thought we should mainly focus on industrial, mining and transport enterprises currently, because employees in these enterprises assume more heavy work but get lower wages, so their need for labor insurance is more urgent. That is why we eliminate banks in the final version. Bank workers please wait for some time, and when the labor insurance is widely spread in the future, they can also enjoy the insurance benefits together with staff of trade companies, tax authorities, and other organs.

The labor insurance stipulated in the Regulations was different from the social insurance system or social security system implemented in Western countries in terms of content and enforcement method. Take the payment of labor insurance funds as an example, according to the *Labor Insurance Regulations*, all the payment shall be borne by the administration or capital of each enterprise which practices labor insurance.

Relevant Regulations On The Collection And Maintenance Of Labor Insurance Funds Stipulated In The 1951 *Labor Insurance Regulations*.¹⁰

Article 7. All the labor insurance payment stipulated in these Regulations shall be borne by the administration or capital of each enterprise which practices labor insurance, part of them be directly paid by the administration or capital of the enterprise and the other part to be handed over by the administration or capital to the trade union organization for disposal as labor insurance funds.

Article 8. The administration or capital each enterprise which practices labor insurance accordance with these Regulations shall, by the month, pay the amount which is equivalent to 3% of the total of the wages of all the workers and staff members of the enterprise for use as labor insurance funds. These labor insurance funds shall not be deducted from the wages of the workers and staff members nor be separately collected from them.

Li Lisan believes that one party is chosen to totally bear the labor insurance obligations mainly due to the leaders' understanding on socialism.

The draft stipulates that all the labor insurance payment shall be borne by the administration or capital of each enterprise which practices labor insurance and laborer shall pay nothing. This method is totally different from that in capitalist countries, where according to the "risk sharing" capitalist principle, all or most insurance payment is borne by employers. Thus, labor insurance is actually an exploitation of the working class, which can be proved in the United States.

¹⁰Labor Insurance Regulations of The People's Republic of China (1951b).

The draft stipulates that the labor insurance payment shall be divided into two parts. One part shall be directly paid by the administration or capital of the enterprise and the other part, which is equivalent to 3% of the total of the wages of all the workers and staff members of the enterprise, shall be handed over by the administration or capital to the trade union organization for disposal as labor insurance funds. This method urges the administration or capital of enterprises to pay attention to labor protection. As the amount of medical costs, sick leave, injury leave, and wages during these leaves is connected with sanitary and safety conditions, if these expenses shall be directly paid by enterprises, in order to cut such expenses, they will definitely care about laborers' health and improve sanitary and safety conditions. And thus trade unions could be helped to reduce the illness and injuries of employees.

Among the labor insurance funds, 70% shall be used for laborers' insurance benefits, and 30% shall be deposited as general labor insurance funds for the All China Federation of Trade Unions to organize collective labor insurance. Based on experience in Northeast China, collective labor insurance played an important role in preventing death caused by disease and encouraging workers' passion on production. However, collective labor insurance always costs so much that not all enterprises could afford it, thus it needs the All China Federation of Trade Unions to concentrate resources to organize.¹¹

Apart from relieving laborers' burden and reflecting their position as master of the country, the government decided to only ask one party to assume social insurance responsibilities also because at that time, national budget was limited, organization of trade unions was not good enough, and the society did not have the awareness of balancing rights and responsibilities. But this small-scale and early labor insurance system was just an experiment rather than the CPC's governing goal. According to Li Lisan, the *Labor Insurance Regulations* were just the first step toward the socialist social insurance. Thus the 1951 *Labor Insurance Regulations* were provisional, as Zhu Xuefan said "As we just begin to implement labor insurance and the War of Liberation hasn't ended yet, we cannot realize a full coverage. But our labor insurance system will continually develop and expand. As even today's system already reflects a big progress compared with the provisional regulation in Northeast China, for the coverage has been expanded to private sector."¹²

2.1.2 Industrialization and Modernization as National Missions

For leaders of early New China, protecting laborers is closely connected with recovering and developing economy, and realizing industrialization and

¹¹Li (1951).

¹²The Labor Insurance System of the New China—Remarks of Zhu (1953).

modernization. The Common Program drew a beautiful blueprint of future social development for hundreds of millions of Chinese people, but to realize it still needs feasible method and appropriate transition. From October 1949 when the PRC was founded to the end of 1952, it was the period of recovering national economy, called the preparatory stage for socialist economic construction. In this stage, all policies should match with general goals of the stage.

From the end of 1949 to early 1950, the new government continually curbed four large-scale inflations, and gradually unified financial power. In March 1950, the Government Administration Council issued *Decisions on Unifying National Financial and Economic Work*, pooled most national revenue to the central government, and thus guaranteed national spending, achieved fiscal balance and currency withdrawal, stabilized prices, unified management on cash flow and material distribution and adjusted demand and supply all over the country.

With unified fiscal and economic policies, production soon recovered. First was traffic and transportation. Just in 1949, railways of 8300 km and 2715 bridges were repaired. In 1950, almost all railways were open, roads, water ways, and airlines were also restored. In rural areas, land reform was carried out to enhance cooperation on agricultural production. In June 1950, the central government promulgated the *Land Reform Law of the People's Republic of China* to help peasants restore production and encourage construction of water conservancy projects through loan, prices, and investment. In industrial sector, the government launched democratic reforms, abolished the labor-contractor system, innovated production technologies and working method, promoted industrial innovation, and enhanced the output. Under the target of restoring production, the output of state-operated industry reached an average annual increase of 57%, and its share in industrial output increased from 26.3% in 1949 to 41.5% in 1952.

Labor protection was the key to restore economy. After liberation, the new government's labor department immediately set about solving unemployment problems left over from the old China and took measures on employment promotion and unemployment relief. In May 1950, the labor department issued the *Regulations on Registration of Unemployed Technicians* to establish employment agencies; and in July, it issued the *Provisional Regulations on Relief for Unemployed Laborers*. Local governments started to register the unemployed in cities and took measures to cut unemployed population year by year, including recommending jobs and providing relief to extremely poor people. As for staff in bureaucratic capital enterprises before the Liberation as well as military and administrative personnel left behind by Kuomintang, their jobs were arranged by the government. According to the chorography of Nanjing, the original capital of KMT, after reorganization, 1/5 people were laid off, and the rest were professions and were arranged appropriately.¹³ The traditional working pattern was also reformed to practice workers' leadership. "Our experience is to involve cadres into

¹³Compilation Committee of Nanjing Chorography (1999, p. 59).

production and workers into enterprise management and reform the management system. Cadres' power is delegated to teams and trade union teams and administrative teams are combined with each other... relationship between cadres and workers are closer, for example workers call cadres as master rather than director. Such system will become richer if combined with the workers congress system.”¹⁴

In 1952, the Government Administration Council officially issued the *Decisions on Employment* and the *Regulations on Managing Unemployed Workers* based on local practices.¹⁵ At the same time, as students trained in colleges, polytechnical colleges, and technician training schools in the New China graduated and were seeking jobs, the government introduced a “job assignment” policy according to talent needs in economic construction.

However, although production and employment recovered, China was still an agricultural country that lagged far behind developed and even many other developing countries in industrial levels. Moreover, foreign threats still existed, like the U.S. supported the Kuomintang's ruling in Taiwan island, implemented economic blockade and embargo against China, and expanded invasion to North Korean, international security thus faced great challenges.

Under such severe international situation and with economic and industrial levels lagging behind, China chose strategies and systems that gave priority to develop the industry, especially heavy industry. The CPC's promise to protect laborers' rights was also realized with “Industry First” Strategy.

In early 1950s, decision-makers of the CPC and elites of China reached a consensus that underdeveloped industry was the root cause for all territory loss, people's sufferings and misery in modern China. Although China had a long history and brilliant civilization, it failed to catch up with the world in industrialization and modernization. “Lagging behind leaves one vulnerable to attacks,” is a lesson that we learned at the expense of blood. Chairman Mao commented that “What are we able to produce now? We can produce tables, chairs, teapots, teacups, grains, flour, paper, but not a car, an airplane, a tank, or even a tractor.” Thus since the New China was established, to develop industry, enrich our country, enforce military power, and resist foreign invasion are the most urgent tasks, as the *Common Program* declared “It must develop the people's economy of New Democracy and steadily transform the country from an agricultural into an industrial one.” The CPC's policies and lines, including the First Five-Year Plan, mainly focused on developing industry, especially the heavy industry. After the War of Independence, the CPC shifted its strategic priority to industrialization, which was frequently emphasized in important documents. The first Constitution of the People's Republic of China (1954) even stressed industrialization as the fundamental task, for the Preamble stipulated

¹⁴Edited by the China Contemporary History Research Center of East China Normal University (2012, p. 92).

¹⁵Edited by the Ministry of Labor and Social Security (2007, pp. 3–4).

During the transition the fundamental task of the state is, step by step, to bring about the socialist industrialization of the country and, step by step, to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce.

The First Five-Year Plan (1953–1957) also centered on realizing socialist industrialization and its major tasks were

Concentrate main resources on developing heavy industry and laying foundation for industrialization and modernization of national defense; develop communication and transportation, light industry, agriculture and commerce; and cultivate talents.

The First Five-Year Plan also set several goals, such as the total industrial output value increased by 14.7% annually, the total agricultural output value by 4.3%, infrastructure investment reached 42.74 billion RMB, steel output reached 4.12 million tons, and grain output reached 190 million tons.¹⁶

The First Five-Year Plan showed people's and the ruling party's strong will to construct China into a socialist industrialized country. But in order to achieve targets of the First Five-Year Plan in short time with such a weak industrial base and limited resources, the government must concentrate on manpower, financial, and material resources and effectively allocate them. This method was also shown in the 1954 Constitution which stipulated "optimal development for the state-owned economy," because this sort of economy serves as a leading power in the national economy and also the material basis for Socialist transformation. According to the First Five-Year Plan, the way to develop the state-owned economy first is to concentrate on 156 big projects with the assistance of the Soviet Union, focus on 694 big and middle-sized projects, and give priority to develop the heavy industry, thus China could build a preliminary basis for socialist industrialization.

The First Five-Year Plan was elaborated according to China's own situation and strength. It focused on industrial development, but also gave priority to improve people's livelihood. To implement the First Five-Year Plan, China on the one hand promoted rapid development for industrialization; on the other hand adopted flexible policies in diverse sectors of the economy, and thus struck a balance between the heavy industry and other sectors. In order to develop the heavy industry with limited resources, the government decided to control procurement and distribution of materials like grains, cotton, and oil, and adopted the free-supply system for labor remuneration. Owing to pressure from the international environment in 1950s, successful socialist practice in Soviet Union and also China's own will were to realize industrialization rapidly; China inclined to develop the heavy industry first at its early stage.

Rapid industrial development spurred the employment in industrial sector. In 1958, the Party put forward its general line as "to build socialism by exerting our utmost efforts, and pressing ahead consistently to achieve greater, faster, better and more economic results." Since then, all the steel industry, the heavy industry, and industrial production expanded enormously, infrastructure projects increased

¹⁶The First Five-Year Plan, <http://baike.sogou.com/v7627477.htm#paral>.

rapidly and thus created huge job opportunities. At that time, unemployment totally disappeared, graduates were directly allocated to industrial and mining factories through a “centralized labor allocation system” and even with rural labor force, labor demand in industrial sectors could not be satisfied. Thus women were also encouraged to leave home to participate in social employment.

2.2 The Labor Insurance Adapted to “Industry First” Strategy (1950–1955)

On February 26, 1951, the *Labor Insurance Regulations of the People’s Republic of China* were promulgated. These New China’s first regulations that aimed at protecting laborers’ rights, stipulated insurance benefits for laborers and their dependents under such circumstances as illness, childbearing, old age, injury, and death. With the Regulations, laborers were guaranteed to get pensions when they are old, receive medical care when they are ill or injured, and have paid maternity leave when they are pregnant. But as what has been mentioned above, the insurance benefits were tied to employment instead of being applicable to the whole society. Only enterprises with more than 100 workers and staff members were under coverage. At that time, China only had 12 million industrial workers, a very small proportion of the 500 million populations.

2.2.1 Three Different Urban Insurance Systems

Besides low coverage rate, the Labor Insurance Regulations of 1951 also stipulated two different insurance patterns for different enterprises: one is the national labor insurance system; the other is the collective contract system. According to the *Rules For The Implementation of Labor Insurance Regulations of People’s Republic of China* (hereinafter *Rules For the Implementation of Labor Insurance Regulations*), which were issued on March 26, 1951, as to enterprises that were not covered by labor insurance, administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract to stipulate insurance coverage and standards, and all insurance payment shall be borne by the capital of the enterprise. In early 1950s, the New China needed to be rebuilt with limited financial resources. At the same time, planned economy had not been established yet, and diverse forms of ownership still existed. To implement collective contracts could thus mobilize various resources and provide necessary insurance for laborers. However, such division led to the coexistence of two different labor insurance systems with different insurance levels. Even though joint state-private ownership and comprehensive public ownership were realized later, and planned economy was consolidated, such differences did not disappear until “Cultural Revolution,” due to low production level and living standard.

Clauses Concerning Collective Contract in the *Rules for the Implementation of Labor Insurance Regulations* issued on March 26, 1951.¹⁷

With regard to the labor insurance of the enterprise beyond the limits of Clauses (1) and (2) of Article 5, the administration or capital of each enterprise and its grassroots trade union committee shall consult with each other and enter into a collective contract which shall be submitted to the labor administrative department after conclusion. The collective contract should be made on the following principles:

- (1) The coverage of labor insurance shall be stipulated according to the enterprise's economic condition and laborers' needs
- (2) The benefits of labor insurance shall not exceed the standards stipulated in the Labor Insurance Regulations.
- (3) All insurance payment shall be borne by the administration or capital of the enterprise.

The insurance benefits stipulated in the *Labor Insurance Regulations* and collective contracts are different. According to the *Rules for Implementation*, a collective contract cannot include standards that are higher than those set forth in the Regulations. Thus, insurance scope and level in collective contracts are far behind those in the Regulations. In 1956, when state-owned enterprises were covered in the national labor insurance system, benefits for their employees were greatly improved. The following report from People's Daily revealed such changes.

Eight-hour Working System Will Be Applied to State-owned Enterprises, Over 35,000 Beijing Employees Begin to Enjoy Labor Insurance Benefits.¹⁸

From today, the Labor Insurance Regulations are applicable to state-owned enterprises in Beijing, and over 35,000 employees receive corresponding benefits. According to current wage level, the state will allocate 600,000 RMB insurance funds every year to ease laborers' difficulties caused by childbearing, old age, illness, death, injuries, and disabilities. With government subsidies for health and medicine, welfare and entertainment taken into consideration, the state should pay over 3.5 million RMB every year.

In the past few years, the collective contract system carried out in state-owned enterprises has improved laborers' living standards to some extent, but as funds and benefits were limited, many laborers still face difficulties in their livelihood, especially those who have several kids and need to pay all medical fees for their dependents, suffered from more economic challenges.

But from now on, their dependents may receive free medical treatment, and refunding proportion of their medicine costs will increase from 40 to 50%. Besides, administrative leadership and trade unions of state-owned commerce in Beijing also

¹⁷The Rules For The Implementation of Labor Insurance Regulations of People's Republic of China, *People's Daily*, March 26, 1951.

¹⁸Eight-hour Working System Will Be Applied to State-owned Enterprises, Over 35,000 Employees Begin to Enjoy Labor Insurance Benefits, *People's Daily*, July 4, 1956.

decided to help workers to clear their debts caused by feeding families, treating illness, and fostering too many kids. For example, Beijing Vegetable Company has already paid over 20,000 RMB for its employees.

From this report, big differences between the insurance level in collective contracts and that in the Regulations could be discovered. Especially the fact that “administrative leadership and trade unions of state-owned commerce in Beijing” paid debts for employees shows that for enterprises using collective contracts, insurance funds were mainly borne by the administration or capital of the enterprises, while for those covered by national labor insurance system, government authorities became the contributor of last resort. When deficits appeared, government authorities would use financial allocation to strike a balance. Thus in condition of economic slowdown, the national labor insurance system was more reliable than collective contract system.

The Labor Insurance Regulations are more standard, and may provide better benefits. On one hand, this is because the state took priority to develop heavy industry, and wanted to use favorable benefits to retain and reward talents that were in badly need. On the other hand, the Regulations were mainly applicable to state-owned enterprises, which could provide stable jobs, pay insurance contribution on time, and have good administration leadership and trade unions to implement labor insurance.

In addition to the Labor Insurance Regulations for enterprises, the state also issued regulations step-by-step to establish another insurance system for staff in government agencies, democratic parties, mass organizations, and public institutions. On December 11, 1950, the *Provisional Regulations on Praise and Pensions for Injured and Dead Revolutionary Army men* were issued to stipulate treatment for injury and death; on June 27, 1952, the *Instructions on Implementing Free Medical Care for Staff in Government Agencies, Democratic Parties, Mass Organizations, and Public Institutions* to stipulate medical insurance for government staffs; on September 12, 1952, the *Provisional Regulations on Treatment for Government Staff in Their Illness* to stipulate benefits during sickness; on April 26, 1955, the *Notice on Maternity Leave for Female Staff* to stipulate childbearing insurance benefits; on September 17, 1955, the *Notice on Medical Care for Children of State Organ Personnel* to stipulate medical benefits; on December 29, 1955, the *Provisional Regulations on Retirement of State Organ Personnel* to stipulate old-age pensions; and at the same day, the *Provisional Regulations on Resignation of State Organ Personnel* to stipulate benefits after resignation. These regulations stipulated insurance benefits for government staffs. All insurance funds were allocated by the state: (1) Funds for medical service were allocated by the state to Department of Health for use; (2) Expenditure for other benefits was disbursed from administrative and operating expenses.¹⁹

In summary, funding source for the above three labor insurance systems is as follows: (1) Insurance funds for government staffs are borne by government

¹⁹Yan (1987, pp. 310–313).

finance. (2) In terms of enterprises covered by the Labor Insurance Regulations, mainly large- and middle-sized state-owned enterprises that were established after joint state-private ownership and comprehensive public ownership had been realized; insurance funds are borne by enterprises themselves. But in fact, all deficits were covered by government finance. (3) In terms of enterprises covered by collective contract system, mainly middle- and small-sized enterprises, or those below county level in administration relationship, their insurance funds came from operating revenues of enterprises and also very limited government support.

2.2.2 *Dual Security System Between Urban and Rural Areas*

As the economy quickly recovered, coverage of the *Labor Insurance Regulations* also expanded. Until the end of 1952, 3861 companies implemented the *Regulations* with 3.02 million employees covered. If we take their dependents into consideration, about 10 million people were benefited.²⁰ On March 26, 1953, the Labor Ministry promulgated the *Rules for the Implementation of Labor Insurance Regulations* and according to anticipated economic recovery and acceleration of economic construction, decided to expand coverage of the *Regulations* and raise benefit standards.

On January 3, 1953, The Government Administration Council passed and promulgated the Decisions on Amendments of the *Labor Insurance Regulations of the People's Republic of China*.²¹

As our national economy has recovered and large-scale economic construction will be launched, we should correspondingly expand coverage of the *Labor Insurance Regulations* and raise benefit standards. But considering that the Korean War has not ended yet, and economic construction still needs a large quantity of money, we can only focus on issues relating to people's basic interests. And benefits of the working class and all people cannot be improved until production develops. Thus, we cannot over expand the coverage nor raise standards.

Until the end of March, 1953, the coverage of the *Regulations* gradually expanded to over 4400 companies, 39% larger than the coverage in 1952. In 1955, the National Bureau of Statistics promulgated *Provisional Regulations on the Composition of Gross Payroll*, applicable to companies, state organs, and public utilities. In 1956, the Labor Insurance Regulations was extended to more industries such as commerce, trade, food, finance, oil, civil aviation, geology, aquaculture, supply and marketing cooperatives, and state-owned farms. This extension was realized in two ways. First, the coverage of labor insurance was expanded as enterprises that used to implement the collective contract system converted to the

²⁰Li (1952), Yan (1987, p. 305).

²¹Yan (1987, pp. 306–607).

national labor insurance system. Second, we should implement the collective contract system in joint state-private enterprises.²² Until the end of 1956, the national labor insurance system covered 16 million employees, 4 times more than the beneficiaries in 1953, and the collective contract system covered 7 million employees, 10 times more than in 1953. Thus in total, there are 94% of employees in state-owned enterprises, joint enterprises, and private enterprises.²³ However again, as China was still at the beginning of industrialization, the beneficiaries only accounted for 2.6% of China’s 615 million population, and less than 20% of urban residents.

One reason for the small coverage of labor insurance is that China was still an agricultural society. Among the 615 million population (figure of 1955), over 500 million (86.5% of the total population) were in rural areas, living on farming and agricultural products. And among the 80 million urban residents, very few people were industrial workers, together with employees of public institutions and government agencies, they only accounted for less than 20% of urban population. Thus at the early stage of the New China, most Chinese people were still engaged in peasant economy, depending on land, while few people lived on wages, even fewer on stable wages. This situation lead to a totally different social security system in China from those in developed countries, and even some socialist countries with relative high level of industrialization, such as the Soviet Union and East European countries. At that time, China’s top priority was creating jobs, enlarging income sources for workers, ensuring their stable income, rather than immediately establishing the social insurance system.

Since mid-1950s, following the Soviet Union, Chinese government began to establish a planned economy system while promoting industrialization. But given the big development gap between the two countries, China adopted different approaches in rural and urban areas to implement the planned economy: collectivization was enforced in rural areas. And the land reform implemented in Liberated Areas by the CPC was continued in rural areas, which further promoted the collective economy. In collective system, farmers’ income is material objects instead of cash. The economic condition (barter system) and systematic condition (collective economy) determined that the social security system in rural areas would mainly focus on mutual assistance by providing farmers with materials and services, and it was totally different and separated from security systems in cities, especially those in industrial enterprises. In 1957, Premier Zhou Enlai particularly

²²110 Thousand Employees of Joint Ventures Enjoyed Labor Insurance in Shanghai, *People’s Daily*, p. 5, September 3, 1957. According to this report, in Shanghai, more than 110,000 employees of joint ventures of commerce, grain, and export began to enjoy benefits of collective labor contracts, including wages during the sick leave, maternity leave and for those who are injured during work, and also subsidies for people who become disabled, sick, or dead due to work.

²³Yan (1987, p. 307).

explained how to balance urban–rural relations and workers’ and farmers’ life in the *Report on Laborers’ Salaries and Welfare* on the Third Plenary Session of Eighth Central Committee.²⁴

New China’s special development stage and its industrialization policy determined different employment, salary, and welfare systems in rural and urban areas, and thus caused rural–urban dualism in China. Although between rural and urban areas existed flexible employment and labor flows, due to the First Five-Year Plan’s over emphasis on industry, especially heavy industry, agricultural production lagged far behind industrial production. The fast development of industry showed that China’s socialism has a system advantage in economic development, but also enlarged urban–rural gaps. Totally different security systems formed a barrier that blocked free flows of service and people. Rural residents were protected by collective economy, while urban residents enjoyed different protections according to their employment. Thus a “social security dualism” appeared, and was described by French famous philosopher Sartre who was invited to China in September 1955:

Farmers in many regions still live in a way like 1000 years ago. But now you decide to bridge this 1000-year gap in just 50 years, to thoroughly change your economic system, social structure and even your language, it is really a great undertaking. In Paris, we learn about and imagine it by reading your books and reports. But to understand this great course, we should come here in person. I visited big factories in Northeast, but also passed by countryside on my way back. In the same day, I visited blast furnaces in Anshan, but also bungalows in the countryside nearby where farming is still by hand. Every day, every sight, shows at the same time the China in the past and in the future. So only right here, can we understand that your current situation was composed of a great and vivid contradiction.²⁵

2.3 Labor Insurance System in Embryo (1955–1966)

Since mid-1950s, China has gradually established a social security system whose main body was labor insurance. However, this system still needed to be improved, because it was little “socialized,” just covering part of urban residents and other nonfarm payrolls, and the insurance coverage, benefits, and reliability were all different for different institutions, departments, industries, and enterprises. As to individuals, the benefits they could enjoy were not decided by their hard work, but the regions they live (whether in urban areas or not) and their jobs; therefore, under this system, people in different regions or different enterprises, enjoyed totally different benefits. In the course of improving the social security system, there were many contradictions, twists, and turns.

²⁴Yan (1987, p. 314).

²⁵Sartre (1955).

2.3.1 *Changing System of Labor Insurance: Fast Expansion and Unified Standards*

The social security framework was established in two aspects: first is to set payment standards for the labor insurance; second is to rapidly establish or duplicate the labor insurance system in various industries. These two trends developed in the same time, but standard setting lagged behind systematic development.

At first, the *Labor Insurance Regulations* were promoted very fast, and people believed that insurance benefits would improve employment stability, working passion and skills, and vice versa. In some factories, the labor insurance and its benefits indeed gave workers a sense of “mastership” and also thanks to patriotism labor competitions, the patriotic pledge movement and the campaign to increase production and practice economy, labor productivity was obviously increased in a short time. At the later stage of the First Five-Year Plan, the socialist transformation on the private ownership of the means of production was almost accomplished, thus the socialist economy represented a far bigger proportion in the national economy, and its share increased sharply. In 1952, the state-owned economy represented 19% of the national revenue, while in 1957, it went to 33%; the proportion of cooperative economy increased from 1.5 to 56% and public–private economy from 0.7 to 8%; while the proportion of private economy decreased from 71.8 to 3% and capitalist economy from 7% to less than 1%. Thanks to the vigorous Socialist Transformation and increase in labor productivity, coverage of the *Labor Insurance Regulations* expanded rapidly and benefits were obviously improved. Minister of Labor Li Lisan said on the First National Conference for General Directors of Labor Bureau “Not only did laborers need the *Labor Insurance Regulations*, but also administrators of public enterprises and progressive capitalists of private enterprises need these regulations as well. And in order to enhance laborers’ working passion and promote production, we need to promulgate such regulations even more.”²⁶ Therefore, the CPC considered the establishment of the labor insurance system as “a long-term national policy which should be constantly implemented.” On the Third Plenary Session of the Eighth CPC Central Committee, Premier Zhou Enlai particularly delivered the *Report on Issue about Labor Wages and Benefits*, and called for “gradually implementation of the labor insurance with the basis of industrial development.”²⁷

When elaborating standards and norms, China referred to the Soviet Union in all aspects. At that time, as industrial production just recovered, there was not national norm for products or manufacturing process. And standards for implementing the *Labor Insurance Regulations* were different in different enterprises. The Chinese government learned from the Soviet Union in terms of standards for industrial design, procurement, technical operations, technical training, production safety,

²⁶Yan (1987, p. 305).

²⁷Yan (1987, p. 314).

factory sanitation, machine maintenance and labor rules, and also learned standards for wage, insurance, and relevant benefits. It put forward a slogan as “Approaching Soviet standards within two years.”²⁸ However, our practice later proved that standard setting should be a long-term endeavor which could not be accomplished in merely one or two years.

In 1958, the NPC Standing Committee amended and passed the *Provisional Regulations on Retirement of State Organ Personnel*, the *State Council's Rules for the Implementing the Provisional Regulations on Retirement of Workers and Employees (Draft)*, and the *Rules For The Implementation of Labor Insurance Regulations of People's Republic of China*, to make laws and regulations more coordinated. Thus the state unified resignation plans in enterprises and government agencies, loosened requirements, enhanced resignation benefits, and also improved the healthcare system, stipulating that registration fee and tonics for treating occupational diseases shall be borne by patients themselves. In addition, the state also adjusted benefits for maternity leave, diseases, injuries, and apprentices, formulating regulations on insurance payment in another place, setting standards for apprenticeship length and living allowances for apprentices in state-run, joint, cooperative-run and private enterprises, making rules for sick, injury and maternity leaves, and asking enterprises' medical units, administration, trade unions, human resources departments, and technical security departments to establish medical appraisal committees to assess work-related injuries and work capacity, approve and issue certificates for sick or injury leave over 15 days, supervise working conditions, and manage work resumption, convalescence, and job transfer. However, it was proved that, although these regulations were formulated in detail, without institutional restriction, they could not be implemented well.

2.3.2 Gaps and Differences in Standards

In enterprises which implemented the *Labor Insurance Regulations*, wages and benefits were decided by all members of the Party branch. Trade Unions were responsible for working out schemes and sending them to Party branch meetings for discussion, concerning wage, retirement, and other benefits such as housing arrangements and plans, canteen, kindergarten and night schools, medical costs, working schedule for pregnant employees, qualification of beneficiaries, rewards, marriage leave, and funeral leave. An enterprise was just like a society which should provide various social services. Of course, these schemes were not put forward at will, but formulated in accordance with the *Labor Insurance Regulations*.

Collection of Folk Historical Data of Contemporary China has meeting minutes and other historical materials of some companies' Party branches. These documents

²⁸Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 26–27).

show that an enterprise, just like an amplified family or a shrunk society, not only organized production, decided distribution, and provided insurance, but also initiated collective welfare undertakings. For example, since female employees increased rapidly (from 0.6 million in 1949 to 43 million in 1984, 38% of total employees), enterprises established canteen, kindergarten, nursery, even barber-shop, public baths, and other facilities to reduce female workers' household drudgery and increase their employment rate. These nonprofitable, nontaxable welfare projects opened their accounting books and struck the balance of payments. Sometimes subsidies were needed and disbursed from companies' management costs or operating expenses. The reason why enterprises provided such benefits so actively is that the 1951 *Labor Insurance Regulations* had relevant stipulation. For example, Regulations stipulated that enterprises should actively build kindergarten, nursery, and nursing room. Construction was invested by the state and enterprises, and current expenditure was disbursed from companies' welfare funds, operating fees, and administrative fees. Training expenses were disbursed from education and healthcare expenditure, wages and welfare were from wage funds and welfare funds. Even residential housing for employees was welfare projects, as rents were nominal, investment in construction would not be paid back.²⁹

Thus we can say that relevant grassroots organizations (mainly the CPC personnel departments and trade unions) did their best to implement the *Labor Insurance Regulations*. Party branches in enterprises not only did political and publicity work, but also studied issues concerning production, distribution, and social life. For example, Party branches might convene meetings to discuss causes of poor quality and high costs of products, fix output quotas, formulate regulations for technical operations, study the way to enhance safety awareness in production, and talk about how to improve employees' life, prevent diseases and enhance material and culture living standards.³⁰

As enterprises implemented labor insurance all by themselves, it was difficult to ensure unified social benefit standards. In some companies, labor productivity was raised obviously, while other companies failed to adapt organization and human resources to new changes. For example, after implementation of the labor insurance, female employees could enjoy more benefits (such as maternity leave, breast feeding benefits) but nobody was assigned to take over their work, thus although benefit standards were raised, production plans could not be finished.³¹ Some managers followed rules and regulations strictly, while other provided as many benefits as possible to employees on the ground of incarnating workers' "mastership."

At the end of 1950s, gaps and differences appeared in labor insurance practice, some workers enjoyed while others suffered. On September 28, 1957, *People's*

²⁹Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 23–24).

³⁰Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 54, 56–57).

³¹Edited by the China Contemporary History Research Center of East China Normal University (2012, pp. 32–33).

Daily published a letter from “Jing Li” who criticized unduly benefits of Shijingshan District Power Plant of Beijing. This letter showed that although the *Labor Insurance Regulations* set benefit standards, companies still had large space during implementation.

Jing Li “Why social benefit standards in my factory are so high?”.³²

Medical care in my factory far surpasses what is stipulated in the *Labor Insurance Regulations*. Of course there are some reasons and considerations, but on April 21, 1956, the Ministry of Power Industry and the National Committee of Electricity Trade Union issued a joint notice, stipulating that “as to the medical care of dependants, registration fee, examination fee, laboratory test fee and treatment fee are disbursed from administration expenses, operation fee and medicine expense are half disbursed from administration expenses, all other costs shall be paid by individual themselves.” Almost all companies and factories implement this notice instead of my factory. If dependants go to our health station, they could pay nothing, and if they go to specially contracted hospitals in Beijing, half of whatever expenses (including medical fees, costly medicine expenses and inpatient board fee) could be disbursed from administration expenses. Thus just for medical care, the state will pay 20,000 yuan more every year. In addition, the free medical care also increased workload for medical staff and caused medicine waste. When this notice was issued, our factory director asked the infirmary and wage department to discuss with the labor insurance director of the trade union, but our trade union chairman Mr. Zheng Guotai said “Before the new *Labor Insurance Regulations*, we should add new schemes beneficial to workers, while the original regulations which are inconsistent with the latest notice, should be kept rather than be eliminated...”.

After this letter was published on *People’s Daily*, Shijingshan District Power Plant immediately took rectification measures. However, these measures were not recognized by its superior authorities. Thus on February 8, 1958, *People’s Daily* published another article to criticize the Ministry of Power Industry.

After hot and widely spread discussions among employees, Shijingshan District Power Plant successfully eliminated unreasonable social benefits. On December 30, 1957, *People’s Daily* published this experience and aroused great attention. However, it is regrettable that relevant superior authorities are indifferent to this practice. Neither Beijing Power Administration nor the Ministry of Power Industry sent staff to or asked the power plant to summarize experiences, not to mention organizing other enterprises to learn from Shingjingshan District Power Plant.³³

Obviously, competent authorities always considered themselves as interest representatives and would like to offer as many benefits as possible to employees instead of thinking about the whole situation. The Party clearly criticized this trend

³²Li (1957).

³³The Ministry of Power Industry is Indifferent to Shijingshan District Power Plant’s Great Practice of Relying on Workers to Reform Unreasonable System Which was Already Spread Nationwide, *People’s Daily*, p. 5, February 8, 1958.

through *People's Daily*. The article expressed that increasing social benefits could not reflect raising status of workers. Shijingshan District Power Plant's practice of organizing employees to debate on unreasonable social benefits instead really incarnated workers' mastership. As a superior authority, the Ministry of Power Industry failed to give appropriate support. *People's Daily* reported that similar situation also occurred in the Beijing Power Administration. Officials of the Administration thought that other companies could not work like Shijingshan District Power Plant to organize debates among employees and implement the *Labor Insurance Regulations* so strictly. The Administration even irresponsibly issued a supplemental provision which allowed workers to claim reimbursement for all medical expenses, no matter common drugs or costly ones. *People's Daily* commented that stipulations issued by the Beijing Power Administration and the Ministry of Power Industry were so loose that they went against the spirits of the *Labor Insurance Regulations*.

After the Regulations were issued, departments used "local regulations" or "supplemental provisions" to set their own social benefit standards in the enterprises they governed. Thus, the labor insurance system developed farther and farther away from realizing social insurance objectives. In the planned economy, gaps and differences of social benefit standards lied in different regions and industries, and even enterprises of the same region but different industries, or the different industry but different regions.

Up to the eve of the "Cultural Revolution," China's labor insurance system was basically established. Its feature, summarized by the General Office of the Ministry of Labor, was that it consisted of three systems: the national labor insurance system, the collective contract system, and the labor insurance system for staff in government agencies and public institutions. The *Labor Insurance Regulations* and the *Provisional Regulations on Retirement of State Organ Personnel* had different stipulations on retirement treatment, leading a trend of comparing with each other for higher benefits. This unfavorable trend influenced cost reduction, labor flow, and social solidarity.

The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System.³⁴

The current labor insurance system in our country consists of three parts. First is the *Labor Insurance Regulations* implemented in enterprises with over 100 workers and staff members. Second is the collective contract system implemented in enterprises with less than 100 employees. Third is the labor insurance system for government agencies and public institutions (such as sick leave, casual leave, retirement treatment, resignation treatment and free medical care). Although the

³⁴The General Office of the Ministry of Labor: *Problems of the Current Labor Insurance System* (October 28, 1965), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 610–611, 2011.

above three kinds of labor insurance systems stipulated different benefits, they are all important for solving and relieving employees' difficulties caused by child-bearing, old age, illness, death, injury and disabilities.

Labor departments recognized problems caused by the coexistence of different systems. First, benefits in the *Labor Insurance Regulations* were generally better than those stipulated in collective contracts and also better or sometimes worse than those for staff in government agencies and public institutions. Standard difference always had impacts on job transfer and production enthusiasm. Second, labor insurance was in the charge of both the Department of the Interior and the Ministry of Labor, this multi-administration led to ambiguity of responsibilities.³⁵ Policies were always changed by various departments, employees were divided into different groups for different social benefits and the administration system was complex and full of contradictions. It was with these problems that China's social security system was established.

Reform in labor system further widened gaps between different benefit standards. According to relevant documents, under the flexible "dual-employment" system which allowed people to engage in both agricultural and industrial production, benefit standards for contract workers, temporary workers, and seasonal workers were set by enterprises themselves.³⁶ What's more, newly established enterprises and newly recruited employees should be covered by a new system rather than the *Labor Insurance Regulations*, which would definitely cause differences in benefit standards.

2.3.3 *Reform in Labor System and Adjustment in Labor Insurance System*

(1) A Flexible Labor System: Social Security For Temporary Workers And "People Engaged In Both Agricultural And Industrial Production"

During the "Great Leap" in 1958, so many industrial projects were started that urban labor force increased rapidly. A large number of rural labor force and urban unemployed labor force (such as women) began to work in state-owned enterprises.

³⁵See Footnote 34.

³⁶Provisional Regulations of the State Council on Temporary Workers in State-owned Enterprises (October 14, 1962), and Provisional Regulations of the State Council on Improving the Employment and Management of Temporary Workers (March 1965), quoted in Central Archive of Chinese Academy of Social Sciences: *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, China Financial and Economic Publishing House, pp. 119–122, 2011.

At the end of 1958, employees of state-owned enterprises, joint enterprises, public institutions, and government agencies reached 45.32 million, an increase of 20.82 million compared to 1957. Among the new employees, 16.61 million were recruited from urban society, and 11.04 million were from rural areas, and over 11 million were recruited to work in county enterprises. This big increase caused a lot of problems including low productivity, wage cost, and supply of market commodities and impeded the progress of important industrial projects.³⁷ Thus in 1959, an objective of cutting down 8 million employees was put forward. The target was mainly temporary workers, contract workers and apprentices from rural areas, layoff of newly recruited urban employees was limited to guarantee urban employment, and skilled workers were generally transferred rather than fired.³⁸

At the same time, the government began to promote the temporary employment system and the “dual-employment” system to guarantee enough labor force for industrial development. Recruited laborers generally were not skilled ones and mainly worked in commune-run companies and seasonal companies, or did simple physical labor in some large- and middle-sized companies.³⁹ These workers were neither covered by the *Labor Insurance Regulations* to enjoy benefits in enterprises with more than 100 employees, nor covered by the collective contract insurance. Their benefit standard was even lower.

In 1956, former Minister of Labor Mr. Ma Wenrui explained why the “dual-employment” system was carried out:

The reason why we implement the “dual-employment” system is that, the current labor system has some problems and needs reforms. ... one problem is that most employees... about 90%, are under fixed terms. Is it good? Most people think it has a shortage – waste. Production is not always balanced; sometimes enterprises need many workers, sometimes a few. When enterprises do not need so many workers, they still have to pay surplus labor force, maybe hundreds, thousands or tens of thousands of workers, who are under fixed

³⁷*Report of Party Branches of the State Planning Commission and the Ministry of Labor on Salary Level in 1958 and Opinion on Salary Arrangement in 1959* (June 5, 1959), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 34, 2011.

³⁸*Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 35, 2011.

³⁹*Request for Instruction of Sichuan Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (April 25, 1958), *Report of the Party Branch of the Labor Ministry to the Central Government on the Way to Promote the Dual-Employment System* (December 29, 1958), *Opinions of the Ministry of Labor on Promoting the Dual-Employment System* (September 18, 1964), *Speech of Minister Ma Wenrui on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 22, 1965), *Survey Report of the Labor System Investigation Group of the Ministry of Light Industry on the Dual-Employment System* (October 30, 1964), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 97–113, 2011.

terms. ... the stagnation of labor force leads to long-term employment of many old, weak and disabled workers, who represent 3, 5 or even 8% of the whole employees. It causes waste and also does harm to labor force protection. But with the “dual-employment” system, or temporary employment system, there will not be so many old, weak and disabled workers. Another waste is that the more employees under fixed terms are recruited, the more dependents there will be, and the more apartments and other welfare facilities should be constructed and invested. Thus in conclusion, current labor system has caused huge waste and cannot meet the requirement of building socialism in a greater, faster, better, and more economical way.⁴⁰

In order to adapt to flexible labor systems, some state-owned enterprises began to implement the temporary employment system, under which casual workers were not covered by the *Labor Insurance Regulations*, and their benefits were “determined by local stipulations.”⁴¹

Social Insurance for Workers under the “Dual-Employment” System.⁴²

Workers under the “dual-employment” system are not covered by the *Labor Insurance Regulations*. In the case of injury caused while on duty, the enterprise shall bare all medical expenses and wages shall be paid as usual during the medical treatment. In the case of disability caused while on duty, if the worker completely lose his ability to work, pensions shall be paid in accordance with the *Labor Insurance Regulations*; if the worker’s working ability is partially impaired, the enterprise shall, after discussion, pay subsidies to the commune or the production team to receive the worker. In the case of death while on duty, the enterprise shall provide funeral expenses and pay pensions to the worker’s directly related family member(s) in accordance with the *Labor Insurance Regulations*. In the case of illness or injury while off duty, if the medical treatment is continued for less than 3 months, the enterprise shall provide free medical service and pay 50% of the worker’s wages during the sick leave. If the worker gets a chronic disease, the enterprise shall pay a certain amount of medical subsidies and send him back to the commune or production team.

⁴⁰*Speech of Minister Ma Wenrui on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 22, 1965), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 107, 2011.

⁴¹Provisional Regulations of the State Council on Temporary Workers in State-owned Enterprises (October 14, 1962), and Provisional Regulations of the State Council on Improving the Employment and Management of Temporary Workers (March 1965), quoted in Central Archive of Chinese Academy of Social Sciences: *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, China Financial and Economic Publishing House, pp. 119–122, 2011.

⁴²*Opinions of the Ministry of Labor on Promoting the Dual-Employment System* (September 18, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, p. 106, 2011.

Implementing layoff measures, the “dual-employment” system and the temporary employment system transformed the rigid labor system into a more flexible one, concentrated the country’s limited resources to national key project, and thus guaranteed stable development for big industrial enterprises and better social security for technical workers. But certainly, such labor system strengthened “rural-urban dualism.” Since rural labor force had less and less access to cities and the industrial sector, they experienced a widening social security gap compared to urban employees. Peasants were not covered by the social security system, workers under the “dual-employment system” could only enjoy a few necessary job-related benefits and their dependents could not enjoy any. Medical care for these workers was also limited, if they get chronic diseases, little help shall they obtain from enterprises. The reason for taking such unfair measures was that the original labor insurance system had already gone beyond China’s economic capacity.

(2) Reform In The Labor Insurance System

Not only were benefit standards of the “dual-employment” system lowered, since the “Great Leap” in 1958, reforms were also taken to lower standards of the national labor insurance system,⁴³ from the following three aspects:

First, we should lower healthcare standards, mainly through adjusting wages paid for injury caused while on duty and wages paid during sick leave. According to the *1953 Labor Insurance Regulations*, the length of sick leave shall not be limited, and during sick leave, workers shall be paid 100% of their wages. But since 1958, it was stipulated that sick leave shall not be longer than 6 months and workers shall be paid 50–90% of wages according to the length of their standing in enterprises. If the sick leave is longer than 6 months, workers shall be paid 40–60%⁴⁴ of wages according to the length of their standing in enterprises until they are retired, resigned, or dead.⁴⁵ This reform aimed at reducing medical

⁴³*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), *Amendment and Supplementary Regulations of the State Council on the Labor Insurance Regulations (Draft)* (November 7, 1961), *Explanation of the Party Branch of the Labor Ministry on the Amendment of Provisional Regulations on the Labor Insurance Benefits of Workers and Staff of Enterprises* (June 14, 1962), *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), and *The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System* (October 28, 1965), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁴⁴Increased to 50–70% since 1964.

⁴⁵*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), and *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*,

expenses,⁴⁶ and also controlling “malingering,” but stipulations that enterprises shall bare medical expenses were not changed.

Instructions of the Ministry of Labor on Lowering Labor Insurance Benefits for An Injury or Disease Caused While Off duty⁴⁷

For example, for workers whose successive length of service surpasses 8 years (10 years for staff in government agencies), if their sick leave is within 6 months, they shall be paid all of their wages. Such regulation is indeed too loose to motivate production; and as about 10 years has already passed since Liberation, most employees’ successive service length is longer than 8 years, thus the original regulation would increase burden on the state and could not reflect special care for old staff and workers.

Second, we should reduce benefits, mainly medical service for employees’ dependents. The *Labor Insurance Regulations* stipulate that if a directly related family member supported by a worker or a staff member becomes ill, he shall be given free treatment at the clinic, hospital or special hospital of the enterprise and the enterprise shall bear half of operation fees and ordinary medicine expenses. If a directly related family member supported by a government staff becomes ill and his illness cause hardship, the staff shall be given subsidies. In 1958, free medical service for employees’ dependents was once totally eliminated, only those who met real difficulties could apply for subsidies. Then in 1964, free medical service was recovered but in a new way: according to the number of employees, certain amount of money was allocated to enterprises for providing medical subsidies to dependents of employees.⁴⁸

(Footnote 45 continued)

edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁴⁶According to the investigation conducted by the General Office of the Ministry of Labor in 1964 on 207 employers in Liaoning, Beijing, and other 10 provinces and cities, on average, everyone withdrew RMB 3.3 medical subsidies every month, and spent RMB 4.1, and over-expenditure of 25%. Enterprises above the county level withdrew more medical subsidies, and also because of the stricter management, their over-expenditure rate is from 15–45%, among which, the figure of heavy industry enterprises is the lowest. Enterprises at or below the country level have a low withdraw rate, but their over-expenditure rate reaches 58%, even several times more. Serious Over-Expenditure Problem of Medical Subsidies in Enterprises (September 16, 1964), in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 688–689, 2011.

⁴⁷*The General Office of the Ministry of Labor: Problems of the Current Labor Insurance System* (October 28, 1965).

⁴⁸*Amendment and Supplementary Regulations of the State Council on the Labor Insurance Benefits of Workers and Staff of Enterprises* (February 28, 1958), and *Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC’s Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

Third, after the “One-child policy” was implemented, childbearing subsidies for female workers or staff members or spouses of male workers or staff members were canceled. It was stipulated that contraception operation fees for employees and their spouses were eliminated, and during the period of post operation recovery, wages shall be paid as usual.⁴⁹

(3) “New Regulations for New Factories” and “New Systems for New Staff”

In addition to reforming the original labor insurance system, the reform of “new regulations for new factories and new systems for new staff” was also carried out since 1958.⁵⁰

In 1958, when a great number of large projects were launched, the Central Government discovered shortages of the labor system and the labor insurance system, and thus put forward stricter requirements for new enterprises. First, enterprises were divided into two categories according to their scale and the administrative level of their competent authorities: enterprises below county level (including county, town and village-run ones) and enterprises above county level (including state, province-run enterprises and several county enterprises). Those below county level had close and direct relations with agricultural production and peasants. They were small and many were engaged in seasonal production, thus enterprises below county level should grope for systems suitable for rural conditions and features rather than implement the *Labor Insurance Regulations*. Enterprises above county level should not implement the original systems either, but use reformed labor insurance.

New enterprises could formulate new labor insurance regulations according to realities. The welfare systems that were proved improper in old enterprises should not be established in new enterprises. Labor insurance was only applicable to employees under fixed terms; as to contract workers, they would gain additional wages, and would not get subsidies for childbearing, old age, illness or death, except in the case of diseases and injuries caused

⁴⁹*Opinions of the Ministry of Labor, the Department of the Interior and the All China Federation of Trade Union on Amending the Labor Insurance Regulations (Draft)* (November 21, 1964), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 597–611, 2011.

⁵⁰*The Central Government's Reply to the Request for Instruction of Sichuan Provincial Committee on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (June 25, 1958), *Request for Instruction of Sichuan Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (April 25, 1958), *Provisional Regulations of Sichuan Province on the Salary and Labor Insurance Issues of the Industrial Enterprises below the County Level* (May, 1958), *Request for Instruction of Hebei Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (August 11, 1958), *Outline of the Ministry of Labor on the Meeting for Sharing Experience of the Pilot Dual-Employment System* (September 20, 1965), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

while on duty. In short, the labor system and the labor insurance system in new enterprises must follow the principle of “being greater, faster, better and more economical”, “building the country and enterprises with diligence and thrift”, must be in favor of production and solidarity, and must be easy to apply.⁵¹

According to the above document, in new enterprises above county level, most staff should be contract workers who did simple or physical work, and a few are employees under fixed terms who are skilled workers. To divide enterprises into two levels and workers into two categories in fact still aimed at promoting industrialization. On one hand, this method could guarantee resource supply for key industries and large- and middle-sized enterprises; on the other hand, it could provide skilled workers with better labor insurance.

Enterprises below county level generally did not implement the *Labor Insurance Regulations*, and beneficial standards for their workers were lower than those for employees under fixed terms in big factories. Sichuan Province stipulated “Enterprises below county level, not like state-run enterprises, shall not implement the *Labor Insurance Regulations*. Issues concerning illness, death, injury and disability shall be settled in contracts between the enterprise, the commune and the worker. In the case of illness, death, injury or disability caused while off duty, all expenses shall be borne by employees.”⁵² Enterprises in Hebei Province did not implement the *Labor Insurance Regulations* either, and benefit standards differed a lot.

The Labor Insurance System in Enterprises below County Level in Hebei Province in 1958.⁵³

Currently old enterprises keep the original labor insurance system, but all newly built enterprises of county, town, and commune level do not follow original regulations. There is not any formal system or unified standard for social benefits.

⁵¹*The Central Government's Reply to the Request for Instruction of Sichuan Provincial Committee on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (June 25, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

⁵²*Provisional Regulations of Sichuan Province on the Salary and Labor Insurance Issues of the Industrial Enterprises below the County Level* (May, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Economic Publishing House, pp. 371–382, 2011.

⁵³*Request for Instruction of Hebei Provincial Committee to the Central Government on the Salary and Labor Insurance Issues of the Newly Established Industrial Enterprises above the County Level* (August 11, 1958), quoted in the *Anthology of Archives and Documents on the PRC's Economy in 1958–1965: Employment and Income Distribution*, edited by the Central Archive of Chinese Academy of Social Sciences, China Financial and Wage, Welfare and Social Insurance for Contemporary Chinese Employees, China Social Sciences Press, pp. 371–382, 2011.

In county and town enterprises, if a worker under fixed terms gets sick or injured while on duty, all medical expenses shall be borne by enterprises and the wages shall be paid as usual. But for contract workers in the same case, some shall get 100% of their wages, some only 50%. In commune enterprises, only medical expenses shall be paid. If a worker gets sick or injured while off duty, county and town enterprises shall pay 100, 50% or none of medical expenses and wages, and provide subsidies in the case of hardship. In commune enterprises, workers shall bear medical expenses themselves, and shall not gain any work point during medical treatment.

Workers who become disabled or dead due to work will be paid disability allowance, funeral subsidies and household pension; but their amount different from enterprises' average wages of 1–4, 3–6, and 1–12 months.

During the maternity leave, wages and treatment for female workers are also different. Some enterprises provide the same wages some provide nothing and some pay a part, or offer subsidies to those in difficulties.

What's more, even under the above-mentioned three labor insurance systems, benefits for enterprise employees and government staff were different. Treatment for wars, pensions, disabilities, injuries, and death were separately stipulated. Regarding medical services, the government did not choose the medical insurance system but the socialized medicine system which was implemented in Base Areas. After the Liberation, as resources were limited, free medical care was only carried out among employees. But with the 1951 Labor Insurance Regulations and establishment of the retirement system in 1955, free medical care gradually expanded. Pension expenses and welfare expenses were borne by enterprises' administration fees or operation expenses, but the free medical funds were paid and allocated by the state to the Ministry of Health for coordination.

Such standard difference hindered labor force flow which was summarized as “not favorable for job transfer” by the Ministry of Labor. In order to improve this situation, the government initially tried social pooling, such as pension pooling in some industries: in 1966 the Second Ministry of Light Industry and the All China Handicraft General Cooperative issued the *Provisional Regulations on Pension Pooling for Employees or Commune Members of Collective Enterprises of the Light Industry or Handicraft Industry* and the *Provisional Regulations on Treatment for Employees or Commune Members of Collective Enterprises of the Light Industry or Handicraft Industry*, stipulating that pensions shall be raised by the municipal or county government, retirees shall get 40–65% of their wages every month, and resigned employees would get a lump-sum subsidy of 1–20 months' wages.⁵⁴ The social pooling facilitated labor flow within industries, but obstructed labor flow between industries.

The welfare barrier the most difficult to cross was between industry and agriculture. Industrial modernization, agricultural collectivization and relevant measures accelerated the creation of the barrier and enforced social dualism. The socialized

⁵⁴Yan (1987, p. 322).

medicine system was not applicable to rural areas, thus some rural collective organizations tried cooperative medical care, also called socialized medical funding. In November 1959, the National Health Work Conference was held in Jishan County, Shanxi Province. On the conference, people applauded some rural practices, such as medical mutual aids, and raising money to establish health centers, and also exchanged ideas on “collective healthcare,” “cooperative healthcare” and “socialized medical funding.” During the “Cultural Revolution” when a large number of rusticated youth were sent to rural areas, rural collective medical practices experienced very fast development.

Differences in labor insurance and benefits between industry and agriculture expanded rural–urban gaps, but also turned rural areas into a place for relieving the stress caused by industrialization. After the “Great Leap” in late 1950s, urban labor supply was in surplus, but the labor insurance at that time did not deal with unemployment. In 1960, the central government put forward policies of “making great efforts to develop agriculture and grain production” to reduce urban population, downsize enterprises, and send labor force to rural areas. Urban unemployment increased consequently. In order to solve economic problems, reduce urban population pressure and lay off old, weak, and disabled employees. In 1960s, the government issued arrangement regulations, stipulating that some employees shall retire early and those who could not rely on their family, shall gain 40% of original wages every month paid by Civil Affairs Departments. Employees who voluntarily moved to countryside would gain production subsidies or resignation subsidy, resettlement subsidy, transportation and lodging fees, and also food allowance during trip, these expenses shall be borne by the employees’ original enterprises. To help those who resettled in rural areas draw subsidies and allowances, and to simplify mailing procedures and reduce mistakes, in 1960, the All China Federation of Trade Unions issued the *Trial Measures on Payment of Long-term Labor Insurance Benefits in Other Places*,⁵⁵ stipulating that employees could apply for drawing allowances in areas they resettled in. Some collective enterprises in towns and enterprises using collective contracts also followed this method to evacuate surplus labor force. Thus without a social insurance system like in Western countries, China’s large rural areas became a place for relieving the stress caused by industrialization. Between countryside and cities, population flow model was not flexible or diversified. Apart from enlistment, the only way for rural residents to become urban citizens was entering colleges and universities through the education system or being assigned to urban enterprises or institutions. While moving from urban to rural areas was more voluntary, with support and subsidies from the government and enterprises, some people chose to give up their jobs and engage in farming in countryside. And in 1960s during the “Cultural Revolution,” a large number of citizens moved to rural areas. In 1966, enterprises halted production to participate in revolution and following the slogan “With hands to work, we will not stay idle in cities,” many high school students responded Chairman Mao’s call to go

⁵⁵Yan (1987, p. 320).

to the countryside, work in agrarian areas, and receive reeducation from the peasantry. Thus, millions of young labor force was shifted to rural areas.

In short, before the “Cultural Revolution” broke out in 1966, China already established a comprehensive social security system. But between urban and rural areas, different industries, enterprises, or communes were big differences and gaps, which reflected labor market segmentation and the state’s “industry first” and “cities first” development strategies. The “urban-rural dualism” was determined by China’s economic conditions back then, but it was also a national development strategy. Due to the “urban-rural dualism,” different policies of different regions or industries would restrict labor flow. On one hand, these policies were made to guarantee the implementation of social insurance policies in the same region or industry. On the other hand, they were determined by development realities in the same sphere.

2.4 The “Cultural Revolution” and the Labor Insurance “Borne by Institutions”

The “Cultural Revolution” had a profound and destructive impact on the development of labor insurance and social security systems. As production suspended, labor force stopped flowing from agriculture to industry. The education system which could provide new labor force was brought to a halt, and “schools were closed and students went to revolutions.” Factories organized workers to seize power or participate in revolutions instead of production. Administrators that had been responsible for forming labor insurance systems before the “Cultural Revolution” was smashed, trade unions were asked to stop functioning, and the Department of the Interior was canceled. What was worse, historical data were lost, insurance benefit documents became incomplete, and systems and procedures turned disordered.

With the chaos occurred during the “Cultural Revolution” in February 1969, China’s Treasury issued *Opinions on the System Reform of Financial Work in State-Run Enterprises (Draft)*, asking that “all state-run enterprises shall stop withdrawing labor insurance funds,” and “wages and other labor insurance expenses for retirees and long-term patients shall be borne by non-operating disbursement of enterprises.”⁵⁶ In other words, since trade unions had stopped working, labor insurance obligations were all borne by enterprises themselves. Labor insurance lost its function of balancing distribution and in face became business insurance, institution insurance, and employment insurance.

As labor insurance policies were always changed by different departments, some enterprises stopped retirement and resignation procedures. According to statistics after the “Cultural Revolution” in 1978, over 2 million enterprise employees and

⁵⁶Yan (1987, p. 323), The Ministry of Labor and Social Security Editing (2007, p. 14)

0.6 million government staff did not retire after retirement age. And relevant stipulations had not been amended for 20 years since 1958.

As insurance benefits should be all borne by enterprises, those with many retirees, such as enterprises of the textile industry and other light industries, would be overloaded with large insurance expenses, while on the contrary, start-up companies almost did not have such burden. Imbalance in social benefit expenses led to unfair social responsibilities between different industries, enterprises, and regions, which further damaged normal production and competitions. Due to high welfare costs, some enterprises could not afford production and investment, thus the textile industry and other traditional competitive industries were hurt too much to operate well. For workers, the “Cultural Revolution” directly caused lower benefit standards and the loss of some security functions.

In this disordered period, the state used its limited resources to protect government agencies and large- and middle-sized state-owned enterprises. The labor insurance in these institutions was directly borne by the government, or otherwise, they were supported indirectly through preferential supplies. Staff in these institutions could enjoy all benefits stipulated in the *Labor Insurance Regulations*, but in enterprises under collective ownership or below county level, employees could not get equal pay—their wages were less than in state-owned enterprises. Besides, as insurance expenses were determined by conditions of enterprises, welfare was always not good and could not be realized in reality.

The “Cultural Revolution” impeded China’s development toward a social security system covering all people, and the labor insurance became less and less “social,” and was turned into the “enterprise insurance.” The coverage of labor insurance shrank, and the level dropped. As enterprises shouldered social responsibilities in an unequal way, employment in different enterprises was divided into various grades and ranks, even in the same region or industry. Employees with “inferior” insurance benefits were discriminated unduly and this phenomena existed until the reform and opening up in 1970s.

Employees in Collective Enterprises Became “Inferior” after the “Cultural Revolution”.⁵⁷

In Shanghai, it is often heard that young people in production teams were discriminated. Recently, I have heard a case which made me feel indignant. A couple of lovers both worked in production teams and would like to get married after being in love for 3 years. However the girl’s parents were against the marriage and obstructed it in many ways. They first threatened their daughter that if she does not cut off contact with her boyfriend, they will not allow her to take over their jobs. Then they even closed the girl in home, cursed her and beat her. When the parents still failed to change the girl’s mind, they made unreasonable demands for the boy, such as an apartment of 50 m², a set of new furniture, 1400 yuan cash, etc. They

⁵⁷Zhu (1979).

even asked the boy to enter a university or a state-owned enterprise. At last, the girl had no other choice but stealing the hukou booklet to register marriage.

For a long time, about 200,000 young workers in production teams could not get attention or care from the society. Discrimination for them has already become a very bad phenomenon. Politically, these young people have few opportunities to take part in important activities or to be awarded as outstanding staff; in life, their wages and benefit standards were low; and conditions for labor production and learning technologies were far behind conditions in state-run enterprises. Thus young workers in production are considered inferior and without good future. As a result, some young workers could not get married even in their thirties and sighed “as my wage is less than my age, when can I get married and have a child.” Many young workers feel great invisible stress.

2.5 Establishment of Labor Insurance

When the New China was founded, agriculture, industry, and all other sectors lagged far behind and the state needed to be rebuilt. Thus with such a weak economic basis and disordered economic condition, it was difficult for the CPC to fulfill the social security commitment that it made at the early stage to workers and our people. But stick to its strong political will, the ruling party started with rectifying economic orders and protecting laborers’ rights, considered backward economy and the heavy industry-first strategy, and then begun to establish the labor insurance system industry by industry, level-by-level, step-by-step, and region-by-region. Just within 2 or 3 years, the system’s initial form was accomplished. Then as economy developed, the coverage of labor insurance gradually expanded, and a primary social security system consisting of the *Labor Insurance Regulations*, *Collective Labor Insurance Contract*, and *Labor Insurance in Government Agencies and Public Institutions* was formed. In rural areas, with the support of collective economy, the government also begun to exploring the best security method for laborers engaged in agricultural production.

In terms of systematic arrangement of labor insurance, the government took full consideration of employment modes, social demands, and ability to pay. China’s labor insurance system was different from systems in Western countries. First, labor insurance was paid by enterprises not by individuals, while beneficiaries were employees, thus “social redistribution” and “shared risks for social members” played a very small role in labor insurance. Second, the *Labor Insurance Regulations* were mainly implemented in large- and middle-sized state-owned enterprises, where insurance expenses were deducted before income settlement or turning over profits to the state. 70% of the labor insurance funds were retained in enterprises to pay beneficiaries, just like under a pay-as-you-go pension scheme and the insurance expenses could be considered as operating costs or labor costs. Third, the labor insurance was mainly paid by the administration of every enterprise, thus it was not a social insurance. Although 30% of the labor insurance funds were used

to balance distribution, the coverage and operation mode determined that the labor insurance was closed related to employment, and even could be considered as an “employer-provided insurance.” This operation mode was also used in the *Collective Labor Insurance Contract* and the *Labor Insurance for Government Agencies and Public Institutions*. Except the *Collective Labor Insurance Contract*, all other labor insurances were in fact paid by the state.

Due to the imbalance between economic development and institutional development, during the 30 years from 1949 to the end of the “Cultural Revolution,” great differences in social security appeared between urban and rural areas. What’s more, even in urban areas, there were gaps in system and benefit standards between the *Labor Insurance Regulations*, the *Labor Insurance for Government Agencies and Public Institutions*, and the *Collective Labor Insurance Contract*. The first two systems were supported by national finance and thus these labor insurances were more formal and benefits were better. However, as the labor insurance was implemented by enterprises and institutions, which were independent with each other, benefit standards could not be unified. And under the “dual-employment system,” the labor insurance for contract workers, casual workers, and seasonal workers were stipulated locally; systematic guarantee could not be ensured.

The first establishment of the labor insurance system played an active role in policies of “retaining talents,” “encouraging talents,” and “protecting laborers” in large- and middle-sized state-owned enterprises. But gaps and differences in labor insurance systems also hindered reasonable labor flow, which was the worst during the “Cultural Revolution.” In that period, the labor insurance was more and more “borne by enterprises,” which not only increased burden for enterprises and harmed economic development, but also caused social inequality.

Towards a Society with Social Protection for All
A Concise History of Social Security Transformation in
Modern China

Zhou, H.; Zhang, J.

2017, XVII, 206 p. 1 illus., Hardcover

ISBN: 978-981-10-4668-1