

## Chapter 2

# Theoretical Bases for the Construction of the Modern Pension Security System

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The issue of an aging population is one of the major issues that mankind must face in the 21st century. An aging of population is a natural and periodical process in history, but different measures and efforts to deal with this issue may often lead to different social effects. An expected positive effect should be that the aging level become positively correlated with the level of economic development, so that countries can successfully get through the aging period in a healthy, calm and harmonious way. However, if we fail to cope with this via sufficient preparations on multiple levels, then many problems will arise.

The period of an aging population arrived much earlier in Western countries with industrialization and modernization more developed than in China. Therefore, in terms of theoretical and practical research on the issue of pension security, there are a lot the country can learn from their experiences. In particular, theories on welfare economics, the principle of the equalization of public services, the modern social security theory, Pareto optimality, Keynesian theory of government intervention and the life cycle theory, developed in Western countries, depict the issue of care for the elderly citizens from different perspectives. Systematic and in-depth research on the above-mentioned theories will benefit China in accelerating the construction and improvement of a pension security system that covers all citizens.

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## 2.1 Theories on Public Goods

### 1. Types and features of public goods

Public goods, a concept different from private goods, is product or service that is non-competitive, as it is consumed or used by the majority and is non-exclusively beneficial. This includes, for example, property and labor service in national defense, public security and judicial system, as well as compulsory education and public welfare service.

According to the principles of public economics, social products can be classified as public goods, private goods and quasi-public goods. In a broad sense, public goods refer to both material and spiritual public goods; in a narrow sense, public goods are goods in which used by one individual does not reduce availability to others. All goods that are competitive, excludable and dividable and that can be owned and used by individual consumers are private goods. Those that are not the above-mentioned two kinds are quasi-public goods, for example, pension, medical care, education and housing.

A good is public if it at least meets the following two points: First, it is for public welfare, rather than for a few consumers with privileges. Second, it is realized in the process of public management in a democratic, fair and sharing manner.

### 2. Supply of public goods

Generally, the government provides public goods in four ways: for free, after purchase, price intervention and production control. Those providing pure public goods are usually governments or social organizations. Characteristics of pure public goods are non-rivalry and non-excludability, that is, the consuming of these products by some will not affect others consuming them and some people using them do not exclude others from using them. In general cases, public goods, characterized by their large scale and high costs, are like free lunches to some extent, that is, they can only be provided by the government. The market and ordinary people have no obligation to provide free lunches, and even if they had, they could only provide a very limited amount of public goods. Education and reforms of the medical systems in China over these years have exposed many shortcomings that arose due to the market being the sole provider of public goods or services. As the legal environment is improved and the market economy standardized, some current functions of the government may be undertaken by the market or social organizations, but the function of the government as the investor in public products must be strengthened, rather than weakened.

### 3. Pension security as public goods

A fair and reasonable pension security system is a public good in nature. Here the basic pension insurance is defined as a public good because pension security can be classified into many types and modes, including social pension insurance that manifests the unity of rights and obligations as well as commercial services of private nature. Private goods are generally provided by the market, for example,

commercial insurance. As a supplement to basic pension insurance, supplementary pension insurance (like enterprise annuity) offers a high-level guarantee, and, to be more accurate, it should be classified as a private good, and thus provided by the market. Theoretically speaking, quasi-public goods should be supplied by the government and the market. However, if both the government and the market are dysfunctional, a third-party department should play an active role. Rural social pension insurance is mainly a regional public good, which is a social product that individuals do not want to provide in rural areas. In the end, as a pure public good, rural social pension insurance should be provided by the country and be collective following the principle of the government taking the lead.

Even home-based elderly care services are not purely an individual or family issue, and need to be treated differently as conditions vary. For example, the welfare elderly care service is a pure public good that shall be provided by the government, public-good elderly care service is a quasi-public good that can be provided by the government and society, and profitable elderly care service is a private good that can be provided by the market.

Aside from commercial insurance, enterprise annuity also significantly has the nature of private good as it is an elderly care security measure that enterprises carry out to recruit, retain and incite employees, and therefore, it's obviously exclusive. However, it is a quasi-public good to some extent primarily, i.e., it is provided on the basis of the support of basic national policies (for example, tax policies) and a sound social basic pension insurance.

#### 4. Public services as public goods should be equalized

Public services refer to the services that public or quasi-public sectors provide to meet public needs in society, including tangible material services, intangible non-material services, as well as reading, study, activities and social interaction, for example, building and opening museums, libraries and holding various salons.

Equalization literally means the process of adjusting and balancing to reach an equal state. However, here only a relatively, rather than definitely, equal state can be achieved. Regardless of which region they live in, the citizens of a country should enjoy equal rights to basic public services at the lowest standards. The equalization of public services should be realized between regions, rural and urban areas and different people.

The definition of public services dictates that they are pure public goods. Regardless of the region they live in or their status, any citizen should be able to enjoy equalized public services in terms of amount and range. Equalization is an ideal goal of the government to reach in the public services field. During this process, the government is tested in terms of its resource mobilizing and integrating abilities. Therefore, to some extent, equalization can promote the development of public services.

Equalization is a basic principle for public services. According to equalization, citizens should enjoy equal opportunities, just procedures and fair results as they use basic public services. Availability, fairness and sustainability are the major

indicators for the appraisal of public services. Availability means the majority of citizens can receive public services timely and effectively, fair public service resources are distributed fairly and reasonably, and sustainability public service resources are supplied stably.

Currently the equalization of public services is emphasized primarily because of too many problems existing in the field of public services, among which the insufficiency of investment from public finance is most important. In addition, the huge gap in the allocation of public goods becomes one of the major issues that affect social fairness, justice and sharing. Therefore, the equalization of public services is of especially important significance now.

To achieve the equalization of public services, the government should invest more; and, at the same time, it should actively absorb private funds, expand investment channels of programs for public good, and concentrate its efforts on investing more in less developed areas and disadvantaged groups.

## 5. Sources of theories on the equalization of public services

Ideas on the equalization of basic public services primarily came from the economic field. Some traces of this thought can be found in the German new historical school, British Fabianism, Neoliberalism, welfare economics, Keynesian economics as well as many other ideological schools. With greater economic welfare in society as the goal, welfare economics marked the beginning of this field. From Pigou's theory to Amartya Sen's, then Pareto efficiency and the theory of the second best, each phase of new welfare economics inspired the formation of the theoretical system of the equalization of public services. According to Pigou, the higher the aggregate national income is, the greater economic welfare in society is; the more equalized the national income distribution is, the greater economic welfare in society is. For the first time in the history of western economics, he related social welfare to income distribution under national intervention and did research, which was of great significance in enlightening relevant research on the equalization of public services. The thought of equalization of national income, proposed by Pigou, was the inspiration for the equalization of public services. The government should try to maximize social welfare through equalization of public services.

There is a brilliant description in *The Theory of Moral Sentiments* by Adam Smith. According to him, if the fruits of a society's economic development cannot be shared by all the people, it is morally unsound and risky, because it is bound to jeopardize social stability.<sup>1</sup> Here we hold that fairness and justice should be the most important values of the security system in a socialist society.

Differing from old welfare economics, new welfare economics proposes the compensation principle, according to which any national policy change will lead to changes in market prices. As some people benefit from it, others' interests are damaged, thus the government needs to take measures to compensate these people, guaranteeing efficiency and fairness.

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<sup>1</sup>Smith [1].

Amartya Sen, winner of the Nobel Prize in Economic Sciences in 1998, emphasized that the government should provide equalized basic public services, which should meet different standards in different stages, providing a guarantee for the improvement of citizens' abilities and welfare. According to him, the government cannot just focus on stimulating the economy when formulating an economic measure; the measure that the government makes should be equipped with a mechanism that guarantees citizens' basic living conditions and improves their living ability. To achieve this, the equalization of public services is an important method. These theories form a solid foundation for the idea of the equalization of public services.<sup>2</sup>

#### 6. Equalization of elderly care services has become a priority

A country's social security system must go through the process from covering special groups to covering all citizens. Correspondingly, the allocation of public resources should also become equalized. However, public service resources are generally controlled by the government, and mainly allocated by it through public finance expenditure or other means. However, the government itself has to correct its mistakes if any improper allocation is made. Because of China's current situation and other factors, elderly care service resources in the country are obviously not evenly allocated, for example, there are huge gaps between different regions as well as rural and urban areas.

The existing elderly care facilities are far from enough in China: First, the existing elderly care service system is basically for the elderly in need. It mainly guarantees the basic living conditions of the elderly that have no labor capacity, income for life or support and the elderly that meet difficult situations. It only covers a small number of people, and provides only a few types of welfare. A systematic service system that can bring benefits to all the elderly has not been formed. Second, the supply of the beds for the elderly are seriously insufficient compared with demand. According to statistics, as of late 2008, there were 37,623 welfare institutions of various types and 2.45 million beds for the elderly in China. These accounted for enough for only 1.5% of all the elderly aged above 60, which was lower than the percentages in developed countries and some less-developed countries, 5 to 7% and 2 to 3% respectively. Third, the utilization rate of the existing facilities for the elderly is not high, and their functions and services need to be improved, as there is a large gap between the existing facilities and people's need. According to statistics, China invested 10.31 billion yuan in social welfare, including elderly care services in 2008, which only accounted for 0.16% of the national fiscal expenditure and 0.034% of GDP that year.<sup>3</sup> Because of the small amount of funding from national finance for development, the elderly care service is insufficient with few welfare functions.

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<sup>2</sup>Chen [2].

<sup>3</sup>Website of the Ministry of Civil Affairs, <http://Avw.mca.gov.cn>.

Elderly care services are imperfectly distributed and experience a regional development imbalance. Based on the country's situation, the elderly care services in China should be provided at home, and in communities and institutions. However, currently, they are mostly provided in institutions, while the majority of the elderly do not have access to welfare services like community-based rehabilitation, cultural, entertainment and housekeeping services. At the same time, imbalanced economic and social development leads to the gap in the development of elderly care services between rural and urban areas as well as between different regions. The development of elderly care services in western areas lags far behind: There are no comprehensive welfare institutions in most counties, and the investment in nursing institutions for the elderly, personnel quality and service quality are much inferior to those in eastern areas.<sup>4</sup>

According to the part about promoting the construction of the financial system in *The 11th Five-Year Plan for National Economic and Social Development of the People's Republic China* (hereinafter referred to as *The 11th Five-Year Plan*) approved by the National People's Congress in March 2006, "accelerate the construction of the public financial system, clearly define the responsibilities for fiscal expenditure of governments of different levels and reasonably adjust the division of financial income between governments. Improve the financial transfer payment system of the central government and provincial governments, organize the financial management system under provincial governments, allow areas with conditions to implement the management system of the provincial government directly managing county governments, so as to gradually promote the equalization of basic public services". According to *The 11th Five-Year Plan*, the equalization of basic public services was proposed as a task in the construction of the financial system. It would be gradually realized on the condition that the financial transfer payment system of the central government and provincial governments is improved and the financial management system under provincial governments is organized. It is a result and goal of the construction of the financial system and the improvement of the financial transfer payment system. Efforts should be made to solve financial difficulties in counties and townships and improve the ability to provide public services of governments at the grassroots level. National financial investment should be gradually increased, and the ability to supply public goods and services be continuously improved. Generally, the equalization of basic public services can be realized through the equalization of financial resources. This was further emphasized in the 5th Plenary Session of the 17th Central Committee of the Communist Party of China and the 12th Five-Year Plan that efforts should be made to guarantee and improve people's livelihood, a quite comprehensive, sustainable basic public service system that is suitable for the national conditions and covers rural and urban areas be gradually improved, and the government's security ability be strengthened, so as to promote the equalization of basic public services.

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<sup>4</sup>Zhang [3].

Currently, we should actively promote the transition of the government's functions, accelerate the construction of government providing public services, strengthen the awareness of governments of different levels to promote social development and stop them from blindly admiring and pursuing high GDP, so that they can provide various public service items that are needed in society. In terms of elderly care security, we need to do the following work:

- (1) Further improve elderly care services. First, increase the supply of elderly care services through the government's leadership, community involvement and market operation, which is the prerequisite and basis for the availability of elderly care services. Second, make the distribution between rural and urban areas, different regions and groups reasonable through adjustments in the system.
- (2) Establish an elderly care service allowance system. Provide necessary allowances, low-cost or free services for the elderly. The elderly that have no labor capacity, income for life or support can live together or in different places enjoying services, and it should be guaranteed that their basic living conditions be no worse than the average living standards. Funding should come from the financial budget, and the standards for the services provided to the elderly should be improved with the average living standards of the locals. Provide necessary allowances to the elderly that receive the minimum living allowance or meet financial difficulties to pay elderly care services, or provide low-cost or free services to them. The elderly that obtain stable incomes can pay elderly care services or their families can. Build more basic, demonstrative institutions for the elderly that mainly provide services and medical care, so that the elderly that have no labor capacity, income for life or support, that live in poverty or that are disabled can enjoy daily care, rehabilitation and all-day services.
- (3) Establish a noncontributory pension system. Compared with the contributory pension insurance system, the noncontributory pension mode, called "zero pillar" by the World Bank in 2005, has many advantages, mainly including fairness and wide coverage. As the qualifications of the benefited groups have nothing to do with the applicants' income or employment history, it can cover the population with a low income or in poverty. Individuals do not need to pay, as the funds come completely from financial transfer payments. The only two conditions are that the individual is a national, and he or she has to reach a certain age. In comparison, the majority of the elderly are excluded from benefited groups of the contributory pension insurance system for their inability to pay the insurance. Therefore, in those less developed areas where residents obtain a relatively low income, the noncontributory pension system would enable the majority of the residents to benefit from this system.

## 2.2 Theories on Income Distribution

### 1. Basic theories of welfare economics on equalized income distribution

In the 1920s, Pigou, a British economist, established the whole system of welfare economics. In order to maximize welfare, Pigou took two issues into consideration: First, the increase of an individual's income would make him more satisfied; second, the transfer of the rich's monetary income to people living in poverty would make the whole society more satisfied. Based on these two points, he put forward two propositions: a higher aggregate national income would bring better economic welfare in society; and equalized national income distribution would bring better economic welfare in society. To a great extent, economic welfare is determined by the national income and the distribution of national income among social members. Therefore, to improve social welfare, the aggregate national income should be increased through production, and unequal distribution of national income should be eliminated.<sup>5</sup>

As a representative of supporters of new welfare economics, Jeremy Bentham took "the greatest interests of the majority" as the highest goal of utilitarian welfare. According to him, happiness doesn't refer to someone's happiness, but the happiness of the majority of all the social members. As he explicitly pointed out, "It is the greatest happiness of the greatest number that is the measure of right and wrong." In order to bring the greatest happiness to the majority, the relations between individuals' and all social members' interests shall be well managed; society shall care about individuals' interests, and individuals shall obey interests of society.<sup>6</sup> James Mill, who held the same view with Jeremy Bentham, also firmly believed that "the action that can promote the majority to obtain the greatest happiness is just."

Pareto, an Italian economist, proposed the well-known theory of Pareto optimality. According to this theory, increase some social members' well-being without reducing some others'; or significantly increase the well-being of the majority of social members when the well-being of a minority of social members is slightly reduced. In both cases, the well-being of the whole society is considered as having been improved, and this is the basic level that the social security system should reach. It complies with the principle of "utility maximization," and at the same time, it guarantees fairness. Social well-being is positively correlated to individuals' well-being, which is dependent on commodities and labor that the individuals consume. Individuals can most correctly judge their well-being, and make decisions according to their own preferences.<sup>7</sup>

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<sup>5</sup>Pigou [4].

<sup>6</sup>Bentham [5].

<sup>7</sup>Pareto [6].



## 2. The gap in income distribution is large in China currently

The special natural and historical conditions and the structure consisting of rural and urban areas determine that the gap between different regions, rural and urban areas and different industries in China is even wider than other countries, and a series of social problems arise. The Gini coefficient, which is taken as a major index in China to reflect the income gap, reached 0.434 in China in 1994, which was higher than 0.4, a warning line recognized in the international community, and it exceeded 0.5 in 2010, higher than that in all developed countries and most of the less developed countries. Such a huge gap in income means economic development would be slowed down and the achievements of economic development are not shared among all the people; what's more, it has intensified social conflicts. If no effective measures are taken to narrow the income gap, social stability would be more seriously affected. Therefore, making the achievements of modernization benefit all the people through focusing on people's livelihood and equalized distribution will be another great challenge during the 12th Five Year Plan.

Currently the effect of labor income as a measure to adjust primary distribution gradually weakens. In this situation, social security with its unique function of redistribution shall take the important task of narrowing the income gap between social members. But redistribution shall be appropriate for the economic and social development. If wealth is too evenly redistributed, it may lead to absolute equalitarianism, reduce economic efficiency, damage the economic foundation for social development, and thus cause common poverty. Or if wealth is too lowly redistributed, income distribution can't be fair, and it may even enlarge the income gap after primary distribution.

## 3. Pension security can redistribute wealth

Whether adopting accounting on the cash basis or fund accumulation system, pension security can realize transfer payment and redistribution, through which personal life and stable development of society and economy can be guaranteed. Pension has an impact on intergenerational redistribution. If it's set to be too low, retirees may face a low-quality life, which is unfair to them who have paid for pension insurance; or if it's set to be too high, it would be a heavy burden to employees that are paying for pension insurance. On the one hand, retirees' welfare should be improved to let them share fruits of social development; on the other hand, employees should be in favor properly during intergenerational redistribution, so as to reduce the burden of paying for pension on them and encourage them to create wealth for society. Therefore, the pension security system designed by us should achieve these results: to guarantee that the elderly can enjoy their late life decently and redistribute social wealth through adjusting social and economic development.

At present, all expenditures of social security equal about 6% of GDP in China, significantly lower than those in most developed countries, which were 20% and even 30%. Against the background of national economy and financial resources continuously developing rapidly, we should especially re-consider its important role in adjusting the distribution of social wealth. China should remarkably increase the

proportion of all expenditures of social security in GDP, that of financial expenditures of social security in national financial revenue and significantly improve the level of social security to rural and urban residents, especially low-income groups and ordinary laborers. Primary distribution, secondary distribution and third distribution should be reformed simultaneously, especially secondary distribution that includes social security.

According to the general data of national pension insurance, the income outnumbers the expenditure. But a problem we face now is the gap between regions, as some regions suffer deficits while some have surpluses. But overall in China, the income of pension insurance outnumbers the expenditure. Therefore, the current situation, the gap between regions, shall be improved to guarantee the fairness, financial stability and sustainability of this system.<sup>8</sup>

In the primitive society with extreme shortages of material wealth, “the elderly and the young were lonely and not well treated.” There was no resource for elderly care. But as society and economy developed to a certain level, the ruler would implement the pension security system differently to different groups. Generally, those who have been employed are put before those who haven’t been employed, those who have worked in public offices are before those who have worked not in public offices, and those in urban areas are before those in rural areas. After the pension security system for some social members is gradually established, other social members and even all citizens would demand pension.

According to the conditions and background of the establishment of social pension system in rural areas in foreign countries and after over 30 years of development since the implementation of the reform and opening up policy, national finance has basically been able to subsidize basic pension insurance. Over these years, China has enjoyed the high economic growth rate of about 10%, and its economic aggregate in 2010 exceeded 40 trillion yuan. China has surpassed Japan and is only second to the US in terms of economic aggregate. The average GDP per capita of China is expected to reach 10,000 dollars in 2015, and it’ll become a de facto developed country. Against this background, the pension security system that we design should be an important tool to adjust the distribution of social wealth, through which the majority of nationals can gain a decent life, rather than just be enough to allow the nationals to have adequate food and clothing or become a privilege exclusive to some people. Therefore, we have the ability and responsibility to establish a social pension security system that covers all the people as soon as possible. Firstly, include those marginalized groups that are out of the security system into it; secondly, improve the security level of the existing system in the scope that national finance allows. The system is going to transform from guaranteeing a basic life and seemingly covering all the people to guaranteeing a high-quality life and being fair to all the people, and become a pillar system that can promote and maintain the reasonable distribution of wealth.<sup>9</sup>

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<sup>8</sup>Zheng [7].

<sup>9</sup>Zheng [7].

#### 4. The elderly care service system realizes redistribution through driving social employment

The elderly care service industry is labor intensive. The building of the elderly care service system can not only provide society with corresponding elderly care service, but also drive social employment. As the aging situation intensifies, the elderly care service industry is rising with market demand, including apartments for the elderly, health and medical care, fitness cultivation, entertainment and tourism, daily care, intermediary service and various products for special use. The huge employment demand requires us to make a summary and popularize the successful experience of some regions in closely combining the development of elderly care service and the driving of employment and reemployment, and making them promote each other; and to develop posts for public welfare and establish a large team providing elderly care service, so as to offer labor support for the development of social welfare cause and drive social employment.<sup>10</sup>

Through practice, Shengzhou City, Zhejiang Province realized that it could play the basic function of market and let market allocate elderly care service resources. The government guided social forces to invest and build elderly service institutions according to market demand, which, classified into different levels, could meet varied, multi-level demand of the elderly based on the management concept of “all for the elderly, for the elderly’s all demand, for all the elderly.” In terms of distribution, the elderly service institutions are located on the same street, town or village, so as to highlight the scale and the agglomeration effect.<sup>11</sup> As the elderly service industry thrived, the elderly transferred the wealth they’d accumulated to the young through receiving services, which showed that the development of the elderly care service drove the employment in related industries and reasonably and effectively allocated social resources and wealth.

## 2.3 Theories on Social Mixing

With a meaning opposed to the meaning of separation, mixing together is a kind of status related to integration, that is, the process of various relevant factors getting involved with and affected by each other. Social mixing is a process that relevant social subjects destroy separation and get involved with each other through the integration system.

#### 1. Theories on social mixing provide theoretical basis for the building of the harmonious society

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<sup>10</sup>Zhang [8].

<sup>11</sup>Dong [9].

The building of the harmonious socialist society is a process of practice from social exclusion to social mixing. Social mixing, a concept on social policies to eliminate social exclusion, originated from European scholars' study on social exclusion, and later it was introduced into the field of social policies in China and became an important part in Chinese study on social policies. Amartya Sen held that a mixed society should be a community in which everyone enjoys fairness in life, actively and meaningfully participate in activities, share social experiences and obtain basic social welfare.

But as industrialization rapidly developed over the past century, stratification and even disintegration of individuals, families and even society occurred. Davis and More held that social stratification is a universal and inevitable social phenomenon, and impetus to promote social and individuals' development. Parsons explained the process of social and cultural changes based on the theory of evolution, and pointed out that society realizes higher-level mixing through changes and stratification, thus changing from being simple to being complicated. Here family is taken as a basic structure in society that plays a critical role. Then, through social reconstruction, small families are changed into large ones, and the young need to support the elderly. During this process, social exclusion is pushed to become social mixing. In addition, when there is social exclusion, social mixing is needed.<sup>12</sup>

Considering the current national conditions, the groups that are not covered by social security, like basic pension security, because of social exclusion, mainly include unemployed population in cities and towns, migrant population with rural migrant workers as the major part and people in difficulties, like those with physical problems, they are often excluded because of economic, political, cultural or psychological reasons, and can't be integrated into the mainstream society. As the concepts of putting people first and scientific development are gradually implemented in the 21st century, social mixing has appeared, and a social security system that allows the integration of rural and urban areas has come into being. As the income gap between rural and urban areas as well as groups with different positioning according to the household registration system widens, favorable policies to farmers and policies on the building of the harmonious society are formed. An era in which urbanization and continuous economic growth are promoted through social mixing is coming. Problems related to urban development and social disintegration will become prominent, and social mixing and economic growth will become new focuses of theories on development.<sup>13</sup>

The report of the 17th National Congress of the CPC points out that all people share the harmonious society, which is consistent with the value orientation of social mixing. Social mixing is to create a society shared by all people. Today as social stratification intensifies in China, we urgently need to establish a scientific, reasonable and effective mechanism of social mixing, timely coordinate the

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<sup>12</sup>Ga [10].

<sup>13</sup>Liu [11].

relations between different social interest groups and form organic and dynamic atmosphere that advocates social solidarity and cohesion, so as to prevent social conflicts, which may hinder social development, and make sure the smooth operation of the social mechanism. Therefore, the concept of and theories on social mixing are of important practical significance to China and the building of a harmonious society.<sup>14</sup>

## 2. A perfect social security system is conducive to social mixing

Currently, promoting and accelerating social mixing is consistent with the Scientific Outlook on Development and conducive to the building of the harmonious society. Especially the establishment and perfection of a social security system and mechanism that allows integration of urban and rural areas will narrow down the gap of welfare enjoyed by residents with different identities and alleviate social conflicts, help realize the equalization and maximization of welfare enjoyed by residents in rural and urban areas, and promote the urbanization process and growth of national economy.

Social security with pension security as the major part helps resolve social conflicts, adjust social relations, realization of social fairness and share fruits of social development. Accelerating the perfection of the social security system is an important part in the maintaining of social fairness, coordinating of social interest groups and building of the harmonious society. The nature of social security is to adjust the gap between the rich and the poor, guarantee the people's vital interests and realize fair and reasonable social distribution through law and economic means. Its basic functions include: guaranteeing laborer's basic life, maintaining social stability, promoting economic development, keeping social fairness and improving nationals' welfare. Social security is an important means to promote the building of the harmonious society and a critical pillar that supports the harmonious society. Therefore, under the guidance of fairness, take the building of social security as an aspect related to national economy and the people's livelihood, and try to strike a balance between fairness and efficiency during practice. Promoting economic development shouldn't be an excuse for the negligence and even the hindering of the building of social security.

At present, the various unstable social factors are directly or indirectly related to social security. For example, during land requisition and demolition, elderly care, medical care, employment and other problems related to the parties involved can't be solved properly; the conflicts between capital and labor often break out because employees' rights of social security are infringed; many elderly people complain that their children don't support them, which lead to tension in family relations. All these social conflicts can be resolved by virtue of a scientific and reasonable social security system.

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<sup>14</sup>Ga [10].

### 3. Stop the separation of pension security between organs, public institutions and enterprises

The pension insurance system treats enterprise workers, workers of organs and public institutions and civil servants differently. The two pension plans are different in terms of post-retirement welfare, rate of return and substitution rate, which not only leads to different welfare to retirees, but also prevents the flow of personnel between these two kinds of posts to some degree and increases management costs. If an enterprise worker is transferred to an organ or public institution, the money that he has paid for pension insurance can't be used in the pension system for organs and public institutions; if a worker of an organ or public institution is transferred to an enterprise, the money for his pension insurance is nowhere to be found.

Officials of organs and civil servants design and implement reforms, but they set themselves out of the reforms to protect their interests. Reform designers are not willing to set themselves as a model of reform, which makes reform harder, slows down development and hinders social harmony and stability. Objectively speaking, this leads to and heightens the occupational barrier between enterprises and administrative public institutions, and seriously hinders the reasonable and orderly flow of talents. Therefore, the current reform in the pension insurance system of public institutions should be taken as an opportunity to destroy the boundary between rural and urban areas and the occupational barrier, reconstruct the pension insurance system in China, and establish a single basic pension insurance system for all nationals.

### 4. Establish a pension insurance system that covers rural and urban areas and all occupations

The existing pension insurance system in China is obviously unconnected, in which the flow of personnel between different occupations is hindered and the social function of providing mutual aid can't be effectively played. Moreover, it can't solve the financial problems of pension insurance.

As the financial resources in China overly favored urban areas over these years, two different social systems are formed in rural and urban areas. In terms of pension security, four policies are made for urban residents that live on national finance, urban residents that live on enterprise finance, freelancers and rural residents. The most direct result of these policies is the latter three groups have to bear market risks that are extended level by level, and thus the gap between them and the first group is widened continuously. At present, firstly, since the government has weak supervision over the enterprises paying for employees' pension insurance, the employees' pension is regulated by market and the balance of their personal accounts keeps low; secondly, since the government doesn't take control of organs and public institutions in setting payment base, their employees can receive generous pension, which is paid by national finance, and the balance of their personal accounts keeps high. To solve this problem, the key isn't making the pension even for all these groups, but destroying the multi-track pension insurance in the

macroscopic level, and establish a dynamic management mechanism, according to which the market risks shall be shared by all people.<sup>15</sup>

In addition, the current basic pension insurance system for city and town employees has low ability of incorporation, as it poses great difficulties for city and town residents, who are not employed, and rural social pension system to be incorporated in it. For one thing, the high premium stops rural migrant workers from paying for the basic pension insurance; for another, the inability of using the basic pension insurance for city and town employees in different places hinders rural migrant workers to pay for the basic pension insurance. Because of these, the system gradually becomes a “castle” that excludes rural migrant workers from the system these years.

The pension of enterprise retirees has been adjusted for several times over these years, and it's rising on the whole. But still, it's much lower than the pension of retirees of organs and public institutions. Moreover, these adjustments may easily lead to new unfair situations in society, for example, the pension problem of enterprise employees and the elderly that were unemployed when they were young, and other groups like the elderly in rural areas may compare their pension with that of other groups. In addition, the pension of enterprises in monopolized industries and in non-monopolized industries is also different. Because of the existing large gap in the pension of different systems and industries, the social security system is questioned, that is, whether it's fair or not. Therefore, to improve the social security system, it's an unavoidable topic for discussion that we should accelerate social mixing and eliminate the gap in social security, so that all nationals can fairly share the “cake” of social security.

Establishing a pension insurance system that covers the rural and urban areas is necessary to eliminate the imbalanced pension insurance development between rural and urban areas. For a long time, because of the separation of rural and urban areas, social security resources are unequally allocated. According to statistics, from 1991 to 2005, the average expenditure of social security per capita in urban areas accounted for 15% of GDP per capita, over 90 times higher than that in rural areas, which only accounted for 0.18%. This kind of dualistic social security system seriously affects the fairness of the social security system. It destroys social fairness, aggravates the gap between rural and urban areas, and goes against the requirement of fairness of the social security system.<sup>16</sup>

Therefore, we should lower the premium of pension insurance for cities and towns, so that groups like rural migrant workers may be able to pay for it. Cancel the limitations of the basic social pension insurance system, which classifies people into groups according to the household registration system, so as to connect rural and urban areas. Study and promote reform experimentation of pension insurance system for public institutions, draft relevant supporting policies for pension insurance system for public institutions, and focus on the study on the methods of

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<sup>15</sup>Ma [12].

<sup>16</sup>Yan [13].

basic pension accumulation and payment and those of trial implementation of occupational annuity. As conditions permit, consider adjusting and reforming civil servants' pension insurance system. Establish an elderly service security system that allows a reasonable gap between different groups of people in five years, and build a free, open elderly service security system that covers all people and allows the integration of rural and urban areas with five more years. As the state increases investment in the old northwestern industrial base and middle and western areas in recent years, especially as the rural social security system that mainly includes rural social pension insurance and rural cooperative medical service is established and perfected, this kind of situation, that is, the dividing of the rural and urban areas, would be changed, and it would be a trend for these two areas to mix.

#### 5. Push the mixing of elderly care cause and modern service industry<sup>17</sup>

Generally speaking, people may easily see the pressure caused by the aging issue on social development, but neglect the changes it brings about. In fact, the changes of the elderly care mode resulted from the aging issue would lead to the emergence of many industries, and drive the development of society and economy in China.

Currently, China is undergoing transformation along the path from family elderly care to institutional elderly care and finally to community elderly care. The changes of the elderly care mode will have great impacts on social and economic development, requiring the development of the elderly care service industry and pushing the mixing of elderly care cause and modern service industry. In the service industry, aside from providing regular items like daily care, housekeeping service, medical care, nutritious catering, rehabilitation, body building and commercial supporting facilities, surveillance systems can be gradually installed in the elderly's communities, for example, electronic surveillance system, alarm system, patrol system and e-card system. Expertise on different aspects can be applied in the development, building, operation and management of the elderly's communities, for example, community planning, environment protection, safety facilities, material science, the elderly's physical and mental status.

The mixing of elderly care cause and modern service industry is the result of innovation in the elderly care mode and also a trend of social restructuring. During the process to solve the elderly care issue, we should and can introduce in concepts and thoughts from modern service industry, through which we can drive the innovation in the elderly care mode and development of social undertakings in China.

#### 6. Accelerate the organic mixing of ways of elderly care security

An appropriate way of elderly care would be the best. Since China has been in the agricultural society for a long time with bad natural conditions, family elderly care has become a long-existing consensus and mainstream way of elderly care over the

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<sup>17</sup>Xi [14].



past thousands of years, and it's also appropriate for the agricultural society after long-time selection.

But as the industrialization and urbanization processes accelerate in China, individuals' identity changes among a member of a family, unity or society. Because of this, the traditional family elderly care coexists with institutional, social elderly care and other elderly care security modes. Moreover, the above-mentioned modes often mix together. Among them, home-based elderly care service is suitable for China's conditions with Chinese characteristics. It refers to a form of socialized elderly care service, according to which communities and society help family members provide daily care, medical care, entertainment, mental comfort and other services to the elderly that live at home. It's an innovative form based on the traditional family elderly care service.<sup>18</sup>

Vienna International Plan of Action on Aging, produced by the first World Assembly on Aging in 1982, emphasizes: "They should be community-based and provide a broad range of preventive, remedial and developmental services for the aging, to enable them to lead as independent a life as possible in their own home and in their community." United Nations Principles for Older Persons, which was published in 1991, stresses once again: "Older persons should be able to reside at home for as long as possible" and "Older persons should benefit from family and community care and protection in accordance with each society's system of cultural values." From then on, the way of elderly care with home care as the major part, community care as supporter and institution care as supplement becomes a trend in the international community.

In terms of the content of security, elderly care security includes several levels: providing materials, guaranteeing basic life, offering daily care and mental comfort, which are consistent with Maslow's hierarchy of needs. The first two levels belong to basic security, and the latter two are to improve the elderly's life. If we can properly mix these levels, we can positively deal with the aging issue.

In addition, all institutions providing elderly care service, whether in cities, towns or rural areas, public or private ones, should be equally treated by the government and reformed so as to provide standardized services. Only through encouraging and supporting all institutions, providing elderly care service fairly and offering them equal development space can we accelerate their development.

## 2.4 Theory of Government Functions

All the ruling classes at all times and in all over the world treat the issue of supporting old citizens as a social problem. However in the early days, it was basically in a laissez-faire situation. With the social development, governments began to supply different degrees of relief to the old group, especially the elderly in

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<sup>18</sup>Dong [15].

a jam, though with quite limited relief scopes and levels, which also led to unflattering implementing effects. After the Middle Ages, especially with the establishment of modern social security systems, whether the Church or governments all elevated the supporting for the old citizens to a very important position; and conformed it by forms of systems and even laws. As entering the modern society, the supporting for old citizens has already been the embodiment of basic human rights, which has also been implemented with positive intervening measures by governments. Therefore, as it were, the human pension securities experienced a historical developing process from laissez-faire to overall intervening, from sole and superficial to multilayer and thorough. As to the theories of government functions, liberalism and state intervention are two mainstream theories in western thinking public.

### 1. Theory of government functions of liberalism

The origin of the liberalistic thought of government functions can date back to European classical liberalism in the 17th and 18th century. The ideologists of the day advocated policies of nonintervention to give maximum laissez-faire policies to individuals and market subjects, and considered that, “the government intervening the least was the best government”, while the main functions of the state and the government should concentrate on the aspects of safeguarding maximum freedom of individuals and their private property rights, etc. Some liberalists in the early days, such as Adam Smith, Locke, Montesquieu and others all had discourses on the systems of reducing intervention, advocating free trade.

Adam Smith creatively absorbed the viewpoints of physiocrats, and demonstrated the rationality of laissez-faire policy from the perspective of economics. His whole theory was based on the hypothesis of “economic man”, and considered that, human was rational, and always planned for himself in economic activities to pursue the maximum of individual economic benefit; and the market with free competition was precisely the natural order conforming to the self-interest nature of human. Therefore, under the condition of market free competition, the economic behaviors of individuals can automatically agree on the realization of social benefit, with “an invisible hand” playing important functions in this process of benefit coordination. Smith wrote, “(he) always neither planned to promote public benefit, nor knew he himself promoted that kind of benefit to what degree... he just only calculated his own benefit. In this occasion, just like in many other occasions, he was guided by ‘an invisible hand’ to try his best to reach to a target that was not his real intention”.<sup>19</sup> As by Adam Smith, the market is efficient with the function of self-regulation; the government should not destroy the operation of free-market mechanism by its own intervening actions. Hereby, he definitely laid out specific limitations to government functions: protecting national security from foreign invasion; protecting personal safety in the society from infringement and oppression by others; constructing and maintaining certain public facilities and public utilities

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<sup>19</sup>Smith [16].

that the private sector was unable or unwilling to manage. In short, the government only played the role of “night-watchman” and “policeman”.

The classical economic liberalism established by Adam Smith has gradually evolved into new classical economic liberalism after continuous development by economists of later generations. However, from the view of theory of government functions, they all laid emphasis on the laissez-faire system against excessive intervention to the economy by the state and the government. After the 1930s, with the impact of Keynesian economics, economic liberalism had been once depressed.

In the 1960s and 1970s, the theory of liberalist government functions rose in the academic circle after “WWII” once again. They were generally called as “new conservatives”, and Friedman, the representative of monetarism and American economist was considered as one of the most conservative economists in the West. The intervening activities by the state exactly impeded the healthy development of the market.<sup>20</sup> For another instance, the economists represented by James Buchanan proposed the concept of “government failure” and took this as the basis to analyze the intervening behaviors of the state.<sup>21</sup>

Other than economists, some scholars also strongly attacked the government functions of the state interventionism from the view of political philosophy, stressing that the continuous expansion of government authorities would damage individual rights and freedom of citizens. As its representative, Robert Nozick considered that individual rights were inviolable. On account of the disadvantages of government intervention, he advocated to control the government functions in the minimum scope and fully play the functions of market mechanism.<sup>22</sup>

In *Two Treatises of Government* wrote by Locke from the year 1680 to 1690, the main responsibility of the government was to protect individual freedom and property, and it could let them free without managing anything beyond that. In the monumental work *Wealth of Nations* published in 1776 by Adam Smith, the founder of the classical economic liberalism in the UK, which was consecrated as Bible in the economics field, it defined the responsibilities of the government from the perspective of economy, and considered that the government should grant maximum freedom to the people and things in the economic category. The theory of “an invisible hand” was the core viewpoint proposed by Smith in his classics of *Wealth of Nations*, and under the support of this viewpoint, western capitalism was widely adopted. From 1970s to 1980s, free market principles revived in the East and the West at the same time, and Hayek-type liberalism was delivered from oppression. Meanwhile, a great revolution quietly began in the field of government management. Mrs. Thatcher was elected as Prime Minister of Britain in 1979, and Reagan was elected as President of the USA in 1980, while a New Public Management Movement aiming at shrinking the scope of government functions and expanding the market field launched in Britain and the USA therewith, and then

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<sup>20</sup>Milton [17].

<sup>21</sup>Buchanan [18].

<sup>22</sup>Nozick [19].

triggered global governance revolution. Under this background, the pension security responsibility undertaken by the government obviously weakened.

## 2. Theory of government functions of the state interventionism

The state interventionism generated mainly basing on market failure, personal nearsightedness and other circumstances. In the late 19th century, British ideologists represented by Green and Hobhouse had already perceived the necessity of intervening social life by the government. They pointed out that, the intervention in the aspects involving public benefit by the state could provide more social conditions and more favorable social environment for the free development of every citizen, which was not in conflict with personal freedom. Ideologists of Fabian socialism considered that it was necessary to economically guarantee the minimum standard for people so as to realize the fundamental values of freedom, philanthropism and equality of the bourgeoisie. The government should not only undertake the function of maintaining overall income, but also widely intervene in social life to solve the problems of education, medical treatment and so on of citizens. Some viewpoints of Fabian socialism became the theoretical basis of modern welfare state afterwards. As entering the 1970s, John Rawls, a famous American philosopher, published the work of *A Theory of Justice*, in which he had discussed relevant issues on government functions in an enormous ideological system. Rawls pointed out that, “justice as fairness” pursued a principle of improving the status of the least beneficiary to a maximum degree.<sup>23</sup>

During the period of “Great Depression” from 1929 to 1933, governments of principal capitalist countries including the USA, Britain and so on intervened in the field of public service in the round. Roosevelt Administration formulated *Social Insurance Law*, which stipulated that those wage-earners retired over the age of 65 could receive pensions varying from USD 10 to 85 dollars per month according to different wage levels. The unemployed could receive insurance benefits, and mothers with young children as well as the disabled could receive subsidies.

Keynes, a British economist, published *The General Theory of Employment, Interest and Money* in 1936, in which he referred back to the theory of government functions of the state interventionism *Social Security Law*, marking the establishment of modern social security systems emerged at the right moment with an epoch-marking significance by the midwifery of a series of elements. Keynes pointed out that the market with perfect competition assumed by the economic theory of classical liberalism did not exist in real life. Since people’s economic behaviors were always influenced by the three basic psychological factors of “psychological consumption tendency”, “psychological liquidity preference” and “marginal efficiency of capital”, it was impossible to lead to the balance of social supply and demand only by the capitalism with market regulation, thus may trigger the deficiency of effective social demand, and the economic crisis may also arise subsequently. He considered that only sensible and positive policies by the

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<sup>23</sup>John [20].

government could transform laissez-faire automatic balance into initiative balance of intervention and regulation by the government, thus made capitalism to be “adjustable capitalism” to prevent crisis. The functions of the government transformed from the role of “night-watchman” in the past to the dominant power of economy in a leap, playing decisive and indispensable functions.

In fact, in the modern west, people have already gradually realized that there were self-insurmountable imperfection and deficiency in the society, market and government. Thereupon, the two main theories of government functions above also began to emerge the tendency of mutual absorption and mutual fusion between them: the theory of government functions of the state interventionism still emphasized the maintenance of free competition and free trade; the theory of government functions of liberalism also no longer absolutely “rejected the state intervention”, but required to confine this kind of intervening activities in a certain scope.<sup>24</sup> This was also the eclectic proposition of “the third road” developed afterwards.

### 3. The transformation of modern government functions

Since the so-called “omnipotent government” does not exist, which is also impossible, it has become a prevailing theory tendency in the academic circle in recent years to demand for the reduction of government intervention, and some scholars even take “small government, big society” in the West as the targeted model of the transformation of government functions. In fact, as confined by national conditions and the influence of traditional culture for thousands of years, this kind of seemingly reasonable model also has many restrictive factors. Thereupon, how to seek for the best joint point between government intervention and social autonomy then becomes a theoretic subject worthy of in-depth exploration for the aspect of the transformation of government functions in China. At present, the service-oriented government has already become the orientation of the transformation of government functions that has been widely accepted by all sectors of the society. The public service by the government also becomes the overriding joint point of government behaviors with citizen demands, which is also the main dimension to evaluate the government and its leaders by citizens. The service-oriented government is that, the government introduces market and society forces by effective institutional arrangement to form effective supply mechanism of public services to realize the target of supplying high-quality public products and services fairly, transparently, efficiently to better satisfy diversified demands of public services by the masses. Professor Zhang Kangzhi considered that, the service-oriented government was a government that “set public service as the fundamental purpose of the existence, operation and development of the government”.<sup>25</sup> Therefore, the government must conduct governance together with

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<sup>24</sup>He [21].

<sup>25</sup>Zhang [22].

non-governmental organizations, communities, the populace and private sectors to carry out the marketization and socialization of public services.

The research on government theory, the definition of government function by the economists in the early stage mostly only laid emphasis on the economic field, especially the aspect of protecting personal property regardless of whether they advocated weak government of “night-watchman”-type, or strong government with overall intervention, but they still paid less attention to the aspects of the government functions in social administration and public services, and even no attention on those. As a part of social affairs, the issue of supporting for old citizens also naturally had not entered their views too much. After entering the industrial society from the agricultural society, individual risks, family risks had evolved into social risks. Social risks naturally should be defended by social force, thus the state naturally become the leading force to defense risks for the elderly. In spite of different ethics and concepts of responsibility in various countries, the state is the main supplier of basic pension, and it has become consensus that public sectors should provide more pensions for all the elderly.

According to the principle of “justice as fairness” by Rawls, the government function is to improve the status of the least beneficiary to a maximum degree. At present, as the core of the transformation of government functions, public services of the government should be strengthened and expanded, and the target of the transformation of government functions should be the establishment of public service-oriented government. The government should provide basic and guaranteed pension, education, medical treatment, employment and other social public services, and put effort into solving the problem of social re-allocation to realize the target of fairness in the process of development.

As to the influence by China’s economic reform to its pension security, an American scholar Halperin (2002) pointed out that China’s economic reform had smashed people’s “iron rice bowls”, and the pension system also fell into crisis at the same time. Since it is just impossible for people to spend their remaining years in comfort in the fluctuating market, it is unrealistic for the government to fully pass the buck of pension responsibility. The Chinese government should further provide basic pension security for all the people. The 16th CPC National Congress also had a statement about the orientation of the transformation of government functions in China under the condition of socialist market economy, namely “economic regulation, market supervision, social administration and public service”.

#### 4. The government should undertake the entity responsibility for the pension of citizens

It can be roughly seen from the developing process of social security that, the role played by the government gradually changes from weak to strong, from the margin to the center, from dominance to subject. It is worth stressing that during the development of basic pension, the government undertakes the entity responsibility, not the dominant responsibility. The dominance is to initiate and promote; the

subject is to directly participate and more deeply intervene.<sup>26</sup> No matter from the social insurance system (government-subject-individual-subject-type), minimum living allowance system (government-subject-family-subject-type), or welfare service system for the elderly (government-subject-family-supplement-type), the government undertakes the role of subject. The security types with the government playing dominant role include service system of home-based care for the aged (government initiating-family subject-type), preference system for the elderly (government initiating-society subject-type) and so on.<sup>27</sup>

The government undertakes entity responsibility in participating in subject investment and strengthening industrial management which is more important. The management of pension service is a new issue. The government should guide on a macro level by formulating industry planning of pension service, industry access standard, fundamental managing norms of pension institutions. Civil administration and other relevant functional departments should strengthen the management on the approval process, as well as support and specify it after the approval to strengthen supervision and inspection. It should also rely on the industry association of pension service to strengthen industry self-regulation.<sup>28</sup> The general trend is that, the government and society intervene more and more in the pension field to gradually establish corresponding pension security system and pension service system with home-based care for the aged as the subject, the community as the base, and institution pension as the auxiliary.

## 2.5 Life Cycle Theory

Life Cycle Theory is also called as Life Cycle Hypothesis (LCH) of consumption and savings, which was proposed by the American economists of F. Modigliani and R. Brumberg, A. Anton together. Its basic meaning can be vulgarly understood as the whole process of “Cradle-to-Grave”. Rational consumers will arrange the consumption and savings throughout their life according to the principle of utility maximization to maintain the income and consumption in a lifetime in general balance. Life Cycle Hypothesis links consumption with the income and wealth in a lifetime, which is of important significance and status, for this reason, Modigliani won the Nobel Economics Prize in 1985.

### 1. Rational pension system can smooth the life course

The grasp of own life course by the human beings should firstly seek for existence and prolong the life as long as possible. The next is to live well with respect and quality, and be able to keep from the torment by hunger, cold and disease when

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<sup>26</sup>Dong [23].

<sup>27</sup>Dong [24].

<sup>28</sup>Dong [25].

getting old and infirm, and then spend the remaining years in comfort. And the social security is absolutely necessary in pursuit of the two points.

From the perspective of individual life, the main function of old-age pension is income smoothing—old-age pension is a kind of measure to re-allocate the income of the middle-age period with production capacity to the period after retirement.<sup>29</sup> That is to say, individuals accumulate pension capital for the senectitude in the future by labor in the young period. Laborers prepare for the quitting of the labor market when they lose capacities to work by payment and accumulation of old-age pension when young, thus smooth the whole life cycle course to reduce fluctuation as much as possible.

According to the life-cycle hypothesis, people save money during their working lives and withdraw it during their post-retirement lives, in order to even out their consumption over their entire lifetimes by accumulating when their income is high and dis-saving when their income is low. This hypothesis was established on strict assumed conditions, of which, one is the assumption that future income is predictable. However, in real life, due to information asymmetry and lack of foresight (such as inflation, interest rate variations and other factors), it is difficult for people to estimate how much they should save. In other words, it is difficult for consumers to guarantee that they can achieve their retirement objectives with their voluntary savings and they, thus, often save too much or too little. This issue requires society to provide a form of institutional arrangement that can satisfy the needs of people engaging in this form of cross-period saving, which is a condition for the existence and development of a country's pension system (Sun Hongyu 2004). The pension system stimulated people's saving activities and allowed them to replace previous saving behavior with pension payments and withdrawals. Thus, pension payments and benefits reflect a savings trend whereby people maintain an appropriate income during their old age. Therefore, the contributions that people make toward pension funds can be seen as a form of saving that guarantees individual income during retirement, playing the comparative role of a piggy bank.

## 2. The family inter-generational support reflects Theory of Life Cycle

Theory of Life Cycle not only reflects in the aspect of individual life, but also reflects in the aspect of family as the base for individuals. In a family, the inter-generation fostering and supporting reflect obvious life cycle. From the view of modern social security, the costs of giving birth to and fostering children can be considered as the payment of security funds by parents at labor age for future provision when they get old. This fund is paid and accumulated year by year with the age growth of children, and its value will be preserved and increased with the gradual growing of children. When parents get old and lose labor capacity, and children grow up to labor age, the pension security funds paid in the past begin to pay until parents pass away. From the perspective of traditional families, this kind of payment, accumulation, appreciation and grant of pension fund is a process full

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<sup>29</sup>Nicholas [26].



of ethical kindred, and is very natural.<sup>30</sup> The problem at present is that, this kind of inter-generational supporting model with the constraint type of non-institutionalized ethic is more and more impacted by external forces. For example, the advanced age with low birth rate leads to the decrease in competence of fostering children, or being too busy to nurse the elderly, which call for support from the government and social forces.

### 3. Postponing retirement age conforms to Theory of Life Cycle

The stipulation of retirement age in force directly leads to the sharp decrease of the proportion of individual working hours in the whole life cycle, which seriously injures inter-generational fairness, and challenges the financial sustainability of pension insurance system. Thus, postponing retirement age and adjusting life cycle become one of the measures adopted by most countries to deal with the pressure brought by population aging. Therefore, postponing retirement age can function double effects of increasing income and decreasing expenditure for pension funds. In the whole life cycle, the education investment by urban residents is higher than that of rural citizens, and those in the job is higher than those out of job. Researches show that, the years of working of professionals and administrators are mostly approximately 40 years, and those of low-end workers in agriculture, service and other industries can reach to over 50 years. It intensively performs in the aspects of the levels of personal income and pension security, and it is an inexorable trend that the former is always higher than the latter. According to this theory, combining the stipulation on retirement age at present and life cycle characteristics of the male and the female, the retirement age can be properly prolonged, and the scale of investment costs for individual human capital can be reflected by moderate distinction of the levels of old-age pension.

### 4. Theory of Life Cycle provides theoretical foundation for the implementation of the house-for-pension scheme

The house is the important fixed asset of a family, with the function of value preservation and increment. However, because of its enormous value content together with other factors, it is comparatively difficult for realization. Influenced by this, the living quality of the elderly with all housing property will also be greatly reduced correspondingly. According to Theory of Life Cycle, and the analysis on income and consumption cycle in a lifetime, the house-for-pension scheme can be taken into account for trial implementation in China. The elderly mortgage their own legal house properties to financial institutions or individuals, and the latter pay old-age pension to the elderly in due course, then the house properties will belong to the latter by a proper way after the elderly pass away. The tasks of provision for the aged are heavy with high pressure, and this kind of “reverse mortgage” model will not only raise the living quality of the elderly with economic independence, but also relieve the pressure of provision for the aged, exorbitant medical expenditure

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<sup>30</sup>Liu [27].

and housing demand at present, thus make immovables to flow in fact, with rational allocation and optimal utilization, which is also the enrichment and development of Theory of Life Cycle. It is also a kind of financial innovation for financial institutions, which can expand business scope by this to find new profit point.

Though there are comparatively successful precedents of the “house-for-pension” scheme in developed countries, it is still only in a starting stage in China, which is also faced with the influence by population longevity risk, the value assessment of real estate, price fluctuation in the real estate market and other uncertainties, therefore, the promotion of this work is still faced with many difficulties. We may select part of developed regions to pilot first, and then gradually popularize it after conditions get ripe. During this process, the government should strengthen guidance, supervision and risk control to make it become one of the important complementary measures to cope with population aging in China.

Commercial insurance companies have inborn advantages in operating “house-for-pension” business, for example, they can avoid market risks to a maximum degree, and design proper products according to the life expectancy of property owners and so on.

## 2.6 Theory of Civic Rights

According to the Constitution of China, the basic rights of citizens mainly include the right to elect and to be elected, cultural education right, labor and rest right, life security right and other rights. At present, the basic public services linked with the basic rights of citizens in China should include pension security, medical security, social relief, education, employment training and other rights at least. Certainly, basic public spiritual culture service should also be included. Besides, all citizens are free and equal when enjoying various rights, with the protection of the Constitution and laws.

### 1. Providing for the elderly is the basic right of citizens

The value of social security is to realize social equity and social justice. Welfare economists considered that social security is the public product provided by the government to all citizens, and should be equally enjoyed by all citizens regardless of their social situations, status and positions. As an important component of human rights, social security lays emphasis on the responsibility of the state, which reflects the dependence of civic rights on the state power, attaching extensive social responsibility to the government, and also creates conditions for citizens to enjoy other basic rights and freedom.<sup>31</sup>

The right of provision for old citizens is not only the core issue of pension security system, but also the logical starting point to solve the problem of pension

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<sup>31</sup>Liu [28].

security. Under the circumstances that citizens have reached the age boundary to relieve labor obligations stipulated by the state or have lost the capacity to work because of old age, they are legally entitled to enjoy material assistance provided by the state and society, and be supported and helped by their families. Like subsistence right and labor right, pension right is also the basic right of citizens in the society. With the constant improvement of pension service system, the pension services acquired by citizens include not only material life, but also higher-level spiritual culture service.

Providing for the elderly is not only the right of citizens, but also the responsibility of the government. The state guarantees legal interest of the elderly by the form of legislation to let the extensive elderly live with dignity and security, which is determined by the objective law of social development, and is also the principal function of the state and government. Therefore, as one of the most important livelihood issues, providing for the elderly has been written into the Report of the 17th National Congress of CPC.

As one of the most important five types of insurance of social insurance, the pension insurance is an important component of social security system, which is a kind of social insurance system established by the state and society to solve the basic lives of labors under the circumstances that they have reached the age boundary to relieve labor obligations stipulated by the state or have lost the capacity to work because of old age and quit labor posts according to certain laws and regulations.

## 2. Relevant stipulations on the right of provision for old citizens by domestic and foreign constitutions and laws

The earliest *Old-age Pension Act* in Britain was passed in 1908. The Act stipulated that each of the elderly over 70 years old could receive 5 shillings as old-age pension per week. This made it become a kind of right of citizens to receive old-age pension for the first time in human history to confirm it in the form of law.

The four Constitutions issued by New China successively all had stipulations on the life guarantee right of retired workers and the right of material assistance of old citizens. Chapter 2 of the Constitution of the People's Republic of China passed in 1954 stipulated in "Basic rights and obligations of citizens" that "citizens of the People's Republic of China enjoy the rights and obligations of labor" (Article 42). "The state implemented retirement system on staffs of enterprises and institutions, and civil servants according to the stipulations by laws." "The lives of retirees are secured by the state and society" (Article 44). "Citizens of the People's Republic of China are entitled to acquire material assistance from the state and government under the circumstances of oldness, disease or losing labor capacity. The state develops social insurance, social relief and medical and health services for citizens to enjoy these rights." "The state and society secure the lives of disabled soldiers, comfort and compensate families of martyrs, give special treatment to families of soldiers." "The state and society help to arrange labor, lives and education for the blind, deaf, dumb and other disabled citizens" (Article 45). Obviously, the citizens

mentioned in the Articles should include all urban and rural residents. Based on the Constitution, there are also stipulations on securing legal rights and interests of the elderly in Labor Law, Marriage Law, Law on Protection of Rights and Interests of the Elderly in China. Among them, Law on Protection of Rights and Interests of the Elderly explicitly stipulates that “the state establishes pension insurance system to secure basic lives of the elderly”, “the state increases old-age pension according to the improvement of economic development, the living standards of people and the increase of staff salaries”, and stipulates to implement five-guarantee system of “securing food, clothes, residence, medical treatment and burial” for the elderly in rural areas without labor capacity, source of income, supporters and dependents. Therefore, the right of provision for old citizens with subsistence right as the core has been basically notarized by the whole society and secured by laws.

Social Insurance Law of China issued in October, 2010 stipulates that the state establishes basic pension insurance, basic medical insurance, employment injury insurance, unemployment insurance, maternity insurance and other social insurance systems to secure citizens to legally acquire material assistance from the state and society under the circumstances of oldness, disease, occupational injury, unemployment, maternity and other situations. The payment ages of basic pension insurance relations of individuals employed in cross-planning areas are calculated by accumulation.

### 3. The draining of interests and rights of pension security by the marginal population in China

Section 2, Article 33 of the *Constitution of China* in 1982 explicitly stipulated that “all citizens of the People’s Republic of China are equal before the law”, and specific to the aspect of pension and social security, no matter the elderly in urban areas or rural areas, no matter old men or old women, they are generally equal to receive the pension services. However, the social pension issue of citizens in China is always in an incomplete condition for a long time, let alone equal and sharing. Although *Social Insurance Law* has been issued, its implementation effect still waits for strengthening. The salvation law, welfare law and other laws involving living quality of the elderly are still being brewed.

- (1) The floating population with migrant workers as the subjects. In general, the features of flexible employment are informal labor relations, comparatively low remuneration, no institutional link with social insurance, low-threshold employment, easy to enter and quit. The flexible-employment population is always called as “edge population” or “vulnerable group” and so on by some newspapers, who are mainly temporary workers, seasonal workers, hourly workers, laid-off workers, migrant workers, individual households and free-lances, etc employed by formal sectors. The rate of joining social insurance is comparatively low by migrant workers, owing to their weak insurance awareness and lack of initiative, and the unwillingness of employers to participate insurance motivated by profit. Besides, it is also an important reason that the current system is not quite fit to the real employment situation of

migrant workers, which is not smooth in transferring and renewing and is with weak enforcement. The problem of transferring and renewing is the chronic illness perplexing the current pension system all along. Since the overall planning level is low, and migrant workers are in comparatively high liquidity during the process of moving from one place to another, the pension money paid previously cannot be transferred to the new working place, so migrant workers always choose to “cancel the insurance” or “clean up accounts” to retrieve the part of old-age pension paid by individuals, with the social overall planning paid by enterprises for them still leaving at the original place, which is like to make “contribution” to local finance. Because the current pension insurance system is designed for staffs in state-owned enterprises at the very start, not to taking the participation of migrant workers in account.

Researches show that, it has become a tradition by some local governments in Guangdong province to actively provide favorable assistance and services to migrant workers to “cancel the insurance”. Therefore, migrant workers should be encouraged to gradually integrate into a new urban pension security system at current. It is an inevitable process of urbanization, while it is also an inevitable process that more and more labors come into cities. It is not difficult to imagine that there will be 300 million laborers constantly floating between the urban areas and the rural areas 10–20 years later.

- (2) Pension security problems of land-requisitioned farmers. At present, the pension security problems of land-requisitioned farmers mainly lie in the following aspects: the constantly weakening of pension function of the land, the disunity of institutional model, too low compensation standard for land requisition, poorer sustainability of system and so on. As the source of food and clothing and the basis for survival, the pension security function of the land is the important basis for family pension in rural areas, which is also an important difference between the pension in rural areas and in urban areas. With the rapid development of market economy, and the acceleration of industrialization and urbanization, there comes out crisis in the quantity and quality of the land resources that can be occupied by farmers, with the pension function of the land emerging with weakening tendency. Since new Land Management Law issued in 1997, there have formed 40.27 million land-requisitioned farmers all over the country. With the acceleration of the process of urbanization, there are about 4 million land-requisitioned farmers newly increased every year in recent years. With the arrival of aging society, this part of “three-without” marginal population in the city will bring great impact to social harmony and stability, while the vast majority of unstable factors come from land requisition and demolishing at present. Therefore, it appears to be particularly necessary to properly solve the pension security problems of this part of population.
- (3) College graduates that have failed to be employed in time. Since there is increase but no decrease in the employment pressure, a multitude of youthful students have been relentlessly pushed to the society from the campus. They cannot adapt to the complex social environment since they have not acquired

suitable job posts in time. Worse still, this group cannot be covered by social security network in time, which makes them increasingly in a marginal situation. In addition, this group always evolves into unstable factors of the society due to their active thoughts. Therefore, the security problems of this group should be focused by all sectors of society.

4. Empowerment to rural residents by accelerating the process of new-type rural social endowment insurance system

New Rural Co-operative Medical System with institutionally full coverage at present only relieves the problem of medical care for rural residents, and the system of subsistence allowances is just designed with the target of securing the most basic livelihood of the most disadvantageous group for the time being, with rather limited coverage and security level, tending to be unstable, unreliable and even non-institutional. In addition, compared to enjoying pension security, receiving minimum living allowances is a right notwithstanding, but it is not a fully dignified and honorable living style. In the long run, it still depends on the pilot and generalized new-type rural social endowment insurance system at present to solve the problem of provision for the elderly in rural areas to secure their basic livelihood, let them acquire various living rights more honorably, as well as improve and raise their living and survival quality. Such kind of institutional arrangement can not only fully improve the family status and social status of the elderly in rural areas, and help the elderly find back the lost dignity again, but also secure their basically quality daily life. Therefore, it is imperative to accelerate the new-type rural social endowment insurance system.

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