Both the title “Great Transformation” and the subtitle “Double Movement” of this article are borrowed from Karl Polanyi. In 1944, Karl Polanyi published his masterpiece “The Great Transformation: The Political and Economic Origins of Our Time”. Over six decades after the initial publication of this classic book, “The issues and perspectives Polanyi raises have not lost their salience” and it “often seems as if Polanyi is speaking directly to present-day issues,” Joseph E. Stiglitz wrote in the foreword to a new edition of this book.

In spite of his abstruse elaboration, Karl Polanyi articulated his viewpoints in simple and clear terms. In his opinion, “the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness”. In human history, the market has always been in existence but the market economy is rarely seen or incomplete even if it does exist, according to Karl Polanyi. Prior to the 19th century, he insists, the human economy was always embedded in society and then the economy should be called an “ethical economy” because economic activity was subordinated to politics, religion and society relations. The 19th century classical economists, though, attempted to create a “disembedded”, fully self-regulating market economy and to subordinate society to the logic of market. If such an objective is fulfilled, however, it assures the destruction of society. As vindicated by human practice, a society from which economy is fully “disembedded” is a stark utopia; the objective of classical economy was not and cannot be attained. What the human society has witnessed since the 19th century is in fact a double movement: the expansion of market forces will eventually trigger a countermovement aimed at protecting man, nature
and production organization.

I. From an ethical economy to a market society

Karl Polanyi’s analytical framework offers insight into China’s transition in the past decades.

Chinese economy in a traditional society is apparently an ethical economy. Mr. Liang Shuming (1893-1988) has made a discerning observation: “In an ethical society, husband and wife are sentimentally bonded as father and son are integrated in blood, with no property separated from one another. When a parent is alive, brothers are not separated; when a grandfather is alive, the three generations from grandparent to grandchild are not separated; otherwise, it will be deemed as an insult to reason and conscience (in ancient times such conduct was forbidden)—this is the so-called rationale of sharing property. However, ethical affection varies in closeness and distance and in everyday life it is more convenient to live separately; so property cannot be shared forever. Hence came the idea of dividing property between brothers and between close or remote kinfolks. Property was initially divided up when they began to live apart and thereafter the rich gave more property to the poor. As a result, there was no communication between relatives, friends and neighbors, and this is called the philosophy of property aid. Property aid should, in principle, be paid off in different ways. However it is very common for people not to seek repayment in the case of aid or relief. In some circumstances, though, giving is rather an obligation and perhaps it has the broadest connotation in ethical relations. Therefore, people took care of each other economically; otherwise, they would be considered mean and unrighteous. In addition, numerous sacrificial lands, charity lands and schools were the common property of clansmen; social storehouses, granaries and school lands pertained to the common property of fellow villagers or townsfolk; such property was mainly used to help orphans, widows and poor people and to subsidize education. This is an instrument or tool developed from the notion of ethical responsibility but it is quite similar to communal life”. Simply put, the economic relationships between people at that time was subject to kinship and ethical adjustments. “Treasuring human relationships dearly, taking property lightly” is clearly indicative of an ethical relationship.

After the People’s Republic of China was founded in 1949, social values changed drastically, with collective interests and national interests replacing ethical relations and affections to become the overriding social value. In spite of the change in ethical connotation, the subordination of economic relations to social ethics remained intact. At that time, China also pursued economic growth but its economic system arrangement shows that efficiency and economic growth were at best secondary in importance and markets did not play a big role. There were two mechanisms under which economic relations were “embedded” in social and political relations—the so-called “soft budget constraint” and “iron rice bowl”. Soft budget constraint means that the activity of an economic organization (a firm or a lower-level government) is not necessarily subject to the constraint of the resources in its possession. In the event of failing to make ends meet and suffering deficits, it can expect to receive assistance from an external organization (the higher-level government) to survive without bearing the brunt of disruptive change under the Darwinian law of “survival of the fittest”. “Iron rice bowl” means permanent job security for everyone, no one will ever be exposed to unemployment risk regardless of his or her performance. Soft budget constraint and “iron rice bowl” did a disservice to competition and efficiency maximization and they became the twin pillars of the planned economic system because the arcane system...
focused on the equality between economic entities and the provision of basic subsistence support for human beings even at the compromise of efficiency. Under planned (ethical) economic systems, communes and production brigades in rural areas and organizations in urban areas were not only economic entities but also social and political entities. Not only did they offer job opportunities for their members and pay them without much difference in work points, they also provided their members and dependents with various social benefits such as nursery, kindergarten, school, medical care, pension for the disabled and for the family of the deceased, pension and funeral services. In other words, welfare was furnished by communes and brigades in rural areas and work units in urban areas and it did not need to be provided directly by the government. Such a system was called “Maoist ethical economy” in academia. Such a situation lasted until the early stage of reform and opening-up in the mid-1980s.

After reform and opening up was launched in the late 1970s, China changed its guiding ideology. Instead of pursuing basic assurance and equality, decision-makers highlighted the overriding importance of development and aggressively pursued economic growth. Hence came the catchphrase “Top priority for efficiency, due consideration for equity” but “due consideration” was to a significant extent reduced into an oblivion. To pursue efficiency or overall economic growth rate maximization, everything else must give way and all other things can be sacrificed, including, among other things, fairness, employment, employee interests, public health, medical care, eco-environment and national defense construction. At that time, the leadership at all levels appeared to have intentionally or otherwise accepted an “underflow hypothesis” advocated by neoliberal economists: as long as the economy keeps growing and the pie becomes bigger, any other problems will be solved eventually.
Trends

Under the mega-backdrop of such ideological change, China underwent an evolution from an ethical economy into a market society in three stages. Stage 1 saw the emergence of the market (1979-1984). At this stage, commodity exchange markets began to emerge on a sporadic basis but played a very limited role in the overall economy. At that time, government intervention with economic activity was still very pronounced, and non-market institutions and relations retained the upper hand. Stage 2 witnessed the emergence of market systems (1985-1992). At this stage, a set of intertwined market systems began to emerge, which extended from product market, labor market and capital market to foreign exchange market and land market. By the time of this stage, the market laws of equal value exchange, relationship between supply and demand, and competition began to work in the economic arena yet without making a massive foray into non-economic areas. Stage 3 ushered in the birth of market society (1993-1999). At this stage, market rules began to sweep across non-economic areas and in all likelihood gained momentum in integrating the mechanisms of social life (and even political life).

Following the three stages of transformation, the ethical economy was gradually disintegrated. The relationship between treasury coffers at different levels shifted from “eating from the same big pot” to “eating from separate pots”; the relationship between State treasuries and enterprises changed from “soft budget constraint” into “hard budget constraint”; at the time of affording farmers latitude or freedom in production, the all-round contract system was enforced in rural areas to absolve collective responsibility for individual farmers; the labor system reform was meant to break up the “iron rice bowls” for urban employees. When rural villages and urban enterprises were gradually extricated from their social responsibilities and evolved into pure economic entities, the villagers and employees then lost assurance for pension, Medicare and welfare benefits and had to spend money buying them. In Karl Polanyi’s words, when China was transformed into a market society, the economy sought to be “disembedded” from society and came to dominate it. From the grand historical perspective, the evolution from an ethical economy into a market society was an unprecedented transition for China.

II. Protective countermovement in the making

Karl Polanyi argues that a “disembedded”, fully self-regulating market force is a brute force because creating a fully self-regulating market economy requires that human beings and the natural environment be turned into pure commodities and this assures the destruction of both society and the natural environment. The Chinese economy has sustained rapid growth in the past quarter century, but the blind pursuit of high GDP growth rates also gave rise to a series of severe problems. Such problems were perhaps not pronounced at the initial stage of reform, but as time went by, they became increasingly noticeable. By the late 1990s, some problems became hoorendous, including the deteriorating eco-environment and the widening rich-poor gulf. People then began to realize that economic growth did not necessarily tantamount to social progress. More importantly, in a market society, people’s livelihood is completely dependent on markets. Since markets are conceived to serve solvent people only, the welfare of people is thus dependent on their solvency. Therefore, ordinary workers and farmers are afforded less social security and assistance. In face of massive unemployment, schooling difficulty and medical care challenges, millions of people are keenly aware of the lack of economic and social security. In their view, the burdens imposed on them by the market society are too heavy and even unbearable.

In such a background, the golden signboard of market reform fell apart and the consensus on
market reform was broken. The classes of people whose interests were hurt or insufficiently enriched in the previous rounds of reform no longer lent unreserved support to new market oriented reform initiatives; on the contrary, they fretted about every move labeled with "market" and "reform" for fear of getting hurt again. These people kindled hostility towards the officials abusing power for personal gains and the upstarts who squandered money like dust, while displaying contempt for glib-tongued scholars who made a fortune out of "reform". They generally felt that China's reform had gone astray and it was time to stress economic and social development in a coordinated way. Under such uproar came a protective countermovement attempting to resist economy "disembeddedness".

Policymakers then began to pay heed to the warning issued by Deng Xiaoping: "If polarization goes unchecked......ethnic contradictions, regional contradictions and class contradictions will all burst out together with central and local contradictions, we will then get into trouble"; “The purpose of socialism is to let all people attain common prosperity instead of polarization. If our policy leads to polarization, it means we have failed". To ease social contradictions, the Chinese government began to exert more effort on “due consideration” for fairness or equity. If “due consideration” was in the past tantamount to “lip service”, now it has some tangible substance. The specific practice of “due consideration” is to employ “decommodification” which means to re-embed economic relations in social relations. In this context, “decommodification” is to regard all services concerning human subsistence (e.g., medical, education and pension) as basic human rights other than the subject matters of market transactions. The purpose of “decommodification” is to free people from depending on markets for survival or subsistence. In a planned economy where unit institutions were dismantled, realizing the purpose of decommodification requires establishing a redistribution mechanism: on the one hand, people pay tax according to their income level; on the other hand, people benefit from national redistribution (social assistance, social insurance and public services) according to their needs; taxes and beneficiary interests may not be necessarily related. Redistribution is enforced by the State to break up market chains and then re-link all the Chinese people. This is what has been changing over recent years in China.

If China was said to have economic policy without social policy from 1978 to the mid-1990s, we now see social policy sweeping across China.

Table 1 lists a series of social policies enacted in recent years. Prior to the turn of the new millennium, only the “Grand Western Development” strategy initiated in 1999 is a worthy social policy. Most of the social policies were enacted after the new generation of the Chinese leadership took the helm. A number of charts and tables will be presented in the next two sections to demonstrate that such social policies are not empty talk but concrete and tangible action making a tremendous change in Chinese society. To facilitate analysis, we classify these social policies into two major categories: 1) the objective of Category 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Newly enacted social policies</th>
</tr>
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<tbody>
<tr>
<td>1999</td>
<td>Grand Western Development</td>
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<tr>
<td>2002</td>
<td>Urban minimum social security</td>
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<tr>
<td>2003</td>
<td>&quot;Support for agriculture, farmers and the rural area, rural tax and surcharge reform, preparation for setting up a rural cooperative medical system</td>
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<tr>
<td>2004</td>
<td>Agricultural tax cut and &quot;tri-subsidies&quot; in rural areas</td>
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<tr>
<td>2005</td>
<td>Agricultural taxes repealed partially</td>
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<tr>
<td>2006</td>
<td>Agricultural taxes completely repealed, comprehensive agricultural subsidies initiated, waiving tuitions for compulsory education in rural areas of western China and low-rent housing program started on a piloting basis in urban areas</td>
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<tr>
<td>2007</td>
<td>Free-of-charge compulsory education in rural China, new rural cooperative medical care fully advanced, low-rent housing boosted, rural minimum social security bolstered, and medical insurance mandated for all people in urban areas</td>
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III. Narrowing inequality

In terms of income gap composition, China’s income gap can be broken down into internal income gap inside urban areas, internal income gap within rural areas, income gap between urban and rural areas, and income gap between regions. Studies show that China’s overall income gap is to a great extent attributable to regional gap and urban-rural gap. Therefore, narrowing down the overall income gap requires first narrowing down regional gap and urban-rural gap to the maximum extent possible.

Due to space limitations, this article only discusses changes in respect of regional gap.

An important measure of narrowing down regional gap is to boost fiscal transfer payment from the central government to poor provinces, especially economically backward provinces in middle and western China. Prior to 1993, China’s fiscal regime adopted an overall responsibility system allowing each locality to “eat from their separate pots”, which was very favorable to developed provinces along the southeastern coast because they had abundant fiscal resources but they did not need to share local tax revenue with other provinces. As for fiscal resource depleted central-western provinces, the lack of outside fiscal transfer payment made it difficult for them to furnish the same public services for local residents as coastal provinces did. Furthermore, they were incapable of developing infrastructure and investing in industrial projects as coastal provinces did. After the mid-1980s, the regional disparity continued to widen and the fiscal responsibility system was mainly to blame for the widening gap.

In 1994, the Chinese government drastically restructured its fiscal regime by replacing the fiscal responsibility system with a tax sharing scheme. This reform sought to reverse the 15-year consecutive decline of “two ratios”, and as a result boosted central government’s revenue extracting capability, thereby laying an institutional basis for fiscal transfer payment to the provinces.
As evidently shown in Figure 1, the total amount of fiscal transfer payment from central government to the provinces has been growing rapidly since 1994; it surged by leaps and bounds year over year especially after 1999; by 2007, it reached RMB 1600 billion, which was nearly eight times as much as that of 1994. The reason for 1999 to emerge as a turning point is attributable to the official announcement of the central government to pursue “Grand Western Development” in that year.

Which regions are the beneficiaries of fiscal transfer payment from central government? According to the Ministry of Finance statistics, the breakdown of transfer payment from central to local government during 1994-2005 was 10%, 44%, 46% for eastern, central and western regions respectively. Massive central fiscal transfer payment was conducive to easing fiscal revenue and expenditure imbalance between regions and promoting regional development in a coordinated way. Figure 2 depicts the trajectory of change in inter-province Gini coefficients in per capita GDP in real terms from 1978 to 2005. As shown in the figure, the regional inequality kept widening since 1983; it continued to widen at a fast pace in the 1990s; the turning point came in 1999 when the central government announced the “Grand Western Development” strategy. Thereafter, the regional gap still kept widening but at a slower pace. More rewardingly, the regional gap reversed course in 2004 (for the first time since 1990); in 2005, the regional gap further shrank. Nothing but the term “miracle” can be used to characterize such a dramatic change brought about by central fiscal transfer payment within such a short time horizon.

IV. Reducing insecurity

Modern society is replete with all sorts of risks; anyone may fall into a helpless situation for reasons not due to their own faults. While households and private organizations can ease the damages of such risks to some individuals, they are not capable of helping everyone defend against such risks. Prior to reform and opening-up, communes and brigades in rural areas and enterprises in urban areas offered a sanctuary against such risk exposure. Along with the disintegration of rural communes and brigades and urban units, the government must force the entire society to bear such risks and afford everyone minimum economic security. In the 1980s and 1990s, the Chinese government didn’t pay enough importance to its responsibilities in this regard. Such a situation has to change in recent years. Due to space limitation, we will focus on new progresses on minimum subsistence allowance and medical care in the ensuing sections.

Minimum subsistence allowance (or minimum social security)

The Chinese government has paid increasing attention to economic security, as evidenced by its attitudes towards the minimum subsistence allowance. The urban poverty population issue has grabbed wide spread attention recently. Most Chinese people previously thought that poverty was merely a rural phenomenon. As layoffs and unemployment were exacerbated in the mid and late 1990s, urban poverty gradually became evident.

The Shanghai Municipality took the lead in setting up the minimum subsistence allowance (minimum social security) system for urban residents in 1993. Under the initiative of “downsizing for efficiency and implementing reemployment programs”, the State Council issued The Circular of Setting up the Minimum Subsistence Allowance System for Urban Residents Nationwide in 1997, and began to implement the urban minimum social security system nationwide. Due to the lack of urgency at that time, however, the national minimum social security coverage ticked up slowly in subsequent years. A turning point occurred in the second half of 2001 when the central government...
required the expansion of the minimum social security coverage for abject poverty employees of State-owned medium and large enterprises. As a result, the number of people covered by minimum social security doubled in six months to reach 11.70 million. In 2002, the central government launched an all-out mobilization crusade in the civil affairs system and mobilized a million people to identify minimum social security participants in a centralized way in an effort to cover as many urban poor as possible. Local governments rushed to implement the central authorities’ policy and as a result the minimum social security coverage surged to 20.54 participants by the end of 2002. In subsequent years, the number of minimum social security participants hovered around 22 million and almost all urban residents qualified for minimum social security were covered (see Figure 3).

During years when urban minimum social security coverage expanded, the coverage expansion rate was way above the minimum social security funds contribution rate. As a result, the per capita minimum social security entitlement went down as coverage grew. After the new Chinese leadership took office, governments at all levels boosted financial support for minimum social security. The per capital minimum social security entitlement kept growing since 2001 and more than doubled to reach approximately RMB 1000 in 2006.

Urban poverty is evidently a thorny issue but poverty was worse in rural areas. By the end of 2005, there were 23.65 million people below the poverty line (RMB 683 per head) and 64.32 million low-income poverty population (annual income below RMB 944), resulting in an aggregate poverty pollution of 64.32 million people. By UN criteria (one dollar a day), there are now over 100 million farmers living under the poverty line.

In 1997, some provinces and municipalities began to set up the rural minimum subsistence allowance system where conditions were met. For instance, economically developed provinces and municipalities like Guangdong and Zhejiang enacted the Regulations for Rural Minimum Subsistence Allowance to codify inclusion of farmers in the scope of social security by statute or law. Prior
to tax and surcharge reform, relief funds or alms for the abject poverty population in most areas nationwide came from “village retained funds and commune unified funds”. Therefore, it was then impractical to set up a standard rural minimum social security system. Only after rural tax and surcharge reform gained considerable progress could fiscal assurance be afforded for rural minimum social security. It was under such a backdrop that in 2004 Central Government Document No.1 required the establishment of a minimum subsistence allowance system for farmers where conditions were met. By the end of 2005, the rural minimum subsistence allowance system was set up in 14 provinces nationwide. By the end of 2006, there were 22 provinces that had set up and implemented the rural minimum subsistence allowance system, with approximately 15 million rural abject poverty people covered by the scheme. In addition, there were 12 million poor people under “rural periodical relief programs”. The aggregate number of people under the above two categories reached 27.23 million (Figure 4), slightly higher than the population below the poverty line (excluding low-income poverty population).

In 2007, the CPC Central Committee and the State Council issued The Opinions on Proactively Developing Modern Agriculture and Concretely Advancing the Construction of a Socialist Countryside [CPC (2007) No.1], which expressly required setting up the rural minimum subsistence allowance system nationwide and including rural poor population in to the scope of social security, with a focus on affording assurance for the disabled, diseased and elderly rural residents and those who had lost earning power and ensuring a minimum subsistence allowance payment to each household by the end of the year. As a result the poorest rural population was included in the scope of public finance assurance for the time ever, realizing the historical transition from a collective mutual aid and relief system for farmers into a national treasury contribution system. In spite of the low rural minimum social security entitlement level at the present time, we have every reason to believe that the rural minimum social security level will continue to improve along with the increase in national treasury contribution.

Medical care

In the era of Mao Zedong, China was an egalitarian
society. In that era, a free medical care system was set up in urban areas to serve government, university and public institution employees, while a labor insurance system was in place for the employees of State-owned enterprises and certain collectively owned enterprises. At the same time, a cooperative medical system was practiced in rural areas. The medical service quality was not high by today's yardstick but such a medical care system afforded most urban and rural residents inexpensive and equal medical care.

Since reform and opening up, the principal consideration in effecting urban medical care system reform was to ease fiscal pressure. In the 1990s, however, free medical care and labor insurance systems shrank; in 1999, both were replaced by the new basic medical insurance system initiated for urban employees. The new system underwent amazing development, and within 7 years the number of participants in urban employee medical insurance surged multifold from 18 million in 1999 to 157 million in 2006 (see Figure 5). It is especially worth noting that the basic urban employee medical insurance system covers retirees and affords them basic medical care. By the end of 2005, approximately three-fourths of retirees participated in basic medical insurance, thereby resulting in a coverage ratio way above that of younger employees (Figure 6).

The new system does not cover employee's dependents, nor are the self-employed, irregular workforce and migrant population included in the scope of insurance. Therefore, the new system merely covered one-fourth of the urban population as of 2006 in spite of its rapid development. The coverage rate was lower if the migrant population was included in the denominator.

A piloting operation has been conducted over recent years in some localities as to how to provide medical insurance for non-employee urban residents, with 10 million urban residents of 100 cities covered by medical insurance. To realize “seamless” coverage for urban residents, the State Council decided at an executive meeting in April 2007 to allow each province to pilot a basic medical insurance system with comprehensive arrangement for urban residents in a couple of cities where conditions are ripe. Under the new system, all elementary and high school students, youngsters and children and other non-employed urban residents not covered by the basic medical insurance system coverage for urban employees can participate in the basic medical insurance for urban residents; piloting was expanded in 2008 and was aimed at covering over 80% of cities by 2009. In 2010, the medical insurance system will be unfolded nationwide.

The medical insurance issue for urban migrant groups, especially farmer-turned workers, is more complicated because they show no strong interest in participating in insurance due to their young age and high mobility and their employers are also reluctant to pay for their insurance. As early as September 2002, Shanghai promulgated The Interim Regulations of Shanghai Municipality on Comprehensive Social Insurance for Workers from Other Places and set up a comprehensive social insurance system for non-local personnel working in Shanghai. In March 2003, Chengdu Municipal Government enacted The Interim Regulation of Chengdu Municipality on Comprehensive Social Insurance for Non-Urban Resident Employees and implemented comprehensive social insurance measures for non-urban resident employees (i.e., farmer-turned workers) working in Chengdu. The Ministry of Labor and Social Security promulgated The Guidance Suggestions on the Participation of Self-Employed Urban Personnel in Basic Medical Insurance and The Suggestions on Pushing Forward the Participation of Mixed Ownership Enterprise and Non-Public Ownership Economic Entity Employees in Medical Insurance successively in 2003 and 2004,
expressly requiring local labor and social security authorities to include farmer workers (who entered into labor relationship with employers) in the scope of medical insurance. Meanwhile, self-employed farmer-turned workers are required to participate in medical insurance pursuant to applicable rules and regulations. This year, the provinces and municipalities like Beijing and Shandong began to experiment in different forms of medical insurance for farmer-turned workers. Nationwide, however, medical insurance for farmer-turned workers has moved very slowly. The Ministry of Labor and Social Security statistics show that China has 120 million farmer-turned workers as of today; at the end of 2005, there were approximately 12 million farmer-turned workers participating in medical insurance and the average medical insurance coverage rate was approximately 10%.

A turning point came in 2006. At the end of March, the State Council issued The Suggestions on Solving Farmer-turned Worker Problems, stressing “the top urgency of solving medical care problems for farmer-turned workers on serious diseases” and placing farmer-turned worker medical insurance issues on a prominent position. The Ministry of Labor and Social Security subsequently promulgated The Suggestions for Implementation; in mid-May it issued , setting an objective of “striving to enable the number of farmer-turned workers participating in medical insurance to exceed 20 million by the end of 2006......striving to include farmer-turned workers (who have entered into a labor relationship with urban employers) in the scope of medical insurance”. This signals the entry of farmer-turned workers’ medical care into a new “push” stage. Each locality responded swiftly, coming up with their own “suggestions”, “regulations” and “measures” of solving farmer-turned workers’ medical care problems. The number of farmer-turned workers participating in medical insurance reached 23.67 million by the end of 2006 and rose to 24.1 million as of March 2007.

As alluded to earlier, an internationally admired cooperative medical care system was once adopted in rural China. After the output-linked household contract responsibility system was introduced, however, households once again became the basic production units in rural areas. Meanwhile, the government fostered an attitude of letting cooperative medical care run its own course. Without policy support, rural cooperative medical care also lost its economic foundation due to the downfall and collapse of the collective economy and in consequence soon fell apart. Two years after the People’s Commune was abolished, the percentage of villages under cooperative medical care plunged from 90% to 5% and dropped further to 4.8% in 1989, according to the findings of a survey conducted in 1985. In the early 1990s, the Chinese government pledged to the World Health
Organization that China would fully improve rural primary medical and health care work by 2000. To this end, the government set the mission of “restoring and rebuilding” the cooperative medical care system but it was then lukewarm about shouldering the responsibility for farmers’ medical care and paid lip service by suggesting to “raise funds mainly from individual contribution with collective support and government support where deemed fit”. As a result of a decade-long endeavor, however, the rural cooperative medical care system was not restored as anticipated and its coverage rate remained below 10%. Worse yet, such a poor coverage base risked being eroded, thereby falling prey to a vicious circle of “getting started in the spring, going bust in the fall; first go, second retreat, third collapse, and fourth restart”.

In early 2003, the Chinese government changed its attitude towards rural cooperative medical care. The General Office of the State Council forwarded the Circular of the Suggestions on Setting up a New Rural Cooperative Medical Care System jointly formulated by the Ministry of Health, the Ministry of Finance and the Ministry of Agriculture, requiring each province, autonomous region and municipality under the direct control of the central government to select 2-3 counties (cities) for piloting operation from that year and then gradually expand cooperative medical care after gaining experiences. The objective is to set up a new cooperative medical care system that basically covers all rural residents as of 2010. The difference of cooperative medical care lies in public finance involvement: in addition to contribution from farmers, local treasury shall offer a specific amount of support for each farmer participating in the new rural cooperative medical care system each year, while the central treasury shall also provide a specific amount of subsidy for each farmer participating in the new rural cooperative medical care system in central-western regions other than urban areas by way of earmarked transfer payment.

Public finance involvement has vigorously pushed forward the rapid development of the new rural cooperative medical care scheme, in stark contrast with past practice (Figure 7). The rural cooperative medical care coverage rate was only 9.5% in 2003 when the Ministry of Health conducted the Third Survey of National Healthcare Services. Four years later, however, there were 2,429 counties (cities and prefectures) that set up the new rural cooperative medical care system with 720 million participants as of June 30, 2007, accounting for 82.83% of China’s rural population. The Outline of the 11th Five-Year Plan for Healthcare Development was ratified in principle at an executive meeting of the State Council on March 21, 2007. The outline requires setting up a basic healthcare framework that covers all urban-rural residents at the initial stage of the 11th Five-Year period; and striving to build four medical insurance networks (basic medical insurance for urban employees, basic medical insurance for urban residents, basic medical insurance for farmer-turned workers and new rural cooperative medical care) under which China moves steadily towards the goal of “entitling everyone to public health and basic medical service”.

V. Summary
To gauge multi-decade change in China from a historical perspective, we cannot help but exclaim that the Chinese nation is undergoing a “once-in-a-millennium transformation”. One hundred years ago, Li Hongzhang, a powerful court official in the late Qing Dynasty (1644-1911) who, among others, sponsored the Westernization Movement, used the same phrase to characterize his era. In the midst of the “May Fourth Movement” in the early 20th century, people made a similar exclamation. But in terms of the speed, depth and breadth of change in
economic foundation and social structure, no other era can be compared to the recent decades. In the era of Westernization Movement, the “introduction of western science and technology into China” was gradually spread and reinforced along the coastal areas yet without touching the vast agrarian hinterland. In the early 20th century, Western economies invaded China, with a destructive impact on the handcraft industry in coastal regions. However, the traditional farming economy and clanship in central-western regions escaped unscathed. After the founding of the People’s Republic of China, public ownership superseded private ownership while central planning replaced the market but in almost all cities people worked at their units and everyone belonged to a unit from cradle to grave; almost all farmers clung to villages and subsisted on collective and household operation, with bazaars serving as a necessary complement to the self-contained economy. Such a lifestyle was not substantially different from the arcane way of living by blood and land.

In the early 1980s, China began to march towards the market economy. At the outset, markets sprang up quietly in every corner of the Chinese economy. Shortly after, market forces surrounded and encroached on the “planning” and “public ownership” components of the economy from all corners. Finally, market forces crossed the boundary of the economy and spread across the organisms of the entire society. In the past two decades, people have been amazed at the crashing and sweeping waves of market economy. In China today, every region, enterprise, household and person is drawn into the market whirlpool on which everyone lives and thrives. This is the first transformation of unprecedented magnitude in Chinese history, which can be described as no less than “earth-shaking”.

The market is no doubt a magic force as powerful as a magic wand that turns stone into gold. Wherever the market turns a great deal of social wealth emerges in abundance. As a result, the Chinese, long plagued by commodity shortage, found themselves in an era of relative glut within two decades. As each day goes by, we cannot help but feel that a generation has passed. Nevertheless, the market mechanism is less an economic accelerator than a sharp knife that can recklessly cut ethical ties between various social groups and transform them into discrete entities that pursue self-interest maximization in the marketplace. When market forces turn society into market society, those who count on collective entities, units and households from cradle to grave must learn how to make a living on their own. The trouble is, however, the modern society is replete with all sorts of risks,
making it increasingly difficult for individuals (especially those living at the bottom of society) to bear the burden of taking care of themselves. When fast market transformation easily shatters social safety nets, it assures the destruction of society. This is why people feel scared with all sorts of uncertainties looming large and everyone realizes there are a multitude of crises facing China when enormous social wealth floods in. Under such a backdrop comes a protective countermovement. An increasing number of people, including government decision-makers, have realized that the market can serve only as a means of raising people’s welfare but not as the end result to pursue. Market is necessary but it must be embedded in society and the State must play a positive role in the market economy. It is not likely that we will see a “disembedded” fully self-regulating market economy coming up.

After suffering from the short nightmare of “market society” in the 1990s, China has found a burgeoning countermovement hastening the birth of a ‘social market’. In a social market, the market is still the primary mechanism of resource allocation but the government employs redistributive instruments to conduct “decommodification” in areas concerning people’s rights of existence, letting everyone share the fruits of market operation and letting each social class share the costs of market operation in a bid to reembed the market in social and ethical relations. A litany of social policies enacted in recent years shows that the Chinese government has both the political will and fiscal prowess to serve as a midwife for the birth of the social market. Nevertheless, China has yet to strengthen its will and prowess. Today there still exists a multitude of grave problems in Chinese society but it is a historical turning point to see the eventual emergence of social policy whose importance cannot be overestimated.

References:

[6] Similar to Karl Polanyi’s classic book “The Great Transformation”, this article attempts to make an analysis of China in the form of trend patterns and outlines. In other words, it is concerned more with “forest” than with “trees”. Therefore, minor details are ignored in describing China’s history and status quo. It is unlikely for any trends at any time to follow the same pattern as exceptions abound. Paying excessive attention to detail may risk losing sight of trend changes.
[13] Prior to the mid-1990s, China scored remarkable achievements in poverty alleviation, which might
be a byproduct of economic growth rather than the achievement of social policy. A simple observation reveals that the pace of poverty alleviation slowed down since the mid and late 1990s in spite of increasing endeavor to help the poor. As discussed in the last section of this article, some localities began to implement measures with social policy flavor prior to the mid and late 1990s, for example, the rural minimum social security system initiated in 1986 and the urban minimum social security system set up in Shanghai in 1993. Such measures were then confined to a small scope or publicized in general policy statement without a specific plan of action. The following statistics show that social policy has been promoted nationwide only in recent years.

[14] Unless otherwise specified, all data of this article are from the author’s database.


[17] “Two key ratios” refer to the ratio of government fiscal revenue to GDP and the ratio of central government fiscal revenue to total fiscal revenue.


[19] How many studies have been made in recent years to substantiate the shrinkage of regional inequality?


[21] According to the assessment conducted by the International Labor Organization in 2004 of the economic security conditions of each country, China ranked at the bottom of four-level rankings.

[22] The rural minimum subsistence allowance system shall be set up principally by local governments in their respective localities, with appropriate subsidies provided by central treasury to fiscally difficult areas.

[23] In November 2006 the national average urban minimum subsistence allowance was RMB 79.5 each month per person, while the average rural minimum subsistence allowance was RMB 22.3 each month per person, which was less than 30% of urban minimum subsistence allowance.

[24] It is worth noting that transition to the system has not been completed and therefore free medical care and labor medical insurance still exist in some localities. In addition, government offers medical aid to some specific groups, including retirees and disabled servicemen as well as urban poor population meeting social assistance conditions.


[30] In 2003, the central treasury arranged cooperative medical aid funds at the rate of RMB 10 per person each year for the farmers of mid-western regions (excluding urban areas) participating in new cooperative medical care; local treasury was also required to provide no less than RMB 10 of subsidy to each farmer participating in new cooperative medical care.


Abstract:
After suffering from the short nightmare of "market society" in the 1990s, China has found a burgeoning countermovement hastening the birth of a "social market". In a social market, the market is still the primary mechanism of resource allocation but the government employs redistributive instruments to conduct "decommodification" in areas concerning people's rights of existence, letting everyone share the fruits of market operation and letting each social class share the costs of market operation in a bid to reembed the market in social and ethical relations. A litany of social policies enacted in recent years show that the Chinese government has both the political will and fiscal prowess to serve as a midwife for the birth of the social market. Nevertheless, China has yet to strengthen its will and prowess. Today there still exists a multitude of grave problems in Chinese society but it is a historical turning point to see the eventual emergence of social policy whose importance cannot be overestimated.

Key words:
Ethical economy; Market economy; Decommodification; Social policy.