

County Governance and the Promotion of Social Development in a Mixed Economy

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Policy-making in Reform China – characterized by its gradualism – has been guided and spear-headed by pilot schemes carried out in specific regions, provinces and cities, which in turn inform directives and programs that are then passed as national policies. This downward trajectory of policy implementation is in turn affected by local socio-economic conditions, by the locality's relative position of power in the administrative hierarchy, and by the degree of resistance from those whose interests are being endangered. Paradoxically, despite the important influence of local input on policy implementation, the Chinese government has continued to achieve almost universal compliance with the national goals it has set out (Solinger, 2004).

Allowing for regional variations in policy implementation has been a long accepted practice in Chinese politics. Given China's scale and diversity, the argument goes, accomplishing homogeneous implementation of policies is not only unrealistic, but is also not necessarily desirable. China's decision-making process at the sub-national level is nonetheless not without its critics. Particularly at the county level, decision-making has often been described as being dominated by the personal interests of local officials (Liu, 2003), who are portrayed as engaging in clientelist (Pearson, 1997) or predatory practices (Bernstein & Lu, 2000). Bureaucratic indiscipline, as Lu calls it, has prompted some local cadres to engage in corrupt practices, taking advantage of existing legal and institutional loopholes resulting from the prevalence of a dual-track system (Lu, 2000). At the same time, the numerous cases of successful local government entrepreneurialism suggest that local cadres are not as undisciplined and incapable as often perceived.

The prevalence of developmentalist practices alongside corruption becomes less of a paradox when analysed within the framework of the Party-state – where political and government power converge in a single ruling entity – and of a fiscal system in which local revenue can hardly meet expenditure needs. China has been unique among developing countries in the degree of administrative and fiscal decentralization achieved since the early 1980s, which has given sub-national governments greater room for manoeuvre and leverage *vis-a-vis* the central government. According to the fiscal interest model greater local administrative and fiscal capacity helps generate greater local political power and local government accountability (Weingast, 2006). Revenue independence has indeed given richer coastal provinces greater independence to favour their own policy priorities (Liu et al., 2006). Nevertheless, some authors have highlighted the fact that greater bargaining power at the sub-national level has not necessarily translated into the weakening of the Party-State (Huang, 1996; Edin, 2003; Whiting, 2004). Compliance with the centre has mainly been achieved through the establishment of policy mandates and strict implementation of the Chinese Communist Party's (CCP) cadre evaluation system, both aimed at restraining local government's predatory behaviour and cadre's corrupt practices. Given China's political centralization under the CCP, local government accountability cannot come through citizen monitoring, but has rather been pursued from above.

Having a set of designated targets upon which cadres are evaluated (and thus promoted or demoted) has reinforced state capacity at the centre, while contributing to the durability of CCP rule (Whiting, 2004). Since the mid-1990s, concerns over growing inequalities, and social and political stability fostered a greater sophistication of the cadre evaluation system, which continued to emphasise the importance of economic performance, but which now also emphasises social order (*shehui zhi'an*) together with family planning as the two overall priority targets specified in cadre's performance contracts (Edin, 2003). In 2007 a new regulation to curb cadre misconduct goes as far as framing the moral values to be followed by government officials. It allows, for example, for the firing of government officials who abuse or abandon family members or refuse to support their elderly relations (*Xinhua News Agency*, 29 April 2007; *China Daily*, 9 April 2007). Compliance with evaluation targets, however, has been a double-edged knife. While it allows the central government some control over local governance, its centrally mandated policies have caused inefficiencies in the use of scarce local resources and policy discontinuity as local cadres strive to comply with ever changing policy priorities. Consequently, decision-making and budget allocation at the local level often do not reflect local needs, specifically the needs of vulnerable social groups (Wang, 2002).

From the 1990s on, the incongruence between policy and actual local needs has heightened social problems to such an extent that it has prompted influential government policy advisors Hu Angang and Wang Shaoguang to state that in their opinion 'the problems that beset China's current social conditions as a whole are extremely severe, and China is on the brink of once again entering a period of social instability' (Wang, et al., 2003, 6). The national government has certainly felt pressure to give greater importance to social policy and welfare programs, as part of a traditional emphasis on economic development, in an effort to maintain social stability and more sustained economic growth.

Can the Government Kill Two Birds with One Stone? Maintaining Regime Stability while Promoting Social Development

The Chinese government was not naïve about the fact that the introduction of market forces would inevitably increase inequalities; yet, from the onset of the reform process, it claimed it would uphold its commitment to egalitarianism and social justice. This was encompassed in the slogan of 'building a *xiaokang* or an all-round well-off society',¹ which the government put forward as the marker of China's market economy with Chinese characteristics. As economic transition advanced, however, it became more evident that the gains of rapid economic growth were not being equally enjoyed in the different regions or among different social groups. A common belief among the Chinese leadership up until the late 1990s was that economic growth would subsequently bring about the formation of a *xiaokang* society. Nonetheless, growing social problems attested to the fact that the relationship between economic growth and social development was not a straightforward one.

Social issues have subsequently been pushed to the fore on the PRC's domestic agenda. The leadership headed by president Hu Jintao and premier Wen Jiabao begun to talk about the importance of the 'quality' of economic growth as a prerequisite to the configuration of a 'harmonious society' (*People's Daily Online*, 8 Feb. 2005) – the term that subsequently substituted that of *xiaokang*. This change in the use of words is significant and reflects the concerns over prevailing social dislocation, and – again – recognizes that economic growth

¹ Cui Zhiyuan (2004) has also called it a petty-bourgeois society.

per se cannot alleviate inequalities. China's society needs to be better off, but also to achieve social harmony.

As put forward at the Sixth Plenum of the Central Committee of the CCP, two of the main objectives of this harmonious socialist society are: to bridge the widening gap between urban and rural development – in order to achieve a reasonable income distribution pattern, and; to improve the basic public service system (*People's Daily Online*, 12 Oct. 2006). These are not new concepts for China's socialist regime, but the mere fact that they are being re-emphasised is evidence of current dire inequalities. More interesting, perhaps, is the new focus on safeguarding citizen's lawful rights – in particular property rights – as one of the necessary foundations of a harmonious society. And although democratic values have also been thrown into the equation, the Party-State has made it clear that a harmonious society has to be built under the leadership of the CCP.

While this position may seem to reinforce commentators critique of China's lack of political reform and lack of government accountability, David Goodman has accurately pointed out that although there has certainly been no institutionalised open national-level political competition, there have been crucial changes in the behaviour of China's authoritarian regime (Goodman, 2008). According to Goodman, the most significant change has been that the state itself has changed its own view of the relationship between state and society.

One of the results is necessarily that state and society are in some senses now more clearly differentiated, at least to the extent that the government increasingly comes to recognize certain activities as not its responsibility and even possibly not even in its purview (Goodman, 2008).

This shedding of responsibilities has been described by David Harvey as neoliberalism 'with Chinese Characteristics',² where the state seeks to encourage a *democracy of consumption* (my emphasis), while retreating from many of its welfare and social responsibilities (Harvey, 2005, 125). This is directly reflected in increased devolution of expenditure responsibilities to sub-national governments and in the growing commodification of public services. Thus, as Goodman rightly points out, even within a context of limited political competition, these changes in the relationship between state and society do matter in the reconfiguration of local governance and local economic performance (Goodman, 2008).

The reform of the social security and welfare systems are a reflection of the retreat from a paternalistic socialist state that provided the iron rice bowl to its proletariat, to a more pragmatic state that serves mainly as a regulator of services. Originally, the reform of the social safety net was envisioned as a support mechanism for the overhauling of the state-owned sector and of the welfare of its workers, thus it was a very narrowly defined social security system, as it only took into consideration the interests of state employees. Over almost thirty years of reform the composition of China's economy has changed dramatically, with the state sector no longer the main player in either production or employment. Modifications to existing rules and regulations governing the social security and welfare system have gradually expanded – at least on paper – the net of social and welfare benefits to those in the private sector and to the self-employed. Yet, despite these positive policy changes, coverage continues to discriminate between those with an urban and those with a rural household registration.

² See also Wang, 2003.

While structural problems continue to be an important barrier to the development of a more inclusive welfare regime, the biggest barrier to the implementation of the social security system has been limited financial resources available to local governments. Administrative and fiscal decentralisation, while awarding local governments larger claims over local revenue, has also imposed too many responsibilities – particularly on county and township governments. At the county level, continued prioritisation of economic goals and budgeting practices has often worked against more generous allocations for social security and public services. Meantime the new social security system has failed to create sufficient incentives for local governments, enterprises or even employees to join and support social insurance schemes.

With policy priorities at the centre focusing more on the qualitative side of development, however, county cadres cannot afford to disregard the new directives from Beijing. Behind this preoccupation is the realization that social stability is a precondition for a smooth economic transition and for the continuation of political supremacy by the CCP. One could even argue that this commitment to a more inclusive socio-economic development is not only rhetorical, but a legitimate one. Whether or not the PRC can build a harmonious society will be determined to a significant extent by the quality and sophistication of governance at the county level. The latter, in turn, will necessitate more than the passing of new policy documents and regulations, but will require a greater commitment to redistribution, and increased financial transfers that are not delivered in a one-size-fits-all manner.

Empirical data from a study carried out between 2003 and 2005 in Hongtong County, Shanxi Province will be used here to examine the implementation of new social policies through the analysis of the issues around the implementation of the urban social security system, and the analysis of changing governance strategies for the provision of public services. Though shortcomings are still observed in the provision of social safety nets, there is also considerable awareness among the county leadership of the problems brought by rural-urban migration, urbanization, and state owned enterprise reform, among others. There is willingness to act and a capacity to promote social development and social inclusion, though this has often been pursued not so much through increased government spending, but through an active encouragement of private participation.

Though this may raise concerns over equity and access to services, private providers – particularly in the health sector – seem to be catering for those not covered by social health insurance. Similarly, in the housing sector private involvement has had a positive influence, making urban housing more affordable to rural workers. In the education sector, however, private competition has often worked against the quality of education, and has made formal education and extra-curricular activities more costly. A further concern is the nature of the relationship between local government cadres and private entrepreneurs; the creation of networks of private interest, and the consequences for the social hierarchies being configured in the town. Notwithstanding these issues, as this case study evidences, small towns seem to be offering rural migrants the opportunities for social and economic inclusion denied to them in larger cities.

Shanxi Province: Economic Restructuring and the Consequences for Social Security

In the reform era public services provision and the development of local safety nets have been inextricably linked to pre-reform local economic structures. In provinces and cities where the state owned sector had dominated the local economy the Central Government

promoted early and more inclusive campaigns to tackle the various issues resulting from the overhauling of state-owned enterprises (SOEs) (Zheng, 2006; Kernen, 2003), such as lay-offs, unemployment, and early retirements. Yet, even though the reinforcement of social safety nets has enjoyed subsidization by the Central Government, ultimately the development of local welfare schemes continue to depend to a large extent on the economic circumstances of the locality.

Located in North China, Shanxi is a middle range province, which was relatively slow in introducing and implementing economic and institutional changes. Its close economic and political ties with the Central government as well as its limited connections with the rest of the country and the outside world were largely responsible for that delayed transformation. Up until the late 1980s dependence on investment from the Centre had strongly influenced Shanxi's development strategies, which concentrated on the exploitation of coal and the establishment of a heavy industry base. With increased economic liberalization, however, the Central government shifted its economic priorities to the east coast (Goodman, 1989; Cannon and Jenkins, 1990; Zhao and Tong, 2000), significantly reducing its investment commitment in Shanxi.

From the early 1990s on, Shanxi Province had to increasingly depend on local sources of investment and economic growth to bring its economy out of recession. In half a decade the province had managed to recover from the economic slump, with GDP growth rates surpassing the national average, although per capita income remained behind the corresponding national figure (Table 1). Moreover, by the end of the decade average provincial urban salary levels were the lowest in the country (Zhang, 2000). Wage disparities between traditional (i.e. mining) and service industries (particularly finance and insurance companies) had also widened. At the same time, the gap between urban and rural income and expenditure had expanded at a more rapid pace than elsewhere in the country.

Table 1 Shanxi in China - National income and expenditure

Year	Urban Income			Urban Expenditure			Rural Income			Rural Expenditure		
	Shanxi	China	C/S	Shanxi	China	C/S	Shanxi	China	C/S	Shanxi	China	C/S
1985	595	739	1.24	595	673	1.31	358	398	1.11	273	317	1.16
1990	1,291	1,510	1.16	1,048	1,279	1.22	604	686	1.13	488	584	1.19
1995	3,306	4,283	1.29	2,641	3,538	1.33	1,208	1,578	1.30	928	1,310	1.41
2000	4,724	6,280	1.32	3,942	4,998	1.26	1,906	2,253	1.18	1,149	1,670	1.45
2002	6,234	7,703	1.23	4,711	5,617	1.19	2,150	2,476	1.15	1,355	1,810	1.33

Urban income figures refer to annual disposable income; rural income refers to annual net income.

Sources: *Shanxi Statistical Yearbook*, 2003, 189, 203-204, and *China Statistical Yearbook*, 2003 [Online].

Paradoxically, other than income, Shanxi Province and especially its rural areas ranked relatively well in most social indicators compared to other provincial units. Shanxi's literacy level, in particular, has been one of the highest in the country (China Human Development Report, 2005). In 2003, Shanxi's education index was 6th among 31 provinces, municipalities and autonomous regions (154). That same year high school attendance rate was an impressive rank 7, with a 71.4 per cent attendance rate. Furthermore, Shanxi Province seemed to have been successful in addressing some of the problems of SOE restructuring, managing to keep

the rate of registered unemployment (2003) at 3.1 per cent,³ a slightly lower figure than the 3.3 per cent rate in 1990 (165).

In regards to employee participation in the various social insurance schemes part of the Urban Labour Social Security System (ULSSS) Shanxi Province enjoyed similar enrolment levels to those of other middle range and some better off provinces. Nevertheless, it must be noted that overall insurance coverage levels throughout the PRC remained very low. By 2003, around 28 per cent of Shanxi's urban population was enrolled in both pension and unemployment insurance schemes, while 19 per cent were covered with health insurance.⁴

It has already been noted that the development and implementation of the new national social security system and of the various social assistance schemes has gone hand in hand with the restructuring of the state-owned sector. Changes in enterprise ownership have had direct consequences on coverage and funding of social insurance schemes. Until recently, throughout the PRC, it has been mostly SOEs, public service enterprises (PSU), and government departments who have enrolled their employees in the ULSSS. Enterprise participation outside of the public sector has been difficult to expand, while at the same time the number of SOEs unable or unwilling to comply with insurance contributions has increased.

In Shanxi Province the overhauling of the SOE sector inevitably reconfigured the structure of the economy, promoting the development of county rural industries, which came to form a sizeable private sector (Goodman, 1999). By the end of the 1990s the private sector of the economy accounted for 33 per cent of the provincial GDP, only second to that of Zhejiang Province.⁵ By 2002 the TVE sector's share of employment was 60.2 per cent, accounting for 62.3 per cent of the total provincial industrial income (*Shanxi Provincial People's Government*, 23 March 2005). Moreover, in Shanxi's urban areas private enterprises went from employing just over a thousand people in 1980, to employ almost 4 per cent of the total labour force in 2002. As elsewhere in the country changes in enterprise ownership had direct consequences on coverage and funding of social insurance schemes.

Hongtong County's case study helps illustrate some of those changes brought mainly by the restructuring of the local economy. The data used in this study was collected between 2001 and 2003 in Dahuaishu Town, Hongtong's county seat. Interviews were carried out with a total of 79 individuals, of whom 57 were rural migrant workers; 10 local permanent urban residents; 6 county-level government officials, and; 6 staff of government departments and public service enterprises (PSE). The analysis carried out here is mainly of a qualitative nature, though statistical figures have also been used to assist the interpretation of the qualitative data (Brannen, 2005, 176-177). Separate questionnaires were developed for each of the four surveyed groups. Rural and urban interviewees were selected and recruited through local official and informal connections. Interviews with government officials and

³ The highest unemployment rate that year was that of Guangdong (6.5 per cent), and the lowest was that of Shanghai (1.4 per cent) (China Human Development Report, 2005, 165).

⁴ That same year 12.72 per cent, 11.3 per cent and 8.7 per cent of China's total urban population were participating in the pension, unemployment and health insurances respectively (*China Statistical Yearbook*, 2004).

⁵ For official purposes the National Bureau of Statistics defines enterprise ownership as private when one or up to 8 people own an enterprise. Within the private sector, statistics usually distinguish between individually owned enterprises (*geti*) and those owned by more than one person (*siying*). Private enterprises are also sometimes referred to as people-run enterprises (*minyong*).

other government staff were arranged with the help of various local cadres, to whom the author had been previously introduced through a personal connection.

The relatively small interviewee sample used for this study highlights the issue of generalization and external validity of the research results. However, the research findings of this study are in no way intended to represent the realities of town development across China, but rather aim to contribute to the construction of a map of this highly diverse phenomenon. As previously stated, the statistical data used here has the purpose of contextualizing the empirical data, and when adequate will also be used to corroborate qualitative findings.

Testing Local Social Safety Net Expansion: the Case of Hongtong County

Despite the relatively late response to the reform effort, Shanxi's regional economies were quick to catch up with reform changes. Though certainly economic development within the province continued to be characterized by widespread inequalities, some regions were successful in exploiting to their advantage the growing national demand for coal-derived energy and by-products. In order to do that, city and county governments had to make the coal-related industrial sector more efficient and more responsive to the demands of the market. Hongtong County is part of one of the most economically dynamic prefectures in the province – Linfen City – located in the southern part of Shanxi. With a GDP of over 4.5 billion yuan in 2003 Hongtong's economy ranked 8th among all counties, cities and districts in the province. Yet, in contrast to its more urbanized counterparts, the countryside remained an important component of Hongtong's economy, together with its township and village enterprises (TVEs). In 2002 there were 22,714 township enterprises registered in the county, employing 89,454 people or 31.02 per cent of the total rural labour force (288,319). Though small in size (average of 3.9 workers per enterprise) together TVEs created a sizable output value close to 6 billion yuan (*Hongtong County Statistical Yearbook, 2000-2002*).

Coal related industries, especially two large state owned enterprises, were also important employers in two of the county's small towns – Zhaocheng and Guangshengsi – as well as being large contributors to the county's coffers. Non-state coalmines played an even more important role in this sector, becoming the main source of private wealth in the county. Apart from the big SOEs, a large part of the state-owned sector had been restructured. In half a decade, from the mid to the end of the 1990s, around 95 per cent of the SOEs in Hongtong County had changed or were in the process of changing their ownership structure.⁶ The majority of those SOEs became share-holding enterprises (*gufen*), while smaller enterprises or those experiencing bankruptcy were mostly privatized.

Access to Social Insurances

By 1998, a significant number of SOEs had started to default on their social security and welfare responsibilities, and had started to shift the burden of social insurance benefits provision – especially pension payments – to the county's Finance Department. The old social security and welfare system – based on funding and provision by the work unit – had remained largely unchanged. That same year, when the County Labour Department took responsibility for managing the new social security system for urban workers, the main problem faced by the Department was settling disputes between various work units and the

⁶ Interview with the Vice-Director of the County Labour and Social Security Department. Dahuaishu Town, Hongtong County. (31 Oct. 2004).

county government over financial responsibility of workers' insurance payments.⁷ Between 1997 and 1998 alone the number of employees in state owned enterprises had decreased by over 30 per cent, while the overall number of those fully employed also decreased in absolute terms – from 36,835 workers in 1997 to 32,701 in 1998 (*Hongtong County Statistical Yearbook*, 2000-2002). This sudden increase in the number of workers needing unemployment insurance benefits or pension insurance payments presented a large financial burden to both enterprises and local government.

The introduction of a new social security system thus necessitated strong financial backing from the county government, which became directly responsible for subsidizing pension payments to SOEs' retirees, and for covering the pension expenses of civil servants and other government employees. Social funds for the new insurance system had to practically be built from scratch, due to the continued financial deterioration of SOEs, many of which had stopped contributing to workers' insurances. Meanwhile, contributions from the non-state sector remained minimal. Recruiting new enterprises into the new social security system, however, had to remain on the backburner of an already overwhelmed Labour and Social Security Department (LSSD).

One of the first tasks taken over by the newly created LSSD was related to dispute settlement over wage arrears and laid-off workers' unemployment compensations, as well as carrying out re-employment campaigns for laid-off workers in the state sector (Hongtong County Labour Department, 1998). This showed a rapid response to Central Government directives urging sub-national governments to deal with the increasing number of dismissals resulting from the overhauling of the SOE sector. Given the precarious financial situation of some SOEs, many workers had lost all insurance and welfare benefits when laid-off. The county government had to find ways to channel them back into the labour market where they could earn their livelihood, while keeping unemployment at manageable levels. In order to do that the Department offered various training courses, organized with the assistance of local enterprises, which advised the LSSD on the types of skills needed from potential employees. Training courses were often jointly financed by the LSSD and participating enterprises, and by small fees charged on participants. Moreover, the Department had also been made responsible for mobilizing resources to cover for unemployment insurance and other welfare payments for laid-off workers.

Given the incipient nature of the social security system, the county government – aided by contributions from the Central and provincial governments – had to continue subsidizing social safety nets. Budget allocations for that purpose, however, tended to favour provision for bureaucrats. In the year 2000 pension payments for government employees accounted for 15.78 per cent of the county's total budget expenditure, while social insurance financial support for pension, unemployment and health insurance schemes accounted for only 0.8 per cent of the county's total expenditure (Table 2). Nonetheless, from 2000 on expenditure shares for social insurance experienced a significant increase (though from a very low starting level), while contribution shares for public servants' pensions stabilized. A small increase was also observed in health expenditure.

Table 2 Hongtong County – Selected budget expenses

Unit: 10,000 yuan

⁷ Interview with a staff member from the Social Insurance section of the County Labour and Social Security Department. Dahuaishu Town, Hongtong County (20 Oct. 2003).

	2000	% of total	2001	% of total	2002	% of total
Total Expenditure	14757	100	20258	100	22936	100
Education	3978	26.95	5420	26.75	6091	26.55
Health	710	4.81	1123	5.54	1306	5.69
Pensions for Retired Public Servants	2330	15.78	2874	14.18	3429	14.95
Social Insurance Subsidy	119	0.8	220	1.08	569	2.48
Government Administration	2352	15.93	3211	15.85	3441	15

Source: Hongtong County Statistical Yearbook, 2000-2002, 316.

The existing gap between funding for social security and funding for civil servants' welfare reflected the continued preoccupation of the Party-State with the fate of its own staff. Funding prioritisation of state employees' welfare came as no surprise, given that those workers represent the Party's support base at the grassroots level. Civil servants and those working for public service units (PSU) had certainly fared much better than those working in SOEs. Maintaining support for the Party, however, is only part of the equation; this group is also the one that has traditionally held the strongest sense of entitlement. In a system where government and Party intersect in almost every field it has been crucial – on the one hand – to secure the loyalty of government employees, while – on the other hand – building legitimacy for the Party. So far the Party-State has been willing to pay the financial toll of keeping its bureaucrats secure.

Social policies in reform China have also been characterized by their gradual and reactive nature. Both the Central government and sub-national governments have tended to protect the interests of those most dissatisfied and who are often more vocal in their demands; though they might not always be the most affected or more vulnerable social groups. Therefore, as the changing welfare regime threatened the benefits bureaucrats and other government employees had traditionally enjoyed, their entitlement rights had to be promptly addressed. In contrast, most employees in the non-state sector, especially rural migrant workers, who have traditionally enjoyed limited or no state benefits, had until then not voiced a demand for welfare rights. Particularly within counties, where towns are often newly created urban spaces, the number of those entitled to social benefits has tended to be limited, due to the existence of a small state sector and limited government administrative staff. Furthermore, a large part of the labour force in those towns holds a rural registration (though often working in the non-farm sector) and have therefore had limited access to urban social security.

During interviews carried out with rural migrant workers in Dahuaishu Town respondents seemed to be mostly unaware of the new social security system, and even those enrolled in the system (who had been able to change their household registration into an urban one) had no clear knowledge of their entitlement rights. Most were unsure about which insurances were provided by their workplace, and did not know much about premiums contributed to the various insurance funds. Similarly, urban workers had only partial knowledge of the new system, as insurance provision varied from one workplace to another. In general, most respondents enrolled in the social security system were covered by at least one of three compulsory social insurances – old age insurance, health care insurance, and unemployment insurance – and only civil servants, teachers and doctors in the public sector were covered by

all social insurances as well as the housing provident fund.⁸ Not all employees in government departments and public service industries, however, were included in the social security system. Government departments and PSU had to follow strict annual hiring quotas; a small percentage of those hired outside the quota were included in one or more of the social insurance schemes, but those hired on a temporary basis – usually to carry out menial jobs – were not included at all.

Among SOE workers, in particular, insurance coverage had also to do with uncertainties about the financial well-being of the work place, and its capacity to afford insurance premiums. Respondents working for ailing SOEs, were often concerned about being able to access their social insurance benefits, since many of those laid-off had already lost all welfare benefits. From the interviewee sample of local urban residents all ten respondents were or had been state employees (employed by SOEs, government departments and PSU) yet, only four – one doctor, a teacher, and a staff member of the Public Security Department – were at the time of the interview covered by all social insurances. Two respondents had lost all social security benefits when laid-off. Wage arrears were also common, even within state enterprises. Some respondents had not received their wages for up to two years. Yet, despite this situation, the majority chose to maintain their work-relationship with the enterprise – while engaging in other economic activities to make a living – in order to keep their entitlement to welfare benefits.

These workers often believed the county government would provide these enterprises with financial support to keep them afloat. One respondent working for the state owned Urban Water Company⁹ (*silaishui gongsi*), an enterprise long experiencing financial difficulties, had chosen to retain her work relationship with the company, although she had not been paid for over a year. The reason behind her decision was the belief that the county government would not allow this enterprise to go bankrupt, and hence she chose remain with the company in order to maintain her entitlement to a pension.

Among rural respondents, of those who had changed their household registration into an urban one (25 out of 57 respondents) only 12 were covered by at least one insurance scheme. Teachers were the only ones covered by all social insurances. Most had started off as rural teachers originally categorised as community teachers (*minban laoshi*) – holding an urban household registration but paid by the village government – and had later on been shifted into the public category (*gongban laoshi*)¹⁰ gaining access to all social insurances. A young music teacher – pregnant at the time of the interview – for example, was to receive half a year's extra salary from her school as part of her childbirth insurance.

⁸ The new social security system is comprised of old-age pension insurance (*yanglao baoxian*); medical insurance (*yiliao baoxian*); unemployment insurance (*shiye baoxian*); work injury insurance (*gongshang baoxian*); and childbirth insurance (*shengyu baoxian*). The first three insurance schemes are funded by contributions from firms, employees and government. The last two insurance schemes are funded solely by employers. The housing provident fund is sourced by employee and employer contributions (Yeung & Howes, 2006).

⁹ This company is responsible for supplying water for household and small business consumption. A separate enterprise is in charge of supplying water for industrial use. Even in a water scarce province like Shanxi, water prices remain below supply costs.

¹⁰ All teachers in the public educational sector are classified as government cadres (*ganbu*), and are therefore eligible for urban registration. The *minban* category, however, allowed teachers to hold an urban *hukou* without losing their agricultural land. From July 2001 remaining *minban* or community teachers started to be converted into *gongban* teachers, which also meant they had to give up their agricultural land. This process was related to a State Council mandate that shifted responsibility over rural teachers' salaries from the village to the county government. (World Bank, 2005, 40).

Length of membership in the system influenced the benefits received by these respondents, particularly in the case of pension premiums. Three older teachers, who were close to retirement, were to receive pension payments according to their length of service as public teachers and not for the overall length of time they had worked in their village school. One respondent had become a public teacher in 1989, while the other two respondents had only joined the *gongban* system in the late 1990s. When in 1997 one of these teachers was appointed as headmaster of Fengzhang Village primary school he was turned into a public teacher, and – in his own words – was then ‘forced’ (*qiangpo*) to join the social security system. By the time he retired (in 2007) he would have been part of the system for only ten years, and thus was unsure his pension would be sufficient to cover for all his and his family expenses. Hence he viewed insurance contributions as eating away at his personal income and savings, rather than as giving him security for the future.¹¹

Another five respondents holding an urban household registration had previously been employed by a SOE and had at that point had access to social security benefits. Nonetheless, they had lost their job and welfare benefits as a result of their enterprises running into financial difficulties. One respondent working for an ailing state owned papermaking factory had been able to keep her job, as well as her old age and medical insurances thanks to the successful privatisation of her work unit. Two respondents working as nurses in a local public hospital were covered by old age,¹² medical and unemployment insurance. The remaining two respondents (of the 12 with an urban household registration), who had been able to acquire an urban registration while working for a county government department¹³ were covered with medical insurance. They also mentioned receiving in-kind gifts (food, flour, new uniforms, and so on) from the Department during national holidays.

The case of these two last respondents is significant because, again, they help illustrate the prevalent importance of personal connections (*guanxi*) in gaining access to services. Department leaders – especially those with experience at the grass roots levels – typically take under their wing individuals who had previously worked for them at the township and village levels. Individual’s support networks have been shown to encompass ties that go well beyond kinship links. Friendship ties, in particular, play a strong supportive role in practical – non-personal – matters, such as career development and financial support (Zhang and Ruan, 2001). The relationship cannot be described solely in terms of favouritism or nepotism, but as one in which a complex mix of human capital and development potential, as well as an individuals’ social capital intermingle. Nevertheless, as has been argued by Zhang and Li, those without access to such connections can be disadvantaged when searching for non-farm employment, a situation that has direct repercussions on the household’s income (Zhang and Li, 2003). The personal relationships of those two respondents not only secured them an urban job, but were also a means through which they were able to change their household registration and gain access to social security and welfare benefits.

Private participation in the insurances market is incipient and still very limited. And although private insurances remain an expensive alternative for the majority of the population, private

¹¹ His wife was also a *gongban* teacher eligible for a pension. Both pensions would allow them to secure a relatively comfortable lifestyle in the village. Yet, their concern was about affording the education expenses of their 17 year old daughter, whom they needed to support through university.

¹² They were able to change their registration into an urban one when they enrolled in the nursing college.

¹³ One worked as a driver for the director of the Department, and the other was the hairdresser of the Department.

insurance companies have launched aggressive campaigns even at the county level. While carrying out fieldwork in Hongtong County it was interesting to observe that private insurance was only mentioned by rural migrant workers. Private insurance plans offered an alternative to wealthy rural entrepreneurs, who due to their rural registration could not become members of the urban labour social security system. Out of 57 rural respondents, however, only three had private insurance coverage.¹⁴

The cases of both urban and rural workers with access to social security and welfare confirm the ideas prevalent in the literature, which state that it is mainly the state part of the economy that has provided employees with insurance coverage. Yet, even within the state sector, insurance coverage (and honouring of insurance payments) depends greatly on the financial capabilities of the work unit – particularly in the case of SOEs. Interviews also attested to the fact that in other sectors of the economy – including collective, share holding, as well as private enterprises – employees are not offered insurance coverage. In Hongtong County, compulsory enrolment in the social security system has only applied to SOEs, PSUs, and the administrative branches of the government. By 2005 the County Labour and Social Security Department had not yet been granted any legal powers to make enterprises from the non-public sector of the economy join the system.

Access to Education

In terms of financing, the bulk of government budgeting for education is channelled into public primary and junior secondary schools. Although in theory tuition-free, local governments allow these schools to charge additional fees up to a pre-established maximum ceiling. In 2003, government established fee levels for primary education were 40 to 50 *yuan* per student per year; and 60 to 70 *yuan* for junior secondary education.¹⁵ These, however, were only benchmarks, and parents often ended up paying several hundred *yuan* each year on school related fees. Responsibility over primary and junior secondary schools fell under the township governments. The two senior secondary schools located in Dahuaishu Town came under the jurisdiction of Linfen City since they are district level schools. The other four senior secondary schools are run by the county government and are located in the main towns.

This division of responsibilities over the management of schools influences the budget each school gets. First, the education budget is set by the County Finance Department based on the sector's budget from the previous year and on the size of the overall official county budget. Once decided, shares are distributed to the towns and townships, who in turn apportion it to the various schools under their direct responsibility. A large share of those funds tends to stay in the bigger towns, especially in the county capital. The overall quality of a school typically reflects this hierarchical division of the monies. District level schools are often better off than other county schools, as they receive their budget directly from the Linfen City government.¹⁶

In spite of the fact that education accounts for over 26 per cent of total budget expenditures of the county government, government appropriations alone are not sufficient to sustain compulsory education. Schools are increasingly reliant on fees, extra curricular activities, and

¹⁴ Two had acquired medical insurance and one an education insurance to cover for schooling expenses of their child.

¹⁵ Interview with the Director of the County Education Department. (16 Oct. 2003).

¹⁶ Senior secondary schools are also able to charge relatively high tuition fees, which represent a substantial part of the schools' budget.

on private and community donations to improve the curriculum, to give benefits to teachers (to compensate for low salaries), and to improve the physical conditions of schools. According to official figures, between 1981 and 1991 in Shanxi province 68.26 per cent of funding for the improvement of operation conditions in public schools came from 'multiple channels' other than government appropriations (Lo, 1999). In Hongtong County private and community contributions have been crucial to restore the buildings of hundreds of village schools deemed too dangerous to continue operating. In 2005 private individuals donated over 40 million *yuan* to repair county schools (*Huaixiang Education Park*, 10 Sept. 2005). Teachers, as well, use extra classes as a way to supplement their salaries.¹⁷

Students coming from village and township schools are often at a disadvantage to those from urban schools, which are better equipped and have better trained teachers. Moreover, rural students often come from relatively low income families; another obstacle to their educational attainment. In general, throughout China nearly all urban children complete the nine years of compulsory education. It is in the rural areas where drop-outs more frequently occur.¹⁸ Of the 54 rural respondents from the survey sample who gave information about their level of education (three respondents did not provide information about their schooling) two were illiterate; one had received no formal education, while the other had only completed 3 years of primary schooling.¹⁹

According to the then director of the County Education Department²⁰ all school-age children in the county were attending school at primary and secondary level. The county, he claimed was therefore fully compliant with the Law of Compulsory Education. Statistical data was of little help when trying to corroborate whether that was in fact the case. County statistics (available from 2000) only give figures of the total number of students enrolled in public schools in a specific year. Without the exact numbers of new school enrolments and of graduates it is impossible to calculate the percentage of students from primary school who continue on to and complete junior secondary education. In 1996, national figures established that 92.6 per cent of primary school graduates entered junior secondary schools, while only 48.8 per cent of those graduates managed to secure a place in a senior secondary school (Lo, 1999).

In Hongtong County, the unavailability of data means those transitions, from primary into junior and on to senior secondary schools, cannot be quantified. A rough estimate of the transition from junior into senior secondary education can be made, given that both schooling systems have three class levels. In 2002, there were 41,323 students enrolled in junior secondary schools (including one vocational school), compared to 7,174 students enrolled in senior secondary schools. The number of senior high students was roughly 17 per cent that of junior secondary school students. These results mirrored a comment made by a local teacher who stated that only about 20 per cent of junior secondary school students managed to get into senior secondary schools. This large gap is the result of a combination of factors, a crucial one being cost. Parents who have a child in a junior secondary school pay between a

¹⁷ One teacher working for a primary school in Dahuaishu Town, for example, made 2,000 *yuan* per month teaching maths on weekends, but received only 800 *yuan* in her monthly school salary.

¹⁸ Between 2000 and 2005 illiteracy in China increased by 33 per cent. Two of the main reasons for this increase were the cost of education and rural-urban migration (Fan, 2007).

¹⁹ Officially this respondent would also be considered as an illiterate person, as literacy in China is defined according to an exam taken in fourth grade. A literate person should be able to read and write at least 1,500 Chinese characters (Fan, 2007).

²⁰ Interview carried out on 16 Oct. 2003.

couple of hundred to about a 1,000 *yuan* per academic year on miscellaneous fees. In contrast, those who intend to get their child through senior secondary education need to pay over 6,000 *yuan* per year in tuition fees,²¹ and are expected to pay for the three years of schooling in advance in order to secure a place for their child.

Altogether, out of 54 rural workers interviewed, more than half had left school after completing nine years of compulsory education. While cost was an important reason for their decision to leave school, other reasons included bullying by fellow classmates and even by teachers, the pressure of doing well in exams, and the appeal of outside work (*da gong*). At senior secondary level pursuing education became more of a matter of rational consideration of cost and benefit. If a student was not outstanding – even when the household could afford tuition fees – he or she would typically opt to work elsewhere, rather than go through the disappointment of failing the university entrance examination.

Household registration did not seem to present a barrier to rural students seeking to enter urban schools. Competition among schools to attract students had virtually removed discrimination on the grounds of registration status. Reflecting this situation, in 2004 the Linfen City government issued a regulation by which all school-age children from the area – regardless of their urban household registration – would be able to enrol in any public school within the jurisdiction of the city. The new guidelines, in theory, left out those children born outside of Linfen City. In practice, however, schools were also taking in rural migrant children from outside the county, and most had abolished extra enrolment fees for outsiders. Hence, although favouring local children over those from outside the Linfen area, this attempt to regionalize the provision of educational services did not necessarily make access for rural students more difficult. Rather, it was cost that presented the biggest barrier to further education.

Of those from outside the Linfen City area two had enrolled their children in schools in the Dahuashu Town area (in both rural and urban schools). They were long-term migrants, who had been living in Hongtong County for over 5 years and who were planning to stay there permanently. Only one of these respondents mentioned paying extra fees (100 *yuan* per school year) for his child's education.²² This suggests a significant improvement of the educational opportunities for the children of rural workers, mainly for county natives living or working in the town. Not surprisingly, however, this group of county natives who could afford to send their children to the better schools were also among the better-off and/or better educated from within the sample of rural respondents.

Health and Education: Governing a Changing Welfare Regime in a Mixed Economy

The practices portrayed in the previous section illustrate some of the ways in which the relationship between state and society has been transformed and how that relationship continues to evolve with the establishment and reinforcement of institutions and the advent of increased marketization. This dialectical relationship between state and society, made more evident at the lower echelons of the administrative hierarchy (Pieke, 2004; Li, 2006), does not necessarily imply a weakening of the state by the market or the social, but brings about

²¹ This amount includes tuition fees, textbook fees and boarding. Most senior secondary schools are set up as boarding schools, since many of the students come from other towns, townships, and villages. Sometimes, even children whose parents reside in the town where the school is located will also board in the school and go home over the weekend.

²² The children of this respondent were enrolled in a village school within Dahuashu Town's jurisdiction.

what Rocca describes as a process of ‘societalization’ of the state and ‘stateification’ of society that brings state and society closer (Rocca, 2003, 4). Guided by the process of administrative and fiscal decentralization, the state is rearticulated at the sub-national level along administrative hierarchies, where urban centres are the main point of public-private negotiation. And although influenced by similar processes, China’s various administrative scales create distinct socio-economic spaces.

County governments have perhaps been the entity adopting more liberal and practical approaches to economic reform and marketization. Their relatively low status in the administrative hierarchy has in some instances proved to be an advantage, as it allows for a less orthodox implementation of national policies. County governments have been pioneers in finding solutions to local development issues within the social and in the emergent private sector. Welfare and public service provision have been two areas in which private participation has been actively encouraged. Already increased commercialization and diminishing government funding has meant that a growing share of health care expenditure has had to be assumed by private end users (in the public sector). At the same time, the private sector has become an increasingly important provider of health services, filling in the gap left by inefficient or sometimes unavailable public medical units. But rather than developing in opposition to the public sector, the links between government and private providers of social services and welfare has often been a tacit one within a wide framework of formal and informal public-private cooperative projects (Carrillo, 2010).

Health

Quantifying the county government’s participation in health care financing over time was far from an accurate exercise. The lack of consistent statistical information on social indicators at and below county level, meant the analysis had to rely heavily on qualitative data (mainly interviewee responses) when making assumptions about current and pre-existing conditions in the county’s health sector. Figures for 2000 showed that county government expenditure on health care provision was much lower than that on education and pension funds for retired civil servants (Table 2). By 2002 health accounted for 5.69 per cent of total budget expenditures, while shares for education and pensions stood at 26.5 and 14.95 per cent respectively. An additional contribution to the health sector is provided through the social insurance subsidy, which includes allocations for the social health insurance fund pool. In the short to medium term, however, as the number of insured workers gradually increases, the county government will need to increase subsidies for social security – at least until insurance fund pools have been strengthened.

Meantime, private providers have become active suppliers of health and education services. In the health sector the relationship between the county government and private health care providers has been an ambiguous one, due to conflicting interest with public medical institutions that lobby the local government for a more stringent regulation of the private sector. Yet, the local government is aware of the growing demand for cheap medical services, a demand that the private sector has more rapidly and effectively addressed. In interviews with both rural and urban household registration respondents, private providers were mentioned as the first choice of medical provider for out-patient services, even among those respondents covered with medical insurance. The private health sector in Dahuaishu Town and in Hongtong County in general, however, was not very sophisticated and could only handle simple non-life threatening diseases. Its participation in in-patient service provision

remained very limited. Private hospitals had nevertheless started to appear in Dahuaishu Town, with two small private hospitals opening between 2003 and 2005.

One of these hospitals was financed by a private coal entrepreneur, who recruited the former director of the No. 1 People's Hospital (the largest public hospital in the county) to manage the new hospital.²³ Health care provision had clearly been identified by many entrepreneurs as a profitable business. The hospital had launched a vigorous advertising campaign through the local radio and television, and had also secured an agreement with the private insurer China Life Insurance Company Limited (*Zhongguo renshoubaozhang gongsi*) to take in privately insured individuals. Recruitment of staff was done through informal connections between the investor and the head doctor, with local government cadres playing the role of intermediaries. Similarly, medical staff was selected through personal recommendations from doctors in the public sector. With experience in the workings of the public health care sector, the director of this private hospital complained about the harsher imposition of regulations on private providers, particularly on service price benchmarks. Nonetheless, this doctor seemed positive about the financial future of his medical institution. Measuring success in terms of economic gain is not an unusual thing among private service providers, though this has also been the case in most public service units (PSU) all over China. This reflects a growing trend by which increasingly various dimensions of health care and education services are being viewed by both providers and consumers as private rather than as public goods.

Education

Government support for providers of private education has been more open than that towards the health sector. Officials from the County Education Department readily provide information about private providers of education and boast about their rapid expansion. Education – to a greater extent than health – has become a new alternative sector for local investors and entrepreneurs, many of whom have made their fortunes from coal mining and coal related industries. Between 2002 and 2008 coal and coke prices experienced a rapid surge due to increasing energy demand. Given more recent pressures to keep a check on pollution, part of the profits created by this economic boom has been re-invested in education, which is seen as a more secure long term investment. Yet, education is a much more sophisticated sector than coalmining. And, like in the example of the private hospital, investors have sought alliances with public officials and teachers to help them establish and run their schools. The children of county cadres – often the best educated individuals in the county – have played an important role in the development of private education in the county.

Private schools have developed mostly as a complement to instruction in public schools, although a handful of comprehensive private schools had become well consolidated. The presence of private kindergartens and childcare centres was also particularly salient because of their abundance. The emergence of a growing number of these private institutions is a response to the demand by parents trying to build their children's educational background from as early as possible. It is also a reflection of the limited number of public facilities available at that level. These kindergartens were a convenient and cheap alternative for working parents. Elite private primary and secondary schools in the county town tended to cater to wealthier students, often coming from other townships, where the quality of educational was lower.

²³ In 2004, the year the hospital was inaugurated; it had 23 staff members (11 medical staff) and 20 hospital beds.

Yet, in the county town public schools continue to take the lead, as they are the ones turning out more successful candidates at university entrance examinations. According to the former Director of the County Education Department the two senior secondary schools in the county produced on average 1,000 successful applicants annually. Private schools are thus not challenging the public educational sector, but are rather aiding students in their attempts to enter public schools at higher educational levels. Comprehensive private schools provide an alternative for students who have not been able to secure entrance into selected public schools, but whose ultimate goal is to go back into the public system at senior secondary or university level. Those who can afford the tuition fees of these private institutions are usually within a middle and high income groups.

Competition from urban peers and schooling costs puts rural students at a disadvantage in their attempts to further their education. For this reason, after completion of the nine years of compulsory education many rural students were taking on apprenticeships with friends and relatives or at private training centres and workshops. This was the strategy which allowed them to more rapidly insert themselves into the local labour market. These differences in educational expectations and attainment have thus channelled rural and urban students into differentiated job markets. Nonetheless, in the county town even jobs dominated by urban residents did not necessitate exceptionally high educational levels, thus factors other than education were at play in labour market segmentation. Particularly in the public and government sectors, permanent jobs have been only available to those with an urban registration. Nevertheless, employment in the public sector was no longer in high demand, given relatively lower salaries and bad performance of many state owned firms.

Conclusions

Responsibilities over public service and social insurance provision have presented a particularly heavy burden for local governments, given the current restructuring of the state owned industrial sector, of its public service enterprises, and fiscal and budgeting systems. The case of Hongtong County shows that although those issues are constraining the government's ability to provide services and a more rapid expansion of insurance coverage, it also gives evidence that local governments are aware of the problem and are taking action within their capabilities.

Initial County government action focused on the plight of laid-off workers from SOEs, following Central government directives that emphasised the need to channel dismissed workers into the labour market to keep unemployment levels under control. Similarly, a substantial share of the County's expenditure was secured to guarantee generous pension benefits for civil servants. Nevertheless, financial support for urban labour social insurances has not been neglected, and has rapidly increased since the early 2000s, though from very low initial levels. In order to build up social insurance fund pools – to allow for those insurances to become a real safety net – the Labour and Social Security Department needs to more actively engage private enterprises.

Perhaps more crucial than the actual scale of coverage are people's expectations about the right level of social protection the government should be delivering to its citizens. Those expectations have been greatly influenced by each individual's previous access to social security and welfare. Consequently, SOE workers – particularly those who have lost their jobs and their access to welfare benefits – typically have held a more negative view regarding

the new social protection policies (Wong and Lee, 2000; Tang, 2001). In Hongtong County, the overall participation of the state-owned sector in the local economy had been limited, thus although a large part of it changed ownership the number of disaffected laid-off workers was relatively small in relationship to the overall population of the county. There is potential to achieve a more equitable access and provision of public services and social insurances if county governments – through the relevant departments – are able to include a greater number of workers from all economic sectors in the new social security system.

So far, given weak social security funds and financial resources Hongtong County government – aware of the strength of the private sector – had allowed and encouraged participation of private providers in the delivery of public services such as health and education. But rather than pursuing an outright privatisation of service provision, it promoted both formal and informal ties between public and private providers, resulting in a complex pattern of provision; one in which *ad hoc* public-private partnerships are being formed. Even though this follows from Central directives encouraging the ‘societalization’ of the social security system and service provision, the county government’s efforts to engage the private sector are at the same time a practical approach and solution to the shortcomings of public provision.

The empirical data suggests that private providers have allowed a greater number of people, in particular rural migrant workers, to access medical services at a lower cost than those offered by public medical institutions. The lack of sophistication of private medical institutions, however, means that they can only provide basic medical services. Treatment of serious and chronic disease can only be dealt with at public hospitals, often only accessible to those with social health insurance or the financial resources. Public and private medical providers are increasingly coming into direct competition for patients, especially for out-patient services. With appropriate regulation and guidance, public and private medical providers could cooperate to have each focus on supplying the services they can more efficiently provide, so as to avoid duplication of responsibilities and waste of resources. In tandem, continuous efforts should be made to expand health insurance coverage to all sectors of the economy and to all workers irregardless of their registration status. Offering this safeguard – and those of other social insurance schemes – to rural migrant workers will prove a much stronger incentive for these workers to permanently settle in small urban areas, than the mere offer of acquiring an urban registration.²⁴

In the education sector profit seeking rather than public-private competition *per se* has had negative consequences for equity, access, quality and cost of education.²⁵ Unequal access to education can have perverse consequences for the long term well-being of individuals, because those educational opportunities shape an individual’s social trajectory from early on (Postiglione, 2006). In Hongtong County greater access to public schools has been offered to the children of rural migrant workers, particularly those from within the Linfen City area. Moreover, competition between public and private schools for students, for example, has lead public schools to abolish extra fees charged on non-local children. Advances in compulsory schooling within the county have been important. And although miscellaneous fees for the

²⁴ Similarly, Zhu argues that the reform of the household registration system alone is not a strong enough incentive to encourage migrant workers to settle in the cities with their families (Zhu, 2007). Their vulnerability in the city due to labour and economic conditions, apart from their residential status, makes temporary migration a less economically risky option for rural households.

²⁵ See for example: (*China Development Brief*, 1 June 2006).

nine years of compulsory education continue to rise, most households can afford to support their children through to junior secondary school.

The dramatic decrease in the number of students that continue on to senior secondary education is more closely related to the cost and the economic returns of the investment into education. High tuition fees, the difficulties of entering and affording a university education, and the difficulties for university graduates to find a job makes further education a relatively unattractive option. Particularly in a small town like Dahuaishu where most job opportunities require relatively low levels of education, many rural students are keener on joining the labour market once out of junior high or even earlier.

While cadres' incentives to proactively implement social policies at the local level are related to pressures from above (Central government mandates and the cadre responsibility system), they are also increasingly a response to grass roots pressures and characteristics. It is not only a response to the threat of social instability, but the realization that provision of social services such as health and education are necessary for the socio-economic development of their locality. The empirical data from Hongtong County shows that private provision, in the health sector in particular has in some instances become a more affordable option and sometimes the only available option to vulnerable social groups such as rural migrant workers. At the same time, the development of a market for schooling also highlighted the need for stronger regulation and increased public funding to guarantee a more equitable access to education. Moreover, as the private sector continues to expand its role as employer and economic actor within small urban centres it is imperative for local governments to recruit private enterprises into social insurance schemes, to both strengthen local fund pools and to provide workers in the private sector with some security.

Between 2006 and 2009, both as a result of the global financial crisis and a campaign by the Central and provincial governments to take over the majority of private mines and to control the power of Shanxi's private 'coal bosses' the whole province experienced a severe economic slowdown. During the first half of 2009 Shanxi became the only Chinese province to experience negative growth at minus 4.4 per cent (*People's Daily Online*, 8 Aug. 2009). The economic restructuring taking place in the province has been rolled out as an attempt to move away from 'black' towards a 'greener' development. Yet, critics have described the process as an attempt to curbe the power of increasingly wealthy private entrepreneurs in the coal mining sector. Since the mid 1990s many of them had invested in education and health; however, given the relatively slow returns and the current economic restructuring private investment in those two sectors is likely to decrease. Without a clear and active strategy on the part of local governments to engage and better regulate private participation the contribution so far made by the private sector to both the supply and access to services could be lost. Aligning public and private provision towards the attainment of specific public goals is particularly crucial during difficult economic times.

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