Book Review

Socialist insecurity: Pensions and the politics of uneven development in China

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The transformation of China, economically and politically, over the last 20 years has been truly astonishing – and unexpected, at least by many in the West who have not been following political developments there over that period. But as well as the series of unique qualities that China expresses – the development of capitalism with a socialist face, the control of family size, the increasing military strength, the growth both of human rights and of brutality – there are some aspects that are wearily familiar to the old economies. Bureaucracy, unhappy workforces, unfairness and disillusion seem rampant, despite the growth (or perhaps because of) of the middle classes and improved economic comforts.

But one element familiar to the West, and which is common to both political systems, is the dysfunctionality of pension arrangements. Pensions in China are a new phenomenon; family structures and absolute poverty made pensions either irrelevant or simply impossible. But now with population movements to the cities, the gentle collapse of familial structures and perceived duties to the old, the reduced birthrate (it is easier for 10 children to support a set of aged parents than one child can) and the increasing wealth have made some form of financial support for the elderly imperative. But the sheer size of China, the lack of conventional financial infrastructures and the extent of the ageing population have made it hard to provide a holistic solution. Therefore, although the factors leading to pension provision difficulties are

familiar, the domestic responses to the particular Chinese challenges are rather different. The arbitrary nature of pensions provision, the inability to rehearse a coherent and consistent policy, the unappealing demographics are all issues with which most pensions professionals in the West are used to exploring, as are the inadequate or counter-productive responses from the government. But there is no doubt that the particular problems of China pose curious concerns.

Therefore, it is hardly surprising that the Chinese government itself is spending so much resource on thinking what the right response should be. It could do worse than spend a weekend or so reading this intelligent and sensitive analysis of the retirement income problems facing China and its workforce. And as so much of the Chinese economy is part of the government, the cost of both state pensions and public sector pensions is soaring. That also sounds familiar.

This book explores the background to the Chinese pensions problem (typically, probably the biggest in the world) in a scholarly but readable format. Expenditure on pensions is rising at 15 per cent pa (the economy is probably growing at about 8 per cent). But even so, millions are without pensions or indeed any other kind of welfare support; the pension funds that do exist have billions badly invested by local officials, and the rural areas are paying benefits which they have no funds to support.

Much of the pain is emerging because the former state-owned enterprises are moving into the private sector, leaving the pain of income support to local authorities. The book looks at all these concerns and many others as well; it looks at public opinion in China on pensions reforms, how employers are being involved once again, how funding and non-funding works and above all looks at the public policy issues that are both frustrating and driving change. Just like us, the Chinese workforce and employers are trying to cheat the system: avoiding the payment of rising social insurance premiums, and payroll taxes, pensioners and employees are engaged in protesting about the unfairness and inadequacies of the pensions system (especially in rust-belt areas) and, time and again, facing local and incessant corruption. Civil unrest in China is strictly controlled, but the country is so large, and the respect for the aged is so great, that managing protests of pensioners can be embarrassing. And the costs are horrific; it will take around 15 per cent of GDP to provide a pension of 20 per cent of national average earnings.

Therefore, as in so many areas of activity, the Chinese have the same problems as the West; they just have them on a larger scale, and are coming at them approximately 50–100 years later. The liberalisation of China also suggests that they will, in the end, find problems that are particularly Chinese-oriented.

For most of us what is going on in China remains fuzzy. It is, however, important for all of those involved in pensions policy in the West to gain an understanding of the financing of China's intractable problem – and an understanding of how it is going to cope with its rapidly ageing population as it becomes the world's second economic and military power. Mark Frazier's fascinating and exhaustive survey provides a

skilled and expert insight into what makes China different (and the same) and has lessons for policymakers around the world, lessons that many of them need to relearn, as they rather cavalierly dismantle the fiscal and regulatory balances that have lead, for example, the United Kingdom to produce, for a few years at least, a wonderful employer-based second pensions pillar that was the envy of the rest of Europe – and used it to establish London as a world centre for capital markets.

The conclusion of this lucid and valuable study is that China, rather like western government, faces a crucial choice about how to rebalance an economy whose rapid growth has thus far been based on high savings, low consumption and limited public welfare provision into the twenty-first century when all of these are likely to change.

There are of course lessons for us in this history. We do not suffer from corruption (at least to anywhere near the same extent), and we do not suffer from the interference from local bureaucracies. But we do suffer from central bureaucracies attempting to impose excessive and destructive controls – just like the Chinese. In practice, they seem to deal with such interference by ignoring it, which is perhaps easier in a country that size.

As a post-election new government in the United Kingdom begins to face up to its own pensions challenges, it would be productive and beneficial if those policymakers in the Department of Work and Pensions and the legislature took the time to browse this comprehensive, expert and highly readable work, so as to try and avoid further damage to the UK pensions system. But they will not.

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