

# In the Pursuit of New Ideologies: Social Security in China and Chile

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**Abstract** : This study depicts the development of welfare state systems in China and Chile, with a pronounced focus on their social security provision. After presenting the two case studies that are based on detailed insights into the historical and political development related to the respective welfare state systems, the author considers a potentially grave consequence of new ideologies on the social policy in both countries. The author attends to old and new problems that impose on social and economic development, and outlines past, recent and future developments and challenges of these welfare state systems. Finally, the paper provides some major conclusions and a more analytical outlook for the future of social policy in China and Chile.

## CHINA

### Social Policy in China

The Chinese welfare system is a welfare state in that it represents a system of public provision, either provided by subsidies or regulated by state programs, legislation or policies (cf. Chan and Tsui 1997). Since World War II, China has seen its social system as a reflection of the superiority of socialism (Wong and Mok 1995). In October 1950, the Government Administrative Council announced the Labor Insurance Regulations (LIR) that provided benefits for sick and disabled workers, as well as retirement benefits. The predecessor of 1950 Labor Insurance Scheme was the Manchurian Labor Insurance Program, which was announced by the Communist Party of China (CPC) on December 27, 1948. At that time, the northeastern provinces were under the rule of the Communists. The LIR were promulgated nationally in February 1951 and later revised in 1953. The Labor Insurance Scheme – like its predecessor – covered a wide range of risks, such as occupational and non-occupational injury, disability, death, maternity benefits and birth allowances (Dixon 1981).

In the first two years of operation, the Labor Insurance Scheme covered well under ten percent of the working population. It covered employees in state-operated, joint state-private, co-operative and private factories and mines with more than 100 workers and staff. Since 1953, the coverage also included workers in capital construction units of factories, mines and transport enterprises, communication services and state-operated construction enterprises (Selden and You 1997).

The companies themselves state owned, co-operatively owned, or privately owned – financed the welfare system was entirely. The 1953 LIR guaranteed a pension of 50% to 70% of the wage at retirement for men at age 60 who had worked for more than 25

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years and for women at age 50 who had worked for more than 20 years. The enterprises that participated in the social security program paid three percent of the payroll to the labor insurance fund, which was jointly managed by the enterprise and the labor union. Seventy percent of the fund was used for pensions, disability allowances and for subsidies to dependants. The All China Federation of Trade Unions (ACFTU) received the remainder to assist enterprises who found themselves in difficulties. In 1956 and 1957, administrative degrees considerably expanded coverage of the Labor Insurance Scheme from 24 million participants to 45 million members (Dixon 1981).

From the 1950s to the 1970s, the overall development of social security schemes was stagnant. However, there was considerable growth in other social welfare sectors, such as housing, medical care subsidies and collective welfare of enterprise units that included sanatoriums, rest homes, orphanages and homes for the aged and disabled. Selden and You report that by the late 1970s, social welfare had expanded to cover 78% of urban wage earners; however, this represented only 19% of China's total labor force, which overwhelmingly lived in the countryside. In 1978, 74.5 million out of 95 million workers who were entitled for pensions, were former state sector workers while 20.5 million were collective workers. After 1978, a year of great reforms with a national goal of modernization and the Reform and Open policy, the government began to increase social welfare spending on retirement pensions, health services and housing. In 1979, the government also introduced the One Child per Couple policy, which had significantly affected great cities where the policy was enforced much more vigorously than in the countryside (Lee 1993; Dixon 1981; Chow 1999).

Beginning in the early 1980s, China began to reform its pension system by centralizing the administrative control of retirement schemes from the enterprise to the local government level. Fujian was reportedly the first province to introduce the system of unified management (*tong cou*), designed to expand the pool of risks to guarantee a long term balance between contributions and retirement benefits. Since 1984, this new retirement pension system has been extensively and rapidly implemented. By the late 1980s, approximately 80% of all townships and counties have implemented pooled pension funds. In several municipalities and provinces, some forms of retirement pensions have been introduced at a municipality/province level, for example, Beijing, Shanghai, Tientsin, Hebei, Guangdong, Jiangxi, Fujian, Henan, Anhui, Shandong, Shaanxi and Jilin (Lee 1993). In 1995, the Chinese pension system became two-tiered, i.e., a defined benefit system financed by pay-as-you-go taxes, and a system that relies on contributions of both employers and employees in state owned enterprises (Feldstein, 1998).

The 'Iron Rice Bowl' system before 1978 guaranteed employment according to employment status. That meant that the state financed the life-sustaining goods, services and the resources needed for 115 million industrial workers and employees regardless of their work records. Under the new economic policy initiated by Deng Xiaoping in 1978, the government has emphasized the new principle of distribution of benefits according to work and performance, and enterprises became responsible for their own profits and losses. By 1978, the Chinese welfare state comprised a wide range of programs aimed at enhancing social security benefits such as retirement pensions, birth control allowances, sick leave and benefits, health care insurance, collective amenities, cultural facilities,

housing benefits, subsidies, social relief, and disaster relief (Yeung 1986; Lee 1993).

From 1978 to 1994, the annual expenditures on social security benefits rose from RMB 7.81 billion to RMB 195.61 billion. These expenditures included collective welfare subsidies, medical care expenses, funeral expenses, pensions for the families of the deceased, living allowances to people who are in difficulty, family planning subsidies, heating subsidies in winter, and expenses associated with recreational, cultural and propaganda activities.

The great social reforms since 1978 have transformed the formerly work unit-centered social security system into a societal-centered social security system. Before the 1980s, the Chinese state bore the financial burden of the social security system. Thereafter, the state, the work units and the employees shared the expenses. Furthermore, the new social security system, combines personal accounts with social pooling. Old-age and unemployment insurance schemes have become the cornerstones of the new Chinese welfare state. However, the dualism between the countryside and the cities, so far, continues to disadvantage farmers – especially in pensions and medical care – in comparison to city dwellers (CIRD and CASS 1998; Chi and Zhu 1998; Liu 1988; Chow and Aspalter 2002).

### **The Political-Institutional Context of Policymaking in China**

The founder of the People's Republic of China, Mao Zedong, was one of the first members of the Communist party of China (CPC), which was established July 1 1921. At a time when the Communists and the Nationalists co-operated with each other, Mao organized labor unions for the Kuomintang. After the split with the Nationalists, Mao established the Red Army in 1927. He led the Communist forces in the Long March (1934-1935) and subsequently became the head of the Communist party. After the victory over the Kuomintang in the Chinese Civil War, Mao became the first chairman of the People's Republic of China.

Due to the failure of a national program for initiating industrial growth, the Great Leap Forward (1958), Mao was replaced as head of the state but retained the post of party chairman. In 1959, his interim successor, Liu Shaoqi, became head of the state. Criticized extensively during the Cultural Revolution (1966-1969), Liu was purged from power in 1968. Mao once again returned to power and consolidated his position as chairman of the CPC and head of state. After the death of Mao and Zhou Enlai (the long-term Prime Minister) in 1976, Hua Guofeng became chairman of the CPC and Prime Minister. As followers of Deng Xiaoping, the then Vice Prime Minister, they reinforced their power-bases in the Political Bureau (Politburo) of the Central Committee of the Communist party. Hua Guofeng replaced by Hu Yaobang as party chairman.

In the early 1980s, Deng Xiaoping became the second most powerful leader of the Communist party in history of the People's Republic of China. Before, Deng was twice removed from power, in 1967 and 1976, and twice rehabilitated, in 1973 and 1979. Deng Xiaoping consolidated his power base by elevation his supporters to prominent positions. Zhao Ziyang succeeded Hua Guofeng as Prime Minister in 1980, and Hu Yaobang replaced Hua as party chairman in 1982. Deng continued to emphasize tight party control of the government and politics. Jiang Zemin became secretary general of

the Communist party in 1989, and subsequently replaced Deng as head of the powerful government and party military commissions in 1989 and 1990, respectively. In March 1993, Jiang Zemin became President of the PRC. In March 1998, a political reformer, Zhu Rongji, became Prime Minister (Shinn and Worden 2000; Meisner 1999; Hsu 1999).

The history of the Communist Party of China occasionally witnessed factional in-fighting followed long periods of stable leadership. In the political arena, leaders were frequently purged and then rehabilitated. In 1961, a new power bloc inside the CPC emerged. This new bloc was centered on a group of moderate politicians led by Liu Shaoqi, Deng Xiaoping and others. This faction stood in opposition to party Chairman Mao Zedong, Minister of Defense Lin Biao and their followers.

These two groups disagreed on the methods to achieve a common goal. From 1961 to 1965, Liu and Deng group managed to strengthen party organization and discipline, establish realistic economic planning instruments and decentralize decision-making. Thus, in the early 1960s, Mao found himself on the political sidelines and in semi-seclusion. Mao interpreted the new politics of moderate circles as a sign of creeping capitalist and anti-socialist tendencies in the country. Consequently, Mao with the help of the People's Liberation Army (PLA) determined to restore ideological purity, re-infuse the revolutionary fervor into the party and the government bureaucracies and intensify the communist class struggle.

With the Cultural Revolution Mao launched a mass assault on the CPC and the state bureaucracies (Harding 1990). By mid-1965, Mao had regained control of the party with support of Lin Biao and Jiang Qing, his fourth wife,<sup>1)</sup> and subsequently purged Liu Shaoqi and Deng Xiaoping and their supporters from the party. By mid-1966, this purge turned into the Great Proletarian Cultural Revolution, the first mass action that was directed against the CPC apparatus itself. Mao believed that capitalist and bourgeois elements permeated the party organization was received support from Lin Biao, the PLA, and the Red Guards (Hsu 1999; Meisner 1999; Shinn and Worden 2000).

In March 1969 Chinese and Soviet troops clashed in a border area, so the CPC began to make an end to the factional infighting and focused on the danger stemming from the Soviet Union. Beginning with 1969 until his death, Mao took on a more pragmatic stance with regard to revolutionary enthusiasm. Fundamentalist influence in party politics waned with the death of Lin Biao in 1971, and those who had fallen into disgrace during the years of the Cultural Revolution were rehabilitated.

Factional strife within the CPC continued to determine party politics until Mao's death in 1976, and Chinese politics in the years preceding Mao's death was further polarized. In April 1976, masses of people that supported the moderate policy stance of Zhou Enlai, who died in January that year, demonstrated in Tiananmen Square to memorialize his death. In the September before Zhou's death, Mao ordered the purge of Deng Xiaoping. After Mao's death, the Gang of Four tried to size power but failed and were imprisoned. Hua Guofeng then became the new strongman of the CPC. At the 1977 National Party Congress, the balance of power again started to favor the group of

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1) Mao's wife was a leader in the Cultural Revolution and the head of the Gang of Four after the death of Mao Zedong and Zhou Enlai in 1976.

reformers that centered on Deng Xiaoping, but the Congress declared the formal end of the Cultural Revolution.

In 1978, the student movement, supported Deng Xiaoping, gained momentum and attacked Hua Guofeng, and even Mao Zedong. Subsequently, many politicians who were purged in the 1950s and 1960s were rehabilitated. In December 1978, at the Third Plenum of the Eleventh National Party Congress Central Committee, the four-modernization policy of Zhou Enlai<sup>2)</sup> replaced the policy of promoting class struggle. Deng's power base with political achievements abroad, notably the diplomatic recognition of the PRC by the United States, and the initial improvements in the economic situation (Hsu 1999; Shinn and Worden 2000). The transfer of power from Deng Xiaoping to Jiang Zemin was free of major controversies inside the party. Thus, from the early 1980s on, the political control of the CPC, and consequently the state, was in the hands of reformers who sought to open the country and promote economic growth and prosperity rather than the class struggle.

In 1954, the National People's Congress, the highest Organ of the state, promulgated the Constitution of the People's Republic of China state (CPRC 2002: Art. 57). Officially, the National People's Congress exercises the legislative power of the state (CPRC 2002: Art. 58); however, apart from the early period of the PRC, the National People's Congress did not utilize that power. Constitutional provisions are as long valid as the party supports them, for the Constitution was only an instrument of party politics (Weggel 1980). This explains why the provisions of the PRC Constitution are "suggestions" rather than binding legislation.

The state was weak and, in fact, little more than an executive organ of the CPC. The lack of legislation by the National People's Congress meant that the country was ruled by state ordinances and the resolve of the party (Weggel 1980). When the President of the People's Republic of China has the support of the Politburo and the PLA, the powers of the state are united in one person. The President of the PRC has the power to appoint the Prime Minister and the members of the State Council and can proclaim martial law and declare war (CPRC 2002: Art. 80). The State Council, also referred to as the Central People's Government, is the highest administrative organ of the state, adopts administrative measures, enacts administrative rules and regulations, and issues decisions and orders (CPRC, 2002: Art. 89). The Prime Minister is responsible for and directs the work of the State Council, which in turn leads the ministries, 5 committees, the National Auditing Agency and the Bank of China, and local governments. There is also a Ministry of Health and a Ministry of Labor and Social Welfare (CNT 2000).

Hence, the locus of power in the political arena of the PRC is vested in the Communist Party of China (especially the Politburo), not the National Peoples Congress or the state Council (cf. Walker 1955). Whereas, in the beginning, the charismatic leadership of Chairman Mao led the party, in the years following 1959, the charismatic leadership weakened and was replaced by a more institutionalized leadership (Domes 1975). Since the early 1980s, the leadership strengthened and major rivalries stopped dominating

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2) In 1975, Zhou Enlai outlined a program known as the Four Modernisations intended to modernize the four sectors of agriculture, industry, national defence, and science and technology.

party politics, and consequently, Chinese politics as a whole. Currently, President Jiang Zemin also holds the post of Secretary General of the CPC Central Committee, which is the leading position in the Standing Committee Politburo. Other members of the Standing Committee of the Politburo are Li Peng, Zhu Rongji, Li Ruihuan, Hu Jintao, Wie Jianxing and Li Lanqing. Sixteen of 23 Politburo members have a background in engineering (KAT 2000).

An often forgotten fact with regard to party politics in China is that there are eight other 'fraternal' parties in addition to the CPC, all of which were established between October 1925 and January 1948 (CNT 2000). These are: the China Zhi Gong Dang (15,000+ members); the Chinese Peasants' and Workers' Democratic Party (65,000+ members); the China Democratic League (130,000 members); Jiu San Society (68,000+ members); the China Democratic National Construction Association (69,000+ members); the China Association for Promoting Democracy (65,000+ members); Taiwan Democratic Self-government League (1,600+); and the China Revolutionary Committee of the Kuomintang (53,000+ members). The preamble to the Constitution states that there must be a united front under the leadership of the CPC to support socialism and reunify the motherland. This front is composed of the CPC and the eight aforementioned democratic parties (CPRC 2002).

In May 1986, Chinese students first called for the introduction of democracy. Fang Lizhi, the student leader, became a hero to students and intellectuals, and subsequently, students assumed the leadership of China's new reform movement. The government tried to downplay the student movement and brand them as hooligans. In May 1989, at the 70<sup>th</sup> Anniversary of the 'May 4' Democracy Movement, students began to occupy the Tiananmen Square in central Beijing. On May 13, workers joined the students in a hunger strike. By the end of May, however, Deng Xiaoping declared martial law and ordered the forceful evacuation of Tiananmen Square on June 3, which ended in a massacre (Yee 2000). The Tiananmen pro-democracy demonstrations of May 1989 were a major test for the survival of the government. Thousands of students had been killed, and thousands more were arrested thereafter. Zhao Ziyang, party secretary general since 1987, who supported the students, was removed from power and replaced by Li Peng, the new Prime Minister, who played an active role in suppressing the democracy movement. A decade later, the appointment of Zhu Rongji, a liberal reformer, as Prime Minister in March 1998 indicated a consolidation of the power of moderate forces within the CPC (Hsu 1999; Tien and Chu 2000; Chow and Aspalter 2002).

### **The Politics of Social Policy in China**

The Communist Party of China begun as early as the Civil War to implement a comprehensive social security system in Manchuria. The long experience in participating in policy-making in China (since 1921) in combination with the pro-welfare communist ideology (cf. CPRC 2002) enabled the CPC to establish quickly an extensive social security system. The Communists won the support of the farmers by propagating land reform, and the support of laborers by focusing on industrial development and social welfare provisions. In the 1950s, the Communists tried to realize Marxist theories and to create a socialist state. Land was confiscated and industries nationalized. Farmers

and workers were the center of the Communist party's concern. However, power struggles within the CPC led to the outbreak of the Great Cultural Revolution, which also attacked local, provincial communist elites and their authorities. As a consequence, government, party and labor union organizations were significantly weakened. In 1969, the administration of the pension system was placed in the hands of enterprises on an *ad hoc* basis (Lee 1993). Hence, the understanding of the development of the Chinese welfare state is tied to the understanding of state institutions and its structures (cf. Chen 1996). Only in the early 1980s, did the state begin to relocate the management of pension system and other social security systems to higher administrative levels.

The Chinese welfare state was and still is characterized by a great gulf between the welfare rights of city and rural inhabitants. Since approximately 80% of China's population resides in the cities, the welfare state was especially designed for the workers and employees in the cities who might pose an acute danger to the Communist regime in times of social discontent. State intervention aimed at improving urban welfare programs helped legitimize the state and the control of enterprises over the workforce (Wong and Mok 1995). The validation of power thus, decreased the likelihood of social unrest and increased the support for long-term ruling government of the Communist Party of China.

### **The Future of Social Policy in China**

In the late 1950s, China developed a welfare state compared to other countries at the same developmental level. Although the late 1960s represented a major setback in welfare state development, the CPC began to extend welfare state provision in the 1970s in the domains of pensions, health care and housing. The year 1978 represents a watershed year in Chinese welfare state development since, thereafter, social security systems were upgraded from enterprises to local and even provincial government levels. In addition, the economic reforms that made state enterprises to take over the responsibility of their finances from the state forced the enterprises to lay off millions of workers.<sup>3)</sup> In July 1986, the government installed an unemployment insurance scheme for state-owned enterprises. Another development that has changed the socio-economic structure in China is that more than 100 million peasants have left their farms and are now working in enterprises in both the cities and the rural areas (Hu 1997; Chow 1995). Between 1978 and 1984, the government prepared for the major changes of the social security system to come by launching a series of studies, discussions and dialogues, but major reforms only took place after 1984.

Between 1984 and 1994, the state started to reform and unify the pension system; establish unemployment insurance and experimental schemes to unify maternity insurance schemes, which formerly also operated on company level; and conducted smaller improvements in other social security domains. Since 1994, the Chinese welfare state has experienced rapid reform in pensions and health care (Hu, 1997). The major tasks for future social policy in China are first, to extend social security to farmers and their dependants, as well as workers and entrepreneurs in the booming small and

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3) In 1998 alone, two million workers were laid off. In 1997, the official unemployment rate was four percent, i.e. eight million unemployed workers (cf. Biffl, 1998).

medium-sized enterprises; and second, to continue unifying social security schemes all across China (Aspalter 2001b).

## CHILE

### Social Policy in Chile

The social security system in Chile is mainly based on the division between mandatory private insurance schemes for old age and health care and similarly run government social insurance schemes. Chile has not, contrary to myth, fully privatized its social security schemes like Mexico. Chile has merely opened a second stream of social security schemes besides the existing one, which was under funded due to low returns on investment, a high degree of inefficiency in administration, overly generous benefits, and meager contributions because of numerous exceptions to what was regarded as the basic salary and wages of the insured. As much as 20% of contributions were funneled to inefficient private insurance agencies (Kay 1997; SSA 1999; SAFP 2002).

The "old" publicly run system of old-age security was compulsory for workers, employees, and the self-employed alike. The new private-run system is only mandatory for wage and salary workers; the self-employed may join on a voluntary basis. The old system distinguished between workers and salaried employees who each paid different rates of insurance premiums, and who received pensions that were calculated according to very different pension formulas.

Furthermore, the new private system is mandatory for workers who entered the labor force before December 31, 1982 meaning that the old system will be gradually phased out, and replaced by a private system. The private system was introduced in May 1981. With the reform of the social security system, the government also implemented a guaranteed minimum pension scheme for members of the new, private pension system but only after 20 years of contributions. Either way, the government now pays for social security. In the case of public pensions, the government must increase subsidies to finance the system because of the implied ageing of membership in the public system and in the case of the private system, the government must account for insufficient contributions (and/or lower than expected returns of investments) by establishing a complementary universal minimum pension system (cf. Becker 1998; SSA 1999).

The private system was widely accepted from the beginning. Scores of Chileans enrolled largely because the lower premiums increased the net incomes of enrollees; a powerful and very expensive promotion by the government; and the low level of pensions and the generally desperate situation of the pensioners at that the time. In 1975, the Chilean government reduced employers' contribution rates from 43.3% of taxable wages to 20.3% percent by 1980. By 1988, all the employers' social security contributions were eliminated. Employees' and workers' contributions were also reduced but only for those who transferred their social security funds to the new, private system. This remained a powerful incentive for the insured to transfer their funds. The total compulsory contribution to the private system amounts to 19.5% to 20.7% of the payroll compared to 27% in the public sector (cf. Borzutzky forthcoming).



After two decades, social security coverage in Chile has declined significantly, and thus, a key promise of the reform proponents was unfulfilled, which led to a general lowering of social standards although the percentage of the population living in poverty was reduced over time. In the short term, however, poverty was worsened by the dictatorship's social and economic policies (cf. Borzutzky 2002; Mesa-Lago 2002; Hojman 2002).

Chileans can choose either to join the National Health Service System (SSNS) or a private system that is administered by the Social Security Health Institutes. The former covers wage earners and salaried employees only, while the latter also covers the self-employed (SSA 1999; SAFP 2002). A curiosity of the Chilean health care system is that all virtually everyone – public and private sector workers, pensioners; persons receiving work injury benefits, unemployment benefits or family allowances enjoys the services provided of the public system. That means that those in the private system also can simultaneously take advantage of services in the public system, and thus, reduce their contributions for private health insurance. In this way, the poor are subsidizing the rich, since those in the both private and public systems contribute 7% of their wages, but only those in the private system profit from in the benefits of both systems (cf. Borzutzky forthcoming).

Two parallel insurance systems also provide permanent disability and survivor benefits for the working classes. The government also fully funds additional universal unemployment and family allowance systems, for which the financing was raised by introducing a temporarily 2.85% tax in the 1980s. In general, the neo-liberal experience and the reformulation of Chilean social policy in the 1970s and 1980s led to serious failings in the pervasive structural weaknesses of the system and a profound polarization of welfare service provision. The reformulation of social security system under General Pinochet, in essence, can be seen as an attempt to re-establish the profitability of capitalism in Chile, and not – as claimed by the “Chicago Boys” and Chilean military regime – an attempt to offer an efficient and equitable form of social security and service provision (Borzutzky forthcoming; Taylor, 2002; cf. Piñera 2002).

### **The Political-Institutional Context of Policymaking in Chile**

In 1818, Chile became one of the first Latin American countries to achieve independence from its colonial ruler. The succeeding decades the Republic of Chile developed the first durable constitutional system of government in Latin America, which enhanced the formation and consolidation of political parties that embraced diverse ideological standpoints. Having a long history of stable party politics that permeated society, Chilean political parties withstood crushing blows from the Pinochet regime between 1973 and 1990.

From the onset of the Republic, regional political parties and interest groups, heavily influenced national politics: first, by mounting rebellions against the central government from 1830s through the 1850s; second, by preventing further centralization of political power at the end of the 19<sup>th</sup> and early 20<sup>th</sup> centuries by electing Arturo Alessandri Palma president; and third, by supporting from the 1920s to the 1970s, reformist movements such as the Radicals (a center-left political party that heavily drew onto the political

right once elected), the Communists and the Socialists.

Society in the 19<sup>th</sup> century new Republic profoundly influenced the politics of 20<sup>th</sup>-century Chile. Since the early days of the Republic and to a lesser degree, up to the present Chile demonstrated how a landed elite could exert complete control over the President and Cabinet members by dominating the National Congress (the “Congreso Nacional”), the most influential political body of the Chile (Loveman 1976; Collier and Sater 1996; and LC 2002).

Chile has seen the rise of five major political reformers who sought to better society. The reformers were: Arturo Alessandri Palma, a dissident Liberal and President of Chile between 1920 and 1924; March and October 1925, and 1932 to 1938; Pedro Aguirre Cerda, a member of the centrist Radical Party (Partido Radical, PR) and President between 1938 and 1941; Gabriel González Videla, another member of the PR and President between 1946 and 1952; Eduardo Frei Montalva, a Christian Democrat and President between 1964 and 1970; and Salvador Allende Gossens, a Socialist and President between 1970 and 1973.

President Alessandri received strong backing from the urban middle and working classes, and the crucial support of the landed provincial elite. Congress felt marginalized, so it cooperated with the right-wing military that opposed Alessandri and launched a military coup in September 1924. Only four months later in January 1925, reformers within the military returned Alessandri to office. Alessandri then used Presidential decrees to proclaim social reforms that focused on a greater support for the neglected armed forces, the end of widespread social unrest and countermeasures against spiraling inflation to prevent.

In the 1938 presidential election, the Popular Front, an alliance of the Radicals and the Socialists, nominated a mild-minded Radical, Pedro Aguirre Cerda, and thus, were able to defeat their right-wing opponent. Aguirre Cerda concentrated on alleviating improving social conditions for the middle and working classes by pursuing a mix economy that led to the gradually extended the state’s role in economy and social welfare. This enabled him to control the Marxists who softened their stance somewhat and accepted the moderate reformer, Aguirre Cerda. This situation continued until 1952.

The second PR president, Gabriel González Videla, whose political convictions were to the right of center, expelled the Communists shortly after assuming office in 1946. The Communists initially participated in González Videla’s government coalition were outlawed under the 1948 Law for the Defense of Democracy as a response to the onset of the Cold War. The Radicals with support of left-wing parties dominated politics between 1938 and 1952, but this domination resulted in the irrevocable loss of political significance for the PR since the Communists were forced underground, the socialists splintered, and the PR itself moved to the right.

However, a new power bloc emerged after President Carlos Ibañez del Campo, in his second term as President, reversed his policy of pursuing progressive expansionary fiscal policies. This led to a massive loss of electoral support among the urban middle and working classes, as well as the rural working class to whom he had promised increased income. Among the new political winners were the Socialists on the left and the newly formed Christian Democratic Party (*Partido Demócrata Cristiano*, PDC) on right.

The PDC was founded in 1957 and was in the result of a merger of three political groupings: the National Falange, the Social Christian Conservative Party and the remnants of the Agrarian Labor Party. The new force in Chilean politics, Christian Democracy, could build on a long tradition of Catholic social thought and teachings of the 19<sup>th</sup> century, the most influential of which were those of Bishop Ketteler in Germany, Jacques Maritain in France, and the well-known Papal Encyclicals, *Rerum Novarum* and *Quadragesimo Anno* (cf. Aspalter 2001a; Borzutzky 2002). This new political camp was committed to harmonizing its social and labor policies with Continental European social principles that opposed both liberalism and socialism. Thus, huge compromises and changeovers were not expected from the PDC in contrast to other reform-minded leaders in the liberal and radical camps.

The Communists, who supported Liberal President Carlos Ibañez del Campo, were legalized again by Ibañez in 1958. From 1958 to 1964, Chile was ruled by a right-wing Liberal, President Jorge Alessandri Rodríguez, the son of former President Alessandri. With the rise of Christian Democracy, Chile transformed itself into a just society that aimed to integrate the urban poor and the peasantry into the political society, change the relationship between organized labor and the state and expand the social functions of the state, all leading to improvements particularly in income distribution, education and public housing (Borzutzky 2002; FC 2002).

At the same time, the Marxists, who were largely favored by male members of the working classes, continued to press for a socialist Chile. The conservative members of PDC's electorate were increasingly alienated by the new social reforms and the failed attempt at a major land reform. Many rural workers also lost confidence or were dissatisfied by the results of what (in order to placate the still extremely influential landowners) was only a minor land reform (cf. R.R. Kaufman 1972).

As a result, the 1970 election brought a radical shift in voter alignment and elevated the Socialists to a leading position. After employing traditional Keynesian economic policies (as did the rest of the world in the 1970s and early 1980s, Social Democrats, Christian Democrats and Conservatives alike) and a stringent campaign of nationalization of most key industries, the Allende government faced disaster after disaster. The United States, focusing on the economic ruin of an otherwise already very fragile economy, worked at and was ultimately successful in toppling the Allende Government. Domestically, the huge advances of socialism estranged the Christian Democrats, especially urban middle class, who may have not been fully aware of the long-term consequences involved, and supported a hard-line coalition of extremist among the Conservatives and Liberals and, most importantly, the powerful military (cf. Petras 1975; Linz et al. 1979; E. Kaufman 1988; Hecht Oppenheim 1998).

In 1973, Chile formerly a forerunner in the rule of law, democracy and social security, became an authoritarian country much resembling those terrifying Fascist regimes of Germany, Italy and Spain in the 1930s and 1940s that was strongly supported internationally by all major conservative governments and killed tens of thousands and horrified millions of its own people.

In the beginning, the Pinochet regime was able to induce a period of economic growth that was built on credit and unsustainable economic expansion. The benevolent outcomes of some economic policies were undone by the results of other economic

policies that had very unfavorable effects on both the economy and the society. The average rate of economic growth between 1974 and 1984 was one percent, slightly lower than the average annual growth rate for the socialist Allende Government, which was 1.3%, and well below the 4.5% achieved in first PDC government of President Eduardo Frei Montalva (cf. Borzutzky 2002).

In addition, persistent welfare programs for the poor only slightly reduced the negative influences of a widening income gap. The worst result was the massive degeneration of the social security system, most notably, the dramatic decline in social security coverage of and the massive reduction of governmental health care expenditures (cf. Constable and Valenzuela 1993; Borzutzky 2002)

The new Constitution of 1980 restructured the powers within the state. Visibly serving the interests of General Augusto Pinochet Ugarte, the new government bureaucracy strengthened the President and virtually devolved major powers to the President, in effect dismantling the century-long powers of the Congress. The 1925 Constitutional reform had merely established a balance in the distribution of powers between the Congress and the Executive. The 1980 reform went a step further and designated the Executive as the locus of power in Chilean politics. A vital part of the reform was the changing of the electoral system for Presidential elections. Previously, when no candidate reached an absolute majority in the Presidential election, the Congress could decide between the two leading candidates, which had proved a powerful tool in preventing reformists becoming head of state. After 1980, the matter was decided by a run-off election between the two leading candidates (cf. Hecht Oppenheim 1998; CCLE 2002: Art. 18).

The bicameral National Congress consists of the Senate (*Senado*) and the Chamber of Deputies (*Camara de Diputados*), with Senators serving 8-year terms. Out of the 49 Senators; 38 are popularly elected; 9 are designated by the either Supreme Court (*Corte Suprema*), the National Security Council (*Consejo de Seguridad Nacional*) or the President; and 2 are former presidents who serve 6 year terms and appointed Senators for life. There are 120 members in the Chamber of Deputies elected by popular vote for 4-year terms (CIA 2002).

In the 1988 referendum, General Pinochet Ugarte missed a majority by a margin of 7%. The subsequent 1989 election brought Patricio Aylwin Azócar, a Christian Democrat and the leader of coalition of PDC and the Socialists, known as the *Concertacion*, to the forefront of Chilean politics. In 1993, the son of former Christian Democratic President Eduardo Frei Montalva, Eduardo Frei Ruiz-Tagle, succeeded President Aylwin. In the March 2000 run-off elections, once again a candidate of the *Concertacion*, Ricardo Lagos Escobar, a member of the Socialist Party (*Partido Socialista*, PS) was victorious and defeated his Liberal opponent, Joaquin Lavín, by a narrow margin, 51.32% to 48.68% (AUG 2002; CIA 2002).

### **The Politics of Social Policy in Chile**

After a full century of neglecting social questions, politics in Chile began to move toward developing social welfare as a means of promoting social development and, more importantly, as a means to prevent any social revolution. After experiencing

earlier revolutions and social uprisings in Chile and the successful October Revolution in Russia, social policy opened a new way to secure power of the ruling elite.

Because of the political dominance of the large landowners in the countryside and their crucial support of various coalition governments throughout most of the 20<sup>th</sup> century, particularly until 1980 when the new Constitution came into effect, rural workers were excluded from right to unionize and participate in welfare programs, and were compelled to accept extremely low wages. Radical and Christian Democratic Presidents between 1938 and 1970 needed support from the landowners who wielded a power within Chile by virtue of their dominance in the National Congress that was second only next to that of the military.

After the overly moderate reforms of Radicals and Christian Democrats in the mid-20<sup>th</sup> century, workers, both urban and rural, threw in their support to the Socialist candidate, Salvador Allende Gossens, in the 1970 Presidential elections, which irrevocably changed the history of modern Chile. Allende forced notably the nationalization of the industrial sector (most notably, the copper mines) and implemented an effective agrarian reform in an attempt to finally eliminate the latifundist class, which in reaction supported a short-lived, military intervention (cf. Pernes 1998).

This led to the rise of an incredibly cruel military regime, which set out to implement the American dream of a neo-liberal society, based on individual responsibilities, and a diverse society, but this attempt clearly failed. A century and a half of representative and highly democratic government survived the onslaught unleashed by Pinochet and his subordinate Chicago Boys. Chile, today, is an outstanding democracy, with a long tradition of social solidarity and largely communitarian beliefs. Although admittedly, in social policy things haven't changed for a long time, due to the general problem of path dependency in social security provisions.

### **The Future of Social Policy in Chile**

Between 1979 and 1981, Chile's military government implemented structural reforms in both pensions and health care schemes with diverse degrees of privatization (cf. Mesa-Lago, 2002). The social assistance system and Chilean social policy on the whole due to the practical and conceptual deficiencies of Chile's new system of 'forced' private insurance systems is bound to expand in order to cure social problems and begin a program of social management that actively prevents social problems and t promotes economic development within a globalized world economy.

The 1991 tax reform of the Aylwin Government, which was based on a compromise between the *Concertación* coalition government and the most important opposition party, the right wing *Renovación Nacional*, increased the Value Added Tax from 16% to 18% and profited entrepreneurs. As a result, the overall tax burden increased by 3% of GDP, the sum of which increased social spending and matched the government's new social policy guidelines: equity, solidarity, efficiency and an integral approach to social problems (UTU, 1998; Borzutzky, 2002). Thus, Chile has returned to a more socialist approach to social policymaking. I will be interesting to observe the impact that Chile's second Socialist president, President Ricardo Lagos Escobar, has on social policy and social assistance in particular.

## CONCLUSIONS AND OUTLOOK

China's social security reforms since the early 1980s focus on the reinstallation/development of a social security system that was formerly degraded/suspended due to the onset of the Great Cultural Revolution. What was meant to be a fully-fledged socialist welfare state system became a partially existing welfare state system that addressed and covered only the needs of only the urban populace employed in the state sector. Under Mao Zedong the countryside was also furnished with a basic health care system that reached almost full coverage, but this system almost fully eroded in the late 1960s (cf. Chow and Aspalter 2002). In the past two decades with the arrival of capitalism, mass-scale privatization, the ascent of the private sector economy and the impact of globalization, the Chinese welfare state system faced unexpected new challenges. While addressing the long-term to unify the old, company-based social security system in the largest welfare state system on earth, the Chinese government made some significant improvements. These improvements were not easy to undertake, given the state institutions that were significantly weakened, especially on regional and local government level, due to power struggles within the Communist leadership that lasted from the mid-1960s to the late 1970s. New modicums/formulas for addressing the social questions of the time have yet to be found.

Ironically, the Chinese leadership still emphasizes the benevolent and crucial role of Communism, yet at the same time, it has completely abandoned a socialist position in social policy. A quiet, irreversible revolution in the form of the arrival of scores of PhDs trained by liberal economic higher educational institutions, and the new influx of Western, especially American, economic ideologies like the Chicago doctrine of neo-liberal, *laissez-faire* economics, have changed China's perspective economic and social problems alike. There is a common understanding in higher echelons of the Chinese government that whatever problems there are – be they economic or social – the principle of simply opening the market and, ultimately, the market's capacity to take care of all matters, will be sufficient to reverse aberrant trends in economic and social development. Social problems, such as HIV/Aids, increased family and youth violence, crime and unemployment, however, may not be ameliorated by opening of economic markets; neither have liberal economists claimed it would do so.

The Chinese state faces a twofold crisis. First, it has lost its valuable social, and some of its political, ideology, and is about to emulate American policy values and practices. Second, China has a growing need to bolster its own government legitimacy with policy achievements in the social policy arena. Recent national achievements, such as a having a football team in the 2002 World Cup and securing the 2008 Olympic Games for Beijing have certainly contributed to the Communist parties legitimacy. However in the face of tens of millions of unemployed, at least 1.2 million HIV/Aids patients, one third of whom are children while cases increasing at 30% annually (cf. e.g. Aspalter 2001c), spreading social discontent with economic and social issues, the government is indeed urged to act and, perhaps rediscover its own past and policy stands on social problems. In the aforementioned discussion on social security, the government likes to shift welfare responsibilities to the private sector. The exceptionally rapid growth of the private sector and the rapid decline of the state sector, in combination of the

government's passive social policy stand, lead to a *de facto* privatization of social security and an increase in social problems in general.

Chile recent violent past and took an even more disruptive path with regard to social security development. Dreams and promises by Washington and Santiago alike did not come materialize. However, in terms of economic aims, much has been achieved: But at what cost?

Privatized social security systems in Chile, and more than a dozen other countries in the region and across the globe, feature low coverage and, most importantly with regard to economic arguments, are highly inefficient; that is, they involve excessive overhead and fixed costs due to an initially low number (i.e., 12, which fell to 7 in 2001) of pension fund operators (*Administradores de Fondos de Pensiones*). This is reminiscent of an economic evil that reduced the Soviet Union from being an economic superpower to poverty-stricken nation.

Noted economists and social security experts have already begun to interpret the very mixed and poor results of 'forced' private social insurance schemes in regard to either social outcomes or the much anticipated economic outcomes of these programs. While social security funding has been established, much of the financial burden with regard to missing contributions to the old system, and newly guaranteed public minimum pensions has simply been shifted to the state, and ultimately the taxpayers (cf. Stiglitz 2002; Mesa-Lago 2002; Borzutzky 2002 forthcoming). Thus, one could coin the phrase "it is an ideological thing", to mean that governments acted on behalf of a new ideology, without considering the consequences of their reform efforts from a reasoned and analytical perspective.

The Chilean structural pension reform is usually presented as a single universal model of social security reform. However, there are nine other Latin American countries that have enacted major pension reforms that aimed at partial or full privatization. In general, Latin America countries have followed three diverse models based on their individual needs: the substitutive model in Chile, Bolivia, Mexico, El Salvador and Nicaragua, , the parallel model in Peru and Colombia, and mixed models in Argentina, Uruguay and Costa Rica (Mesa-Lago 2002).

In the Chilean case, a gradual phase-out of the old public pension system, as it is implied by the Chilean pension reform of the 1980s, is preferred to a sudden system change. Indeed, the chronically-ill social security system is in the process of being replaced by a private system in which the government, in essence, forces market participants to buy a certain commodity (i.e., the receipt of benefits) that cannot be immediately consumed, and which is not subject to anything like "perfect competition" or "perfect market information" as economists coin the phrase.

Private companies advertise and 'compete' for customers by giving small gifts, such as ashtrays. One may ask: Is this competition in the sense of liberal and/or general modern economics? The answer is no.

Once life insurance is bought, changes cannot be made to it during ones lifetime without incurring major income losses with *de facto* severe punishments if insurance is altered within the first ten years. Customers cannot learn from their own experience: they can only pass on possible disappointment and frustration to the next generation. Thus, it is yet to be discovered how inefficient "forced" private insurance systems work.

Chile, today, has a Socialist government, which followed two Christian Democratic ones since 1990. However, apart from pouring more money into existing social assistance programs, the Chilean leadership has not found a new formula, to address existing poverty and an array of new and old social problems that include persistent poverty, and increasing youth crime and family violence.

New bravery and new insights, it is hoped, will trigger new social policy approaches. Economic activity is embedded in the social fabric, and when the social fabric becomes unhealthy, it will also harm the GDP, which as economists know, is only a rather crude estimate of real economic development.

The policy agendas of think tanks and policymakers need new approaches. Singapore and Hong Kong already pursue a new reasonable and very successful way of conducting “conservative social policies” in a globalized market place by implementing provident fund systems that feature a much greater customer flexibility between different fund-managing companies, as in the case of Hong Kong, and which yield higher returns on investment, a greater international mobility and provide a useful tool for macroeconomic management in times of recession and unemployment by allowing the government to rapidly change the rate of provident fund contributions. The long-term experience of Singapore is very valuable in this instance (cf. e.g. Aspalter 2001b, 2002).

The author hopes the se depictions and conclusions will provoke a fruitful and lively discussion at the Puli conference and at other international forums.

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