The Dilemma of the Social Insurance System for Rural Workers: A Path-dependent Analysis

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Abstract

In the process of continuous promoting urbanization of rural workers, many issues arise such as malfunction of the pension insurance system, low participation rate, lack of pension insurance, and unequal rights of pension insurance compared with urban workers. We try to unveil various causes of pension problem facing rural workers and look for solutions. The paper compare various pension system in different regions, explain increasing participation rates of rural workers in the urban insurance system in different years, and point out the main obstacle to reform. Our study has several findings. We find that the main cause of these problems is that the institutional changes of the pension insurance system for rural workers are path-dependent. Influenced by deep-rooted thoughts of "emphasizing

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industry over agriculture" in China, the development of the pension insurance system for rural workers has an urban-rural dualistic feature, which does not match perfectly with the characteristics of rural workers. The system has a patchy and fragmented pattern, making it difficult to fully protect the pension insurance rights of the rural workers. We propose changes in the pension insurance system that will facilitate the citizenship transformation

**Keywords:** rural workers; pension insurance; institutional dilemma; path dependence

1. **Introduction**

In the past 40 years of reform and opening up in China, a great number of people in the rural areas have moved to urban areas looking for jobs, forming a massive special group. They are known as "rural workers" and play a very important role in China's economic development (Zhang and Song, 2003; Kung, 2002). In recent years, with China's industrialization and urbanization being conducted at an accelerating pace, the number of rural workers grows significantly. According to the National Bureau of Statistics of China, the total number of Chinese rural workers has reached 288.36 million by the end of 2018 (see Table 1), accounting for about 20.57% of the nation’s population. The off-farm income gap due to the health condition widens year by year (Qin et al., 2013). However, with the long-standing urban-rural dual system in China, many rural workers have been constantly encountering institutional barriers in the urban areas, suffering from infringement of rights and interests, facing various discriminations, and being labeled as "second-class urban citizens". Tao and Li (2016) argues that the current Chinese pension arrangement represents a case of “incomplete” universalism. The inequality of pension arrangements among different segments of the labor force is one of the most conspicuous problems challenging the Chinese government (Wu 2013). As a consequence, a series of further issues regarding rural workers arose, arousing significant public concern. After repeated and in-depth discussion and scientific proofs, all sectors of society by then have profoundly realized that urbanization of rural workers is the fundamental way to solve the integration problem. From 2012, the central government has introduced important strategic plans. The report of the 18th National Congress of the Communist Party of China (CPC) proposes "steadily promoting the urbanization of the people who have moved to cities from the countryside". The report of the 19th National Congress of the CPC also proposes "accelerating the urbanization of the people who have moved to cities from the countryside ". The rural workers are the main component
of rural-urban migration. Making rural workers real citizens in the urban city with equal civil rights is the task with top priority in the urbanization of the rural-urban migration.

Table 1: Total Number of Rural Workers (2010-2018) Unit: Million

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<tbody>
<tr>
<td>Total number of rural workers</td>
<td>242.23</td>
<td>252.78</td>
<td>262.61</td>
<td>268.94</td>
<td>273.95</td>
<td>277.47</td>
<td>281.71</td>
<td>286.52</td>
<td>288.36</td>
</tr>
<tr>
<td>Total number of rural workers (outflow)</td>
<td>153.35</td>
<td>158.63</td>
<td>163.36</td>
<td>166.10</td>
<td>168.21</td>
<td>168.84</td>
<td>169.34</td>
<td>171.85</td>
<td>172.66</td>
</tr>
<tr>
<td>Total number of rural workers (local)</td>
<td>88.88</td>
<td>94.15</td>
<td>99.25</td>
<td>102.84</td>
<td>105.74</td>
<td>108.63</td>
<td>112.37</td>
<td>114.67</td>
<td>115.70</td>
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Missing rights in pension insurance is one of the important issues calling for researchers’ immediate attention. If rural workers don't have equal rights of pension insurance as urban workers, they will not be able to settle down in cities and become real urban citizens. Amending the pension insurance system for rural workers and effectively protecting their rights and interests are important to promote and accelerate the process of urbanization of rural workers.

The issue of rural workers’ pension insurance has attracted the attention of the government, who has begun to adjust and ameliorate existing policy and push for building the pension insurance system for rural workers. On July 1, 2011, China’s “Social Insurance Law” was promulgated. Since then, participation in the basic pension insurance for urban workers has become a nationwide norm and a formal institutional arrangement for rural workers. Though the number of rural workers participating in pension insurance is increasing year by year, the participation rate is still very low. According to the statistics from the Chinese Ministry of Human Resources and Social Security, the number of rural workers participating in urban pension insurance was about 63.79 million nationwide by the end of 2018, less than a quarter of the total number of rural workers (see Table 2). One natural question is: what hinders the rural workers from participating in pension insurance, making the system inefficient?
Table 2: Statistics of rural workers’ participation in pension insurance for urban workers from 2010 to 2018

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<tbody>
<tr>
<td>The number of the insured people (million)</td>
<td>32.84</td>
<td>41.40</td>
<td>45.43</td>
<td>48.95</td>
<td>54.72</td>
<td>55.85</td>
<td>59.40</td>
<td>62.02</td>
<td>63.79</td>
</tr>
</tbody>
</table>

Data source: The Ministry of Human Resources and Social Security of the People's Republic of China, Statistical bulletin on the development of human resources and social security (2010-2017) [EB/OL]. http://www.mohrss.gov.cn/. The number of the insured people is roughly estimated based on the data from the statistical bulletin on the development of human resources and social security in 2018. The proportion of the insured people is calculated based on the number of the insured people and the total amount of migrant workers of the corresponding year.

So far, investigations on pension insurance for rural workers have been quite fruitful. The deepened reform is progressing slowly and in a state of repairs with the current system. The book in 1980 “Structure and Change in Economic History” by institutional economist, Douglas C. North, argues that path dependence in economics means that people's past choices determine their present possible choices. Once the economic system enters a certain path, it may become path-dependent, meaning that history is crucial in determining the future.

The phenomenon of path dependence also occurs in the course of institutional changes. The path selection of a country's institution will be deeply affected by the initial endowment, and this initial endowment will produce the path dependence effect of the institutional changes. In other words, once a system is formed, whether effective or not, it will last for a certain period of time and affect institution selection in subsequent periods. Institutional changes can only follow the established path, even if globally there are some more effective paths. The system may also be trapped in the established path due to the transformation costs. It is clear that path dependence in some sense can lead to inefficiency.

This paper compares different pension systems and tries to find out the underlying causes. We find that the main cause of this difference and the main obstacle to reform is path dependence. In the ongoing process of urbanization, the participation rate of pension insurance of rural workers is still low and some rights are missing. This is mainly because the reform of the pension insurance system for rural workers has stalled to some extent and is path-dependent.
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2. Literature review

Since the early 1990s, the issue of pension insurance for rural workers attracted the attention of many scholars. This paper is broadly related to several strands of literatures. The first strand studies participation rates of social insurance. Cheng et al. (2014) examines participation rates of social insurance considering rural-to-urban migrants and urban-to-urban migrants. They find that urban migrants have higher participation rates in social insurance than rural migrants. Zhao et al. (2016) conduct correlation analysis and examine factors affecting the participation and the impact of New Rural Social Pension Program (NRSPP) on labor supply of the rural elderly. Kono and Somarathna (2003) study determinants of farmers’ participation choices in pension and social security in Sri Lanka.

The second strand studies performance and sustainability of China’s social insurance system. Pan et al. (2016) examine the performance of China’s current social medical insurance system in terms of revenue collection, risk pooling, the benefit package, and payment mechanisms. Tao (2016) studies the sustainability of new rural social pension insurance in China.

The third strand studies migration decisions of rural citizens. Chen et al. (2017) find that lack of supporting social security is an important factor affecting farmers’ decisions of withdrawal from rural homesteads. Eggleston et al. (2016) find that the adult children with a parent just arriving at the pension-eligible age are more likely to be labor migrants compared with those with a parent just below the pension-eligible age.

The fourth strands concerns transition paths of social insurance systems. Bairoliya et al. (2018) use macroeconomic models to study the transition paths and steady state responses to new pension policies. Queisser et al. (2016) study evolution of China’s pension system and compared it to OECD countries.

3. Path dependence - evidence from transition of the pension insurance system

The current pension insurance system for rural workers is in fact a cloned version of the system for urban workers with the system’s ideology matching imperfectly with the characteristics of rural workers. Since its birth, the development of the system has fallen into a state of repairs and been locked in the path of the pension insurance system for urban workers. In addition, the fragmentation pattern and the poor implementation of the system embody the path dependence of pension insurance system for rural workers.
(1) The mismatch of system design and the characteristics of rural workers

According to China’s “Social Insurance Law”, the fact that rural workers participate in the basic pension insurance system as urban workers does indicate that rural workers already have the same pension insurance rights as urban workers. However, in fact, the pension insurance system for urban workers is not designed for rural workers since its birth. The idea of the system design is merely for fully embodying the right of pension insurance of urban workers and providing effective pension insurance. The system caters the need of urban workers and does not match the characteristics of rural workers. The interest of rural workers, which also composes a significant part, is to some extent ignored. A large number of rural workers are dropped out from the pension insurance system. Their insurance rights and interests cannot be properly protected. This appears as follows. Firstly, most rural workers cannot attain the lower limit of the paying percentage of the pension insurance. There is a conflict between the high entry payment and the low income of rural workers. In the majority parts of China, the lower limit of paying percentage for urban workers’ pension insurance (individual account) is 60% of the previous year's monthly average salary of an employed worker, and this lower limit is affordable for most urban workers. Most of the rural workers are in the urban secondary labor market, and their income levels are mostly staying at the urban minimum wage, this payment standard is undoubtedly expensive for most rural migrant workers. Secondly, most rural workers cannot meet the paying-period requirement of the pension insurance. There is a conflict between the length of cumulative paying-period requirement and the mobility of rural workers. One of the prerequisites for receiving pension in the system for urban workers is the minimum cumulative payment of 15 years. This requirement is not difficult for urban workers since they have relatively fixed residences, jobs and incomes in cities, and low mobility. Rural workers' jobs are relatively unstable. They frequently move between urban and rural areas. It is difficult for them to meet the requirement of 15 years. Thirdly, the policy about the pension insurance’s transfer and continuation stipulates that only 60% of the fund in the coordinator’s account can be transferred to another region, essentially a protectionism policy of local finance. The rest 40% in the coordinator’s account is withheld aiming at improving the retirement treatment of local urban workers. A trade-off therefore exists between local interest protection in the transfer and continuation policy and damage to the pension insurance rights and interests of rural workers. Such protectionism policy damages the pension insurance rights and interests of rural workers.

(2) The pension system has fallen into a state of repairs

Although some progress has been made, rural workers have long been suffering from instability and inconsistency of policy implementation. In the
1990s, China began to establish a pension insurance system for urban workers. On June 26, 1991, the State Council promulgated “the decision of the State Council on the Reform of the Pension System for Staff and Workers of Enterprises” (document No. 33 [1991]), which is a prelude to the construction of the pension insurance system for urban workers. The document proposes the establishment of a social pension insurance system undertaken by the state, enterprises and individuals together for state-owned Enterprises, and that specific measures shall be formulated by governments of provinces, autonomous regions, and municipalities directly under the central government. Subsequently, the State Council accelerated the pace of system construction, and successively published “Deepening the Reform of the Pension System for Workers of Enterprises” (document No. 6 [1995]), “the State Council’s decision on establishing a uniform basic Pension System for Workers of Enterprises” (document No. 26 [1997]) and “the State Council’ Decision on improving the basic Pension System for Workers of Enterprises” (document No. 38 [2005]). The State Council has gradually established a unified basic pension system for workers of enterprises and constantly expanded the coverage of basic pension insurance to cover all types of employees of urban enterprises, individual business and other employees including rural workers in the scope of basic pension insurance. On January 1, 2010, “Temporary Measures for the Transfer and Continuation of the Basic Pension Insurance Relations of Urban Employees” (document No.66 [2009]) was officially implemented. The new document clarified the specific measures for the transfer and continuation of the basic pension insurance relations of urban employees, in which the rural workers became the important beneficiaries.

The loss of rights and interests in the process of transferring cannot be ignored. On July 1, 2011, the “Social Insurance Law” of the People's Republic of China was implemented, which legally recognized rural workers to participate in the basic pension insurance for urban workers. After that, the system has been patched frequently. On July 1, 2014, the Ministry of Human Resources and Social Security issued “the Interim Measures for the Integration of Urban and Rural Pension Insurance Systems” (document No. 17 [2014]), which proposed the measures for the integration of urban and rural pension insurance. On January 3, 2016, the State Council issued “the Advices on Integrating the Basic Health-care Insurance of Urban-Rural Residents”. On June 13, 2018, the State Council issued “the Notice on Establishing Centrally-regulated System for Basic Pension Insurance Funds for Enterprise Employees” (document No. 18 [2018]), and established a centrally-regulated system for pension insurance funds. On December 29, 2018, China revised the “Social Insurance Law”. There are some new changes in a receiving pension condition that the minimum cumulative payment time is 15 years. In April 2019, the General Office of the State Council

All these new measures reduce the obstacles for rural workers to obtain social insurance. First, the insurance system is more and more unified. Rural workers now have more equal rights compared with urban workers. Second, the minimum requirement of obtaining social insurance is reduced. As a result, social insurance is more obtainable for rural workers than before.

(3) System fragmentation

Rural workers also suffer from different models adopted in different regions. Before the implementation of the “Social Insurance Law”, the local governments had promulgated laws and regulations for the local pension insurance for rural workers. There are many distinctive local modes, such as imitation type (adopted in Beijing), comprehensive type (adopted in Shanghai and Chengdu), expansion type (adopted in Shenzhen), and so on. On top of these, two systems co-exist for long time, with one for urban and rural residents and the other one uniquely for urban residents before new policies came into practice in 2016. Briefly speaking, before 2016, rural workers and urban workers are covered by different types of social insurance. These local laws and regulations have obvious differences in approaches of participation in the insurance, payment standards, receipt of benefits, and so on. The laws and regulations have formed the institutional barriers. In addition, insufficient coordination and severe fragmentation of the pension insurance system for rural workers has dampened the enthusiasm of the rural workers to participate in the insurance. After the implementation of the “Social Insurance Law”, the mode of pension insurance system for rural workers is divided into national mode and local mode. The modes all over the country started to change towards the mode of coordinated account combination. The level of coordination of pension insurance has been gradually upgraded from the municipal level and country level to the provincial level. The fragmentation of the system has been reduced to some extent. However, due to unbalanced economic development of provinces, autonomous regions, and municipalities, when promoting the reform of the pension insurance system, local governments will still formulate pension insurance policies which are favorable to their own development in the pursuit of local interests, leading to broad consistency or convergence of pension insurance policies in many regions. But there are still some local policy differences in the content of the system, such as in the design of payment ratios and provisions of payment base (see Table 3). Moreover, rural workers are farmers by identity. They can not only participate in the pension
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Insurance system for urban workers, but can also participate in the pension insurance for urban residents. As can be seen from the system category, the fragmentation of the pension insurance system for rural workers has become even worse to a certain extent.

Table 3: Comparison of Payment Bases and Ratios of Pension Insurance System for Rural Workers in Some Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Payment base (lower limit-upper limit)</th>
<th>Individual payment ratio</th>
<th>Enterprise payment ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong</td>
<td>60% -300% of monthly wage of an average employee in the province-wide full-covered urban units from the previous year</td>
<td>8%</td>
<td>16%,14%</td>
</tr>
<tr>
<td>Shenzhen, Guangdong</td>
<td>From the minimal wage to 300% of the monthly wage of an average employee for the previous year</td>
<td>8%</td>
<td>16%</td>
</tr>
<tr>
<td>Qingdao, Shandong</td>
<td>60% -300% of the monthly wage of an average employee in the province-wide full-covered urban units for the previous year</td>
<td>8%</td>
<td>16%</td>
</tr>
<tr>
<td>Beijing</td>
<td>46% -300% of the wage of an average employee in the citywide full-covered urban units</td>
<td>8%</td>
<td>16%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>60% -300% of the wage of an average employee in the citywide full-covered urban units</td>
<td>8%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Table 3 (continued): Comparison of Payment Bases and Ratios of Pension Insurance System for Rural Workers in Some Regions

<table>
<thead>
<tr>
<th>City</th>
<th>Payment Base</th>
<th>Ratio (Min - Max)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chengdu, Sichuan</td>
<td>50% -300% of the wage of an average employee in the province-wide urban units</td>
<td>8% 16%</td>
<td>Department of Human Resources and Social Security in different regions.</td>
</tr>
<tr>
<td>Xiamen, Fujian</td>
<td>The lower limit is the minimum wage standard for local employees. There is no definite provision for the upper limit.</td>
<td>8% 12%</td>
<td></td>
</tr>
<tr>
<td>Hangzhou, Zhejiang</td>
<td>60% -300% of the monthly wage of an average employee in the province for the previous year</td>
<td>8% 14%</td>
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</tr>
</tbody>
</table>

(4) Under-supervision of systematic discrimination against migrant workers

Article 63 of the “Social Insurance Law” states that “If the employer fails to pay the full amount of social insurance premiums on time, the social insurance agency could mandate her to pay or make up within a certain time limit”, "If the employer still has not paid or made up the social insurance payment even though it is overdue, the agency may check the employer's bank account and notify the bank to deduct the account for the social insurance. If the funds in the bank account are insufficient for deduction, the employer may be asked to provide guarantees. If the employer fails to provide a guarantee, the agency can make applications to the court to distrain, seal up and auction the employer's property, and pay the social insurance with income from the auction.". This provision is the basis for supervising employers to pay social insurance premiums to the social insurance agency. But in reality this provision is merely a decoration and it is difficult for the social insurance agency to play a supervisory role. On one hand, many cities implement "five social insurances and one housing fund" (referred as “5 Insurances + 1 Fund” throughout) bundled payment, and an employer's social insurance burden is relatively heavy. In order to reduce cost, some employers will evade the payment by misreporting or underreporting the number of employees. In general, urban workers are relatively familiar with “5
Insurances + 1 Fund” and know how to use legal weapons to protect their rights and interests. In order to reduce the unnecessary costs of legal disputes, employers will truthfully declare the number of urban employees to the social insurance premium collection agencies and provide them with corresponding treatment. However, the attitude towards rural workers is different. Rural workers are more mobile and at the bottom of the labor market. They care mostly about whether they can get employed, and lack legal concepts and awareness of rights. The consequence is that, some employers pay as little as possible or not at all. Worse still, the collection agencies also tend to pay more attention to the rights and interests of local urban workers. Because rural workers’ place of registration is not local, the collection agencies neglect whether the employer has paid social insurance premiums for rural workers. On the other hand, some local governments tend to sacrifice the interests of rural workers and seek poor implementation (use the funds from employer's social insurance payment requirement to maintain the local economic development).

(5) Local protectionism

The collection of basic pension insurance funds for urban workers in China mainly comes from contributions of individuals, enterprises and local finance. The pension insurance funds are managed by local specialized agencies. If collected pension funds are not enough to pay the pension, the local government will cover the gap, implying that local interests will be involved in system operation. (Zhang, 2011) uses a quantitative method and show that with an individual contribution rate ranging from 8% to 12%, China has the capacity to support workers’ pension under increasing life expectancy. From the perspective of the local government, to fully guarantee the pension payment to the retired workers in local cities and towns, ways must be found to increase revenue and reduce expenditure, which is, to increase the inflow of pension funds, reduce the outflow and relieve the local financial burden. Before the “Social Insurance Law” was promulgated, local governments have built their own local basic pension insurance system for urban workers based on self-interests taking into account rural workers employed locally. Including rural workers can increase the accumulation of local pension funds. However, from the perspective of rural workers, policies vary from region to region and are hardly connected, damaging their interests. With frequent moves from one city to another, a proportion of individual contributions and contributions from their employers are often not in the outflow of the pension funds and withheld by the local government, becoming an additional fund to increase the pensions of local retirees. After promulgation of the “Social Insurance Law”, local policies began to be aligned with the central policies gradually. However, due to local protectionism, local governments will still put local government interests in priority while making adjustments on policy content.
The problem of fragmentation in rural workers' pension insurance system has not been fundamentally resolved.

4. The causes of the path dependence of the pension insurance system

According to the evidence listed above, the path dependence has been a long-lasting issue slowing down the integration of rural workers into cities. Many factors have caused or exacerbated the path dependence: The current system was influenced by the strategy of "emphasizing industry over agriculture" in the transition of pension insurance system. Rural workers have been passively incorporated into the pension insurance system for urban workers. The system has been continuously patched to reduce cost of system operation and maintenance. Moreover, local protectionism and mutually beneficial behavior of government and enterprises caused path dependence of the pension insurance system changes for rural workers.

(1) The strategy of "emphasizing industry over agriculture" has existed for a long time

In the early years of PR China, the government concentrated its efforts on the development of heavy industry at the sacrifice of agricultural development, causing the imbalance of the development of the industrial sector and the agricultural sector. The imbalance is also observed in the construction of various systems. Consider the pension insurance system for example. China successively promulgated the “Labor Insurance Regulations” of the People’s Republic of China in 1951 and “Interim Measures for the Retirement of the State Functionaries” in 1955, and gradually established a retirement system for people working in public and private sectors. A real social pension insurance system didn't exist in this period. The state functionaries and employees in urban areas receive pension from their affiliation after retirement without any payment in advance. However, old people in rural areas mainly rely on land and their family for security. People without ID card, normal residence and a source of income rely on the “5 Insurances + 1 Fund” system for pension. The urban-rural dual pension system is obviously unfair for people coming from rural areas because many do not have the five-insurance system to rely on. On the contrary, most urban

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2The coverage rate of this system is extremely low, and it is only available for the elderly, disabled and minors who have no legal guardians, no ability to work and no source of life. The so-called “five insurances” refers to food security, clothing security, medical security, burial security and education security.
workers have decent jobs with “5 Insurances + 1 Fund”. With the reform and opening up, China gradually began to formulate a social pension insurance system. The new system was influenced by the thoughts of "emphasizing industry over agriculture". The first one formulated is the pension insurance system for urban workers. It protects the social pension insurance rights of urban workers. With continuous promotion of industrialization and urbanization, the problem of migrant workers begins to raise concerns of the whole society. The central government began to formulate new policies to protect interests of rural workers. On this basis, rural workers have been passively incorporated into the coverage of the pension insurance system for urban workers. This institutional arrangement ignores the mobility and low income of rural workers, and has obvious urban-rural duality features.

(2) Patching system: reducing system operation cost and maintenance

The pension insurance system is a formal institutional arrangement for rural workers in the urban system. From the perspective of the state government, using the existing system to incorporate the rural workers into coverage saves administrative cost. In other words, the administrative cost of the current institutional arrangement is much lower than the cost of a new system. The installation of a new system will not only cost a great deal in terms of material resources, financial resources and effort, but also incur a significant amount of expense in system operation. Therefore, from the perspective of cost reduction, a ready-made system is the best according to occupational attributes for rural workers. However, this system does not match perfectly the characteristics of rural workers, as stated before in section 3(1). Therefore, it is necessary to maintain the current system by continuously repairing, as summarized in section 3(2). At the moment, the system patches mainly concentrate on five objectives: the first objective is expanding the system coverage gradually to rural workers, making them protected by the system in law. The second objective is adjusting the payment base, reducing the payment ratio of enterprises, making the payment affordable by individuals and enterprises and improving their afford ability. The third objective is adjusting the relevant provisions on the cumulative payment period so that rural workers can pay up to 15 years when they reach the retirement age but do not reach the minimum cumulative payment period of 15 years, then more rural workers can enjoy the treatment of pension insurance. The fourth objective is addressing the strong mobility of rural workers, formulating new transfer and continuation policies for smooth connection of different pension insurance to meet the needs of rural workers in moving between different cities. The fifth objective is adding a conversion policy for the rural pension insurance (urban and rural pension insurance), so that the two systems can be freely transformed according to the needs of the insured person. The rural worker and
urban non-employed residents benefit from the new system. They are not only able to pay for the pension insurance of urban workers and enjoy the corresponding treatment, but also able to receive support from the pension insurance system of urban and rural residents. The sixth objective is formulating new policies for mutual conversion of social security and rural land security for rural workers in some places. When rural workers leave the land, they can use the land compensation to make up the social security fund.

(3) Obvious collusive relationship between local governments and enterprises

As a microeconomic unit, enterprises consider own interests and pursue maximization of own interests. Not paying the “5 Insurances + 1 Fund” can reduce production cost and increase the profits of the enterprises. Without sufficient legal restriction, it may become a norm that enterprises don't pay or underpay the “5 Insurances + 1 Fund” for rural workers. From the perspective of local governments, the economic development of a region is an important indicator of the evaluation on the local government’s achievement. Local GDP growth needs to be driven by the production of enterprises. Local governments are used to encouraging enterprise’s initiatives in production and promote manufacturing by formulating various measures such as fee reduction, tax reduction and government subsidies. In this manner, long-term mutually beneficial relationship will be formed between local governments and enterprises. That is to say, the local government needs enterprises to create GDP for the local area, and the enterprises in turn need government's policies to increase profit. While the local governments are adopting certain concessionary policies, deregulation of enterprises may take place. Examples are ignoring whether enterprises have fully paid the “5 Insurances + 1 Fund” for rural workers and allowing enterprises to declare such payment at will without scrutiny. Some local governments even allow no payment of social security for rural workers as a concession to attract investment. The indulgence of local government will further encourage enterprises to infringe the “Social Insurance Law” and cause long-term damage to rural workers’ interests.

5. Break path-dependence and achieve institutional innovation

Breaking path dependence, the long-term urban-rural dual system constraints, and the long-standing ideological shackles (such as emphasizing industry over agriculture, and local protectionism), and conducting institutional innovations are important steps to completely solve the problems of rural workers' pension insurance. In view of the listed causes above, several measures are proposed as
follows:

(1) True urbanization of rural workers

The urbanization of rural workers provides a fundamental way to solve the problems faced by rural workers, and also an effective means to protect their rights and interests. In reality, converting rural workers to citizens involves not only leaving the countryside where they have lived for generations, leaving the land they survive on and entering the city for living, but also becoming real citizens recognized by the society and the neighborhoods. Only when rural workers become real citizens will they set root in urban life and enjoy the equal treatment. The urbanization of rural workers is a long process. We believe that urbanization of rural workers refers to the process of transforming rural workers into urban citizens in the aspects of social identity, status, values, rights, production modes and life styles while smoothly integrating themselves into the urban society with the assistance of industrialization and urbanization. Therefore, migrant workers should be fully integrated into urban life and become real citizens in the process of promoting the urbanization of rural workers. We believe that this requires four changes: the first step is career change. The rural workers enter the city and change their careers, specifically, they change from agricultural production to non-agricultural production. The second is a change of life style. They change from the past rural life style to new urban life style in the aspects of labor, consumption, leisure, politics and others. The third is the change of social identity. In the past, the social identity label of rural workers was "farmer". After urbanization, their identity was switched to "citizen", that is to say, they should have the social and economic rights of citizens. The fourth is the change of mindset, usually a long process of reinventing and reshaping themselves. Transformation and adaptation take a long time. Career change and identity change can be completed in a short time, but the change of life style and ideology is relatively slow, which can be catalyzed by the government and the surrounding environment continuously. Below we outline a few changes in the pension insurance system that will facilitate the citizenship transformation.

(2) Pension insurance funds realize nationwide coordinated management

Improving the coordination from municipal level and provincial level to the national level is an effective way to solve the fragmentation of the pension insurance system for rural workers. At present, pension funds consist of individual account and the coordinator’s account. The money from individual accounts can be transferred across the country without restrictions. But only 60% of the money from the social coordinator’s account fund can be transferred to another region, essentially an act to protect local interests, which ultimately damages the interests of rural workers. Accelerating nationwide coordination of basic pension insurance
can realize free transfer of funds in the social coordinator’s account in full amount and facilitate mutual aids in the society. In view of the imbalance of economic development in various parts of China and uneven burden of local finance, in the process of promoting nationwide coordination of pension insurance funds, on June 13, 2018, the State Council issued the notice “on Establishing Centrally-regulated System for Basic Pension Insurance Funds for Enterprise Employees” (document No. 18 [2018]). The notice is an important step towards the nationwide coordination of pension insurance. In the future, we should expect the use of modern science and technology such as big data and cloud computing to promote the reforms of fiscal and tax systems, wage systems etc., which in further promote the integration of the nationwide labor market and truly realize the integration of the basic pension insurance system all over the country.

(3) Merger of the basic pension insurance system for urban-rural residents and the basic pension insurance system for urban workers

As mentioned in section 3.3, the basic pension insurance system for urban-rural residents and the basic pension insurance system for urban workers are the two major social pension insurance systems in China. Rural workers can participate in the former according to their rural identity and participate in the latter according to their occupations in the cities, but the rights and interests provided by the two systems are different, and the latter’s joining benefit is significantly higher than the former. Of course, in terms of payment standards, the latter is also significantly higher than the former. The two systems are also different in fund-raising mode. Merging the two systems can not only avoid monetary loss when the person is transferred from one system to the other, but also help to enlarge the scope of raising pension insurance funds and enhance the mutual benefit of pension insurances. At present, with the two systems that have been introduced, based on means of transfers, we can consider the individual accounts and the coordinator’s account of the basic pension insurance system for urban and rural residents, and merge the two. We present here three specific ideas: firstly, individual accounts in the basic pension insurance system for urban and rural residents only record individual contributions. Collective subsidies and government subsidies should be all included in the coordinator’s account. Secondly, a scientific and rational way should be used to divide individual payment levels of basic pension insurance for urban and rural residents. A multi-level or multi-ratio payment standard should be adopted and the lower and upper limits should be set. The upper limit of individual payment in the basic pension insurance system for urban and rural residents should coincide with the lower limit of payment standard of the pension insurance for urban workers. Above such upper limit, the payment by the enterprise (not collective subsidies and government subsidies) enters the coordinator’s account. Thirdly, relying on
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the financial strength, the state can consider establishing corresponding funds for policies to support "agriculture, rural areas and farmers" and "small and medium-sized enterprises" to further enrich the funds in the coordinator’s account of basic pension insurance system for urban and rural residents. By managing individual accounts and the coordinator’s account of the basic pension insurance system for urban and rural residents, we can realize connectivity with the basic pension insurance system for urban workers in the account, so as to complete the merger of the two systems.

References


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