

Social Policy between Plan and Market: Xiagang (Off-duty Employment) and the Policy of the Re-employment Service Centres in China

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Abstract

China's gradual transition from a command economy to a market system has been vexed by its ailing state-owned enterprises (SOEs) employing huge numbers of surplus workers. Under the growing challenge of market competition, the survival of SOEs depends critically on the release of unwanted staff. If not handled well, however, massive layoffs could trigger ugly protests, erode social stability and challenge the governing mandate of the Chinese Communist Party. Facing this dilemma, the state's response has been to invent a process of 'xiagang' (off-duty employment) whereby redundant state workers can leave the production process without causing social turbulence, and to introduce a national programme of re-employment service centres (RSCs) which offer living allowances, social security, job training and re-employment assistance as a transitional measure. As a distinct form of unemployment, xiagang reflects the special challenge confronting the state and civil society in a critical stage of China's market transition. This article sets out to explore the political and social meanings of xiagang and the RSCs to elucidate how the state uses a specific social policy to balance both group and national interests and to steer the country on to the next stage of market development.

Keywords

Xiagang (off-duty employment); Re-employment; China

Introduction

China's gradual transition from a command economy to a market system has been vexed by its ailing state-owned enterprises (SOEs) employing huge numbers of surplus workers. In the face of the growing challenge of market competition, the survival of SOEs depends critically on the release of redundant staff in order to raise efficiency. A massive lay-off, if not handled well, would trigger ugly protests, threaten social stability, and challenge the governing mandate

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of the Chinese Communist Party (CCP). Facing this dilemma, the state's response has been to invent a process of *xiagang* (off-duty employment) as a transitional measure whereby redundant state workers can leave the production process without causing social turbulence. In official parlance, the guiding principle was 'to seek progress while maintaining stability' (Lee 2000).

As a state between open unemployment and employment, *xiagang*, which literally means 'stepping down from one's work post', refers to the situation in which workers are given no productive tasks and are placed on extended leave. According to official definition, *xiagang* personnel refers to 'workers who, because of the situation relating to production and operation of their employing units, have left their original work posts and have not been given any other assignments in their work units, but still maintain labour relations with their original employers' (*Zhongguo Tongji* (China Statistics), 12 (1997): 16). In essence, *xiagang* is a form of institutional unemployment arising from the special context of China's gradual passage from plan to market (Gu 2001).

In order to engage the full force of the state, enterprises, workers, and civil society in tackling the problem of *xiagang*, the state introduced a national policy package named the 're-employment project' in 1993. Within its toolkit, the centrepiece is the 'Re-employment Service Centre' (RSC) invented by Shanghai in 1995. The encouraging results of the Shanghai experiment convinced the central government that the rest of China could follow. In 1998, a new state policy required that every state firm which plans to lay off its surplus staff should set up an RSC to take care of the furloughed staff. The core functions of the RSC are to guarantee the basic livelihood of redundant state workers and to assist their re-employment. Given its strategic importance, the state sees the RSC as a core part of a social security system with Chinese characteristics.

As a distinct form of unemployment, *xiagang* reflects the special challenge confronting the state and civil society in a critical stage of China's market transition. The immense political and sociological meanings of *xiagang*, especially the social policy ramifications of *xiagang* and the role of the RSCs, have not been fully researched. To fill the knowledge gap, this article takes as its focus the link between *xiagang* and the policy tool of the RSC, with the aim of throwing light on how the state uses a specific social policy to balance both group and national interests and to steer the country on to the next stage of market development.

The article begins by examining the problem of unemployment and *xiagang* after the launch of market reform. A discussion of the origin and operation of the RSCs as a pilot experiment in Shanghai follows. The next section describes and assesses the evolution and implementation of the RSC as a national programme. Finally, the significance of the RSCs as a policy tool and their phased demise will be examined. Their political and sociological salience will be delineated with a view to the future.

Problems of Unemployment and *Xiagang* in China's Transitional Economy

For decades, under a full-employment policy, China did not have a problem of unemployment or *shiye*. The only idle persons were people branded as

daiye or 'waiting for employment', mostly young school-leavers awaiting their job assignments. Workers in SOEs were free from the threat of unemployment. However, with the deepening of enterprise reform, unemployment became unavoidable. To facilitate labour mobility and improve work incentives, unemployment policy reforms were introduced in the mid-1980s, when the state promulgated four provisional regulations on dismissals, recruitment, bankruptcy and the labour contract system. Of these, the new labour contract system replaced life tenure by time-specific contracts. From then on, unemployment became a big threat to state workers.

Since the late 1980s, unemployment has emerged as a serious social problem in China. The underlying causes include the natural increase in labour supply, a slowing down of economic growth, and more importantly, enterprise reform and industrial restructuring. By the end of 2003, the unemployment rate rose to 4.3 per cent, involving 7.7 million people (see table 1). To better reflect reality, the term 'unemployment' began to appear in official use after 1994. 'The unemployed' refers to people with an urban household registration, between 16 and 45 (for women) or 16 and 50 (for men) years of age, who are able and willing to work, but have no work, and have completed the registration as an unemployed person with the local employment service agency. Since 1986, registered unemployed persons have been made eligible for unemployment benefits up to a maximum of two years (Wong and Ngok 1997).

At first glance, the urban unemployment rate in China looks decidedly low, when compared with the situation in the West. Nonetheless, Chinese unemployment figures do not include a bigger group of workers who have been laid off by their employers, mainly SOEs. These are the *xiagang* or off-duty workers, who have been furloughed by their firms but are still counted as belonging to their *danwei* or work unit (Solinger 2001), in contrast to unemployed persons who have left their enterprise for good. In addition, there are groups which have not been counted in the official tally of *shiye* and *xiagang*. These include *neitui* (people who have taken early retirement within their work unit), *fangjia* (people on extended leave), *tingxin liuzhi* (people who still keep their posts but receive no wages), *daigang* (people who have been sent home and await their recall to work; Tang and Wang 2001), and the *liangbuzhao* (workers who have simply lost contact with their erstwhile employers and enterprises which have stopped contacting their former employees). If we add them all up, the real unemployment rate would be much higher. According to two surveys polling more than 50 well-known Chinese academics and state officials working on labour and employment issues, the real unemployment rate in urban China has already reached 7 per cent (Mo 2002: 166) or even worse. Coming up with any kind of reliable estimate on the size of urban unemployment may be impossible given the opaqueness of the labels and the questionable methods of counting (Solinger 2001).

The measures to lay off workers in SOEs were mild up to the mid-1990s in order to avoid serious social disorder. However, the disappointing progress of state enterprise reform forced the state to speed up the reform pace. In 1997, the CCP decided to introduce a modern enterprise system by means of restructuring, regrouping, carrying out renovations, and reinforcing the management in most SOEs, at its Fifteenth National Congress (Ma *et al.* 2001).

Table I

Registered urban unemployment in China, 1987–2001

Year	Working population (million)	Urban working population (million)	Unemployed population (million)	Unemployment rate (%)
1987	527.83	137.83	2.77	2.0
1988	543.34	142.67	2.96	2.0
1989	553.29	143.90	3.78	2.6
1990	647.49	170.41	3.83	2.5
1991	654.91	174.65	3.52	2.3
1992	661.52	178.61	3.64	2.3
1993	668.08	182.62	4.20	2.6
1994	674.55	186.53	4.76	2.8
1995	680.65	190.40	5.20	2.9
1996	689.50	199.22	5.53	3.0
1997	698.20	207.81	5.77	3.1
1998	706.37	216.16	5.71	3.1
1999	713.94	224.12	5.75	3.1
2000	720.85	231.51	5.95	3.1
2001	730.25	239.40	6.81	3.6
2002	737.40	247.80	7.70	4.0
2003	744.32	256.39	8.00	4.3

Sources: *Zhongguo Laodong Tongji Nianjian 2003* (China Labour Statistical Yearbook 2003): 3, 128; Ministry of Labour and Social Security, Statistical Release on the Development of Labour and Social Security in 2003 (available at: <http://www.molss.gov.cn/tongji/gb/GB2003.htm>).

The Zhu Rongji Administration further decided to allow the majority of loss-making large and medium-sized SOEs only three years to escape from their current predicaments (*sannian tuokun*). From then on, only the key enterprises would be retained while the rest would be let go, namely ‘grip the large and let go of the small’ (*zhuada fangxiao*). This strategy gave the green light for the revamping of small and medium-sized SOEs. Most significantly, it legitimized massive lay-offs of the surplus workforce.

When compared with registered unemployment, the number of *xiagang* workers has risen much faster (see table 2). In 1993, there were 3 million *xiagang* workers. The number swelled to 3.6 million in 1994 and 5.6 million in 1995 (Lee 2000: 924). The year 1999 saw the number peak at 9.37 million. After immense efforts by the state at various levels to foster re-employment, the number fell to 9.11 million the following year and to 7.41 million in 2001. At the same time, however, re-employment has become more difficult. Between 1998 and 2001, the re-employment rate fell progressively, from 50 per cent to 42, 35 and 30 per cent. In 2002, it went down further to 26 per cent (Qiao 2004).

Becoming ‘off-duty’ is a shattering experience. Many *xiagang* workers did not have much to offer in the increasingly competitive job market. According

Table 2

Number of *xiagang* workers, 1993–2002

Year	Number of <i>xiagang</i> workers
1993	300.00
1994	360.00
1995	560.00
1996	891.63
1997	634.31
1998	876.93
1999	937.18
2000	911.31
2001	741.60
2002	617.70

Note: Unit: 10,000 persons.

Sources: Figures for the years 1993 to 1995: Lee, Hong Yung (2000) *Xiagang*, the Chinese style of laying off workers, *Asian Survey*, 40, 6: 924; from 1996 onwards: *Zhongguo Laodong Tongji Nianjian* (China Labour Statistical Yearbook), various years.

to a survey conducted in ten cities by the Ministry of Labour and Social Security in June 2001, laid-off workers tended to be middle-aged, with an average age of 39. Their educational attainment was also modest: with 39 per cent at junior middle school and 46.7 per cent at senior middle school levels. Equally disadvantageous is their skill level: 40.7 per cent were graded as having junior level and 49.7 per cent as having intermediate level. Knowing their job handicap, 60 per cent of *xiagang* workers wanted help from the state to get back to work (Mo 2002: 167–8).

To tackle the worsening unemployment situation, a nationwide conference on the re-employment of SOE workers was held in 1997. Top leaders in attendance openly acknowledged the danger of widespread unrest, which could threaten social stability and endanger the rule of the party. Among the series of measures suggested, the creation of Re-employment Service Centres (RSCs), which were piloted by Shanghai and found to be of great promise, emerged as the leading policy instrument in tackling the *xiagang* problem.

SOE Reform and its Labour Implications in Shanghai

As the most important industrial base of China, Shanghai has a vast number of SOEs. Similar to other urban centres, overmanning was identified as the main cause for the weak performance of the city's SOEs. In the early 1980s, the pressure to release surplus staff was less pressing since SOEs had benefited from decentralization and profit-sharing policies. Though the furtherance of labour and employment systems reforms brought the first wave of redundancy through the so-called 'Labour Re-optimization' (*youhua zuhe*) exercise in the late 1980s, the number of lay-offs was small. By the end of 1990, only

17,000 workers had been furloughed from state enterprises, an insignificant 0.4 per cent of total employees (Gao 2000). Redundancy on such a modest scale did not exert pressure for unified policy responses. Each enterprise devised its own measures to cope with its unwanted staff.

From the early 1990s onwards, the advance to a market economy gathered new momentum. Economic restructuring became more pressing as the Chinese economy integrated further with the global economy. Under these circumstances, massive lay-offs from the SOEs became inevitable. In Shanghai, 91,000 workers were laid off in 1991. By 1993, the number had climbed to 123,000 (Gao 2000). As a result, redundancy became the most critical problem confronting government at all levels. To maintain social stability alongside economic growth, the central government launched the so-called 'Re-employment Project' in late 1993 with the avowed aim of promoting the re-employment of unemployed and laid-off workers. At that time, the central government avoided dealing with the *xiagang* problem in a centralized fashion. Only piecemeal guidance and policy principles were proposed. The basic strategy was the enterprise-based 'internal absorption' (*neibu xiaohua*).

As a city burdened with many overmanned state enterprises, Shanghai was one of the pioneers in tackling the *xiagang* problem. In November 1994, the municipal government published 'Several Opinions on the Issue of Re-employment and Basic Living Cost Guarantees for Laid-Off Workers in Enterprises' (cited in Yan 1998). The document, jointly signed by six state agencies, heralded the city-wide execution of the Re-employment Project. Under the parameters set out by the central government, the Shanghai authorities adopted the firm-based strategy via a host of preferential taxation policies, financial measures, and various material incentives. Three basic policy principles were put forward. First, the municipal government called on firms to develop service industries to mop up the surplus staff. Second, *xiagang* workers were encouraged to find jobs for themselves. Last, robust enterprises were asked to recruit more *xiagang* staff. In addition, a special group was set up for policy coordination. Chaired by a top municipal leader, group members came from relevant state agencies and mass organizations, such as the trade unions and women's federations. Other ways of absorbing excess workers inside the enterprise included enrolling *xiagang* personnel in training schemes or sending them on home leave with a basic living allowance. They were also encouraged to apply for early retirement.

The firm-based approach seemed to work initially. The fanfare surrounding the promulgation of the project and the endorsement by senior leaders created a sympathetic climate for the furloughed. In 1994, out of the 191,000 workers who were laid off, 118,000 were successfully relocated; in 1995, the figure exceeded 330,000. In the period between 1991 and 1996, some 0.9 million out of the 1.1 million furloughed workers were re-employed (Gao 2000). However, ongoing policy success depended heavily on the capacity and resources of individual firms. Limitations were soon revealed. First, firms had to wrestle with limited resources. With more and more workers being laid off, companies soon exhausted their ability for internal absorption, especially among financially strapped units that were grossly overmanned. Official data showed that in 1995, more than 75.7 per cent of *xiagang* workers came from

firms that were making losses, had suspended their production wholly or partially, or had encountered operational problems (Gao 2000).

The textile industry in Shanghai is a good case in point. Shanghai has been the country's leading textile industrial centre. As a pillar industry, Shanghai's textile enterprises employed 551,600 workers and took care of 270,000 retirees in 1988 (Yan 1998). Overcapacity and keen competition created the need for streamlining. In 1993 the state decided to cut the number of spindles from 2.5 million to 0.84 million and employees from 551,600 to 180,000 (some 30,000 to 50,000 jobs per year), before the end of the century (Yan 1998). Retrenchment on this scale was daunting. What worsened the problem was the age and skill profiles of Shanghai's textile workers. According to a survey on state-owned textile mills in 1994, the average age of employees was 38; among them, only 15 per cent were younger than 30 while 50 per cent were between 36 to 45. In terms of vocational skill, 38.8 per cent were ordinary operatives graded as having an average technical level, and 44.6 per cent were auxiliary personnel capable of only simple techniques. This meant that more than 80 per cent of textile workers had few skills suitable for other lines of work (Yan 1998).

The Origin of Re-employment Service Centres and their Operation in Shanghai

Under the policy framework of the re-employment project, the Shanghai Textile Industry Bureau, which had oversight of the entire textile industrial sector (later renamed the Shanghai Textile Holding Corporation, STHC), adopted a vast array of policy measures to relocate surplus staff. Early in 1992, the Shanghai Company for Developing Textile Human Resources was set up under the Textile Industry Bureau, with the mission to relocate the *xiagang* workers. Later, this company was renamed the Labour Force Displacement Company under the STHC. Multiple measures were taken to enlarge the channels of training and re-employment. The basic strategy was to appeal actively to society for help. A famous case in point was the recruitment of *kong sao* (air hostesses) among furloughed female textile workers. On 9 December 1994, the Textile Industry Bureau jointly sponsored a forum with a local newspaper to drum up societal support to hire redundant staff. At the forum, the director of the Shanghai Airline Company pledged to create the *kong sao* positions. Although only eighteen women were selected, the wide publicity put the spotlight on the plight of textile employees. This also encouraged other industrial firms to follow suit. By the end of 1995, textile employment in Shanghai had fallen to 376,500 people. More than 170,000 had been successfully transferred to other jobs (Yan 1998).

However for Shanghai textiles, the firm-based re-employment strategy proved to be unsustainable. Rising competition and soaring cotton prices required more labour to be shed. In the first six months in 1996, the industry recorded a 350 million yuan loss and had to lay off 125,600 workers (one in three employees). Two problems were particularly challenging: the lack of a sound social protection network and the large number of surplus workers (Yan 1998; Sun *et al.* 1998: 7). Pushing unwanted staff on to the market would fan

social chaos. Yet, frankly, the industry had exhausted the means to hold on to surplus staff.

Based on their experiences in handling the *xiagang* workers, the labour bureau knew that a practical solution must be built on a new balance of the responsibility of the state, the enterprises, and civil society. The principle was to grasp the 'Middle Way', neither to retain the surplus staff in-house nor to dump them directly on to society. This approach could lower the burden on firms on the one hand and avoid social turmoil on the other. Their central idea was to require each industrial sector, rather than individual firms within the sector, to bear the major onus for re-employment, to run training and employment schemes, and to issue living allowances. However, this arrangement was seen as a transitional measure; the ultimate goal was the cultivation of a labour market, through which *xiagang* personnel would find work for themselves (Yan 1998; field interview in Shanghai, 21 May 2001).

Such ideas were received with enthusiasm by top municipal leaders desperate for ideas to tackle the *xiagang* problem. Immediate investigations and proposals were ordered. In July 1996, Party Secretary Huang Ju announced the setting up of a 'Re-employment Service Centre' (RSC), a name he had personally chosen. Four days later, a municipal government document on establishing RSCs in the STHC and Electric Equipment Holding Corporation was issued, which hailed the RSC as a key innovation of the re-employment project (Yan 1998; Sun *et al.* 1998). Almost immediately, the two industrial groups set up their own RSCs. In the following year the practice spread to seven other industries.

By instituting a trusteeship relationship between the industrial sector and the individual firms within it, the primary purpose of RSCs is to reduce the financial burden of individual firms by transferring much of their responsibility for *xiagang* workers to the industrial system. This has been confirmed by a retired STHC labour official who had taken part in designing the RSC model. In our interview with this cadre, she admitted that the behind-the-scenes motive in setting up the RSC was to ask for money from the government and to have the latter play a bigger role in placing the redundant staff (field interview, 21 May 2001).

The RSCs model a new approach to re-employment. These centres operate under the leadership of the relevant Holding Corporations and the Municipal Labour Bureau. They have a number of core functions: to look after the *xiagang* workers, create re-employment channels for them, and combine the provision of minimal welfare for furloughed workers with re-employment programmes. Funding comes from three sources: the state, society, and the Holding Corporations. Each party has to shoulder one-third of the costs. Specifically, the three sources include (1) earmarked funds from the municipal treasury, (2) management fees collected by the Labour Bureau from enterprises employing migrant workers, and (3) funds raised by the Holding Corporations and their parent government ministry (Chen 2000). The funds collected will pay for the basic living costs of redundant staff, their medical bills, and social insurance premiums.

Proper procedures on making redundancies were also prescribed. To start with, a firm that intends to lay off its employees must file a formal request

to the RSC under its parent Holding Corporation. To qualify, the enterprise must meet the condition that it is undergoing major restructuring, merger, or facing bankruptcy. If approval is granted, the firm could transfer its *xiagang* personnel to the RSC (Chen 2000). Trusteeship contracts will then be signed between the centre and the workers. The trusteeship period should not exceed a maximum of two years (Yan 1998).

RSCs played several functions in Shanghai's re-employment programme. First, the RSC functioned as the agent in relocating *xiagang* workers. Second, it served as a temporary shelter to solve their immediate financial problems. Third, it was a bridge between 'enterprise' and 'society'. The performance of RSCs has been encouraging. By the end of 1997, the aggregated number of *xiagang* workers registered with RSCs in Shanghai was 296,000; among them, 222,000 were out-placed (Gao 2000). In 1998, 582,604 *xiagang* workers entered various RSCs while 419,678 workers left the centres. The reported success rate, defined as transferring the *xiagang* workers out of the RSCs, was 75 per cent. In particular, the average for the three core traditional industries with the highest number of surplus workers (textiles, electric equipment and electronic instruments) reached 98.1 per cent (Yu 2000: 113).

The buffer effect of the RSC in averting serious discontent among furloughed workers was widely recognized. Despite the city's high redundancy rate, its rate of labour protests has been lower than that of other Chinese cities. Furthermore, the RSCs were credited with easing enterprise restructuring, as the government had intended. For instance, thanks to their creation, the two most trouble-stricken sectors, textiles and electric equipment, had saved 300 million yuan in eight months by parking 116,552 *xiagang* workers there (Sun *et al.* 1998: 167). In 1995, none of the firms that had filed for bankruptcy had completed their legal procedures. Less than half a year after the centres were set up, 17 firms with 10,000 serving workers and 13,000 retirees concluded such procedures (Sun *et al.* 1998: 18), allowing them to gain a firmer foothold in the market and turn a profit. For instance, in the first seven months in 1996, the STHC registered a total loss of 350 million yuan; at the end of the year, a 10 million yuan profit was recorded (Sun *et al.* 1998: 18–19).

The RSC Becomes a National Policy

The success of the RSC in Shanghai was a morale-booster to the central government. A joint investigation team from various ministries was sent to Shanghai to carry out a field study in mid-1997. The investigation team report gave high marks to Shanghai's experiment. The general verdict concluded that 'their innovative practices and their guidelines and basic experiences in implementing the re-employment project are worthy of learning by other localities' (Joint Investigation Team 1997).

In April 1997, the State Council issued the 'Supplementary Notice on the Issues of Implementing Merger and Insolvency of SOEs and Re-employment Projects in Selected Cities' to encourage other cities to follow in Shanghai's footsteps. RSCs should be set up in selected industrial sectors, enterprises and local districts with high concentrations of *xiagang* personnel. Companies with more than 5 per cent of their workforce classified as surplus as well as

firms undergoing merger or bankruptcy had to set up RSCs. Subsequently, RSCs appeared in 111 cities which took part in the pilot scheme of 'optimizing the capital structure' (Tian 1999: 8).

The fifteenth National Party Congress held in September 1997 gave the green light to various forms of privatization of SOEs. For moribund firms, downsizing, closures and bankruptcies were proposed, causing a big rise in unemployment. In the first half of 1998, 10 million workers were laid off. Among them, 3 million did not receive any living allowance. The issue of subsistence guarantees became an urgent worry. Under these circumstances, in May 1998, a national conference on ensuring the livelihood and re-employment of *xiagang* state workers was convened in Beijing. Top leaders of the Party and State Council turned out in force. In particular, the then President Jiang Zemin demanded that all firms planning redundancies should set up re-employment service centres. Consequently, in June 1998, the CCP Central Committee and the State Council jointly issued the 'Circular on Properly Doing the Job of Ensuring the Basic Living and Re-employment of Laid-off State Workers'.

Much as Shanghai's experiment has been elevated to national policy, it is important to note the differences in policy objectives. Unlike the practice in Shanghai where the RSC was located in an industrial system, the national policy requires such centres to be formed within individual companies. The enterprise-based approach signifies the state's resolve to strengthen the role of SOEs in helping their furloughed workers. To the central government, the Shanghai model placed the financial interest of firms above the welfare and re-employment concerns of staff. As a result, firms raced to offload their burden on to the sectoral RSC and shirk their duty. Another outcome has been heavy pressures on the state coffers. To avoid these mistakes, the central state was adamant that firms must be actively involved in taking care of their own employees. The interests of staff must come first. Easing the financial strain of enterprises is a secondary consideration (Tian 1999: 7).

Despite their organizational differences, firm-based RSCs and their sector-based predecessors follow almost identical operational and financing mechanisms. In entering the RSC within a firm, *xiagang* workers and the RSC must sign an agreement which specifies their mutual obligations. RSCs provide an integrated package of services and benefits including financial support, career retraining and job referrals. In addition to granting basic living allowances, the centre contributes to staff social insurance premiums (such as pension and health insurance), and pays the cost of medical treatment. It also organizes job training, vocational guidance and job introductions. The living allowance is terminated if the *xiagang* worker twice refuses to accept jobs referred by the centre. The centres are funded jointly by the local state, the enterprise and social insurance funds in equal shares. The tripartite funding approach is known as the '3-3-3' system.

To the state, the national implementation of RSCs has played a positive role in China's economic restructuring and market transition in several ways. First, RSCs have helped in the formation of a labour market. The establishment of RSCs reduces overmanning in SOEs and enhances their efficiency. Instead of dumping surplus workers on to the labour market directly, RSCs regulate the release of unwanted staff in a gradual and orderly manner.

Second, RSCs contribute to the development of the social security system. The current social security system has many flaws. It excludes the rural population almost entirely. Even in the cities, most employees working in the non-state sector are not covered. Furloughed workers are also not eligible for unemployment benefits. By extending social security to redundant staff, RSCs plug the existing gaps in two ways. First, they preserve workers' entitlements to pensions, unemployment insurance and health benefits. Second, the pressure on unemployment insurance can be reduced given the hiatus of two years before unplaced *xiagang* staff apply for unemployment benefits. Last but not least, the positive psychological effects of the RSCs on the mentality of laid-off workers are noteworthy. Long used to lifetime jobs and 'organized dependence' (Walder 1986) on their employers, China's state workers were poorly prepared for unemployment. RSCs provide a much-needed spell for cognitive and psychological reorientation to socialist workers caught up in the painful passage from plan to market.

The RSC policy seems to be producing the hoped-for outcomes. In the year 2000, some 6.6 million workers were laid off from SOEs; 93.5 per cent of furloughed workers entered an RSC, with 97.3 per cent drawing a basic living allowance. In the whole year, 3.6 million *xiagang* workers from SOEs had been re-employed, with a rate of 35.4 per cent (*China Labour and Social Security News*, 5 May 2001). In the first half of 2001, 6.3 million workers were laid off by SOEs; of these, 91.6 per cent had entered an RSC and 99.9 per cent were receiving a basic living allowance (*China Daily*, 28 July 2001).

In addition to the living allowances provided by RSCs, *xiagang* workers can fall back on two assistance schemes after they leave the centres: unemployment insurance, which was first introduced in 1986, and the minimum living allowance scheme, which was established in the late 1990s. *Xiagang* workers who fail to get a job after their period of trusteeship (two years maximum) at the RSC can apply for unemployment benefit, again, for a maximum of two years. Once unemployment relief is exhausted, the last resort open to an unemployed person is the locally administered minimum living allowance or social relief.

Limitations of the RSCs and their Demise

There is little dispute that the creation of RSCs has eased the problems of unemployment and *xiagang* in China. However, the operation of the programme is far from trouble-free (Solinger 2002). First of all, finance has been a major obstacle. RSCs are supposed to be funded by a tripartite formula. Effective operation hinges on the willingness and ability of all parties to pay their due. The reality often falls short of expectation. Not uncommonly, financially stricken firms are unable to pay their subscription. Likewise, the social security funds of many cities are facing exhaustion. In such a context, local state treasuries end up by picking up the lion's share. In fact, RSCs in many inland cities lack the means to replicate the success of Shanghai and other affluent coastal cities. Thus, notwithstanding its status as central government policy, programme success appears to vary from area to area. The actual amount of living subsidies likewise depends on local resources and the political importance given by local authorities (Lee 2000).

Given its underfunding, the RSC programme cannot prevent *xiagang* workers from falling into poverty. The level of living allowances and benefits provided varies across enterprises. A proportion of laid-off workers suffers long delays in getting living allowances, medical treatment expenses and pensions. Many enterprises are unable to pay their fees because they are heavily in debt. Some firms deliberately reduce the allowance on the pretext of trimming costs and maximizing efficiency.

Taking into account the meagre allowance and the lack of a comprehensive social security system, many *xiagang* workers who have found jobs for themselves or have started a business do not report their work status and continue to draw the allowances. The state calls this phenomenon 'hidden employment' (*yinxing juyue*). According to a survey conducted in eight provinces, more than 50 per cent of the *xiagang* workers had hidden their employment. In some localities and enterprises, the ratio may be as high as 60 to 80 per cent (Yu 2000: 47). In fact, the prevalence of unreported employment is a function of the defective social security system. As yet, few firms outside the public sector offer social security to their employees. Indeed the majority of *xiagang* workers can only find temporary jobs that offer no social security or welfare benefits. All these concerns make them reluctant to disclose their real situation and cut the link with their erstwhile employer.

Overall, RSCs and *xiagang* are only transitional phenomena in an evolving era. With the consolidation of labour markets and plans to extend social security to all urban employees, conferment of *xiagang* status and RSCs are no longer necessary. In the future redundant state workers will not be given the status of *xiagang* and RSCs are on their way out. Just as Shanghai had spearheaded their formation a decade or so ago, it was also the first city to phase out the RSCs. Between 1996 and 2001, Shanghai RSCs had taken in 986,000 redundant workers. From 2001 onwards, no new trustees were admitted. By December 2001 only 5,000 unplaced *xiagang* staff remained in the centres. All were required to leave by the end of June 2002 (field interview in Shanghai, July 2002). Other cities are expected to follow suit: no more new admissions and gradual closing, the timing to depend on the pace of out-placements and local economic conditions. However, RSCs have not disappeared completely. By the end of 2003, there were still 2.6 million laid-off employees from state enterprises and 1.94 million workers in the RSCs (see <http://www.molss.gov.cn/tongji/gb/GB2003.htm>).

The conversion of *xiagang* to open unemployment and the closure of the RSCs does not mean an end to the problem of redundancy. Surplus workers are still released from SOEs, and their re-employment and livelihood still impose great pressure on the state. In order to maintain social stability, the government has made great efforts to improve its social relief system with the aim of guaranteeing unemployed workers' subsistence. In the past, China's social relief scheme was restricted to childless elders, the disabled, and orphans without family support and work ability. Since the mid-1990s, it has been transformed into an income supplement scheme for people who live in poverty for whatever reasons, including the low-waged and the unemployed. As such, the minimum living allowance scheme serves as a safety net for the indigent (Wong 1998). Since 2001, the central government has invested more financial

resources to expand social relief. Unemployed people whose per capita household income falls below a locally defined minimum living standard protection line (*zuidi shenghuo baozhangxian*) can apply for aid. The benefit level is set lower than unemployment relief in order to deter dependency and preserve work incentive. At the end of 2003, some 22.47 million urban residents received social assistance, but the average per capita grant was a paltry 58 yuan a month (see <http://www.mca.gov.cn/news/content/recent/200498112250.html>).

Discussion: *Xiagang* and RSC as Social Policy between Plan and Market

The inefficient and overmanned SOEs have been a big headache for the socialist state. To preserve their competitiveness, there was no option but to push for thoroughgoing reforms, including bankruptcy and massive redundancy. And yet, China's unique socio-political contexts made large-scale lay-offs politically risky. To ensure a steady exit of the surplus workforce from SOEs, an effective social policy response was a necessity. The overriding objective of the policy was to distribute the social costs of the reform in an even-handed and gradual manner that would not jeopardize the institutional foundation of market socialism.

To leap directly into open unemployment is a nightmare to workers who have grown up with the socialist economy. It is downright catastrophic to people who have spent most of their working lives in their *danwei*. To a state worker, the *danwei* is the source of one's social identity, the omnipotent provider, the link with the state and its largesse, and the base for key social ties. In the landscape of Chinese cultural symbols, to be banished from the *danwei* is akin to being disowned by one's family, to be disenfranchised, and to become a hungry ghost. Voluntary exile would be unthinkable. Expulsion through no fault of one's own, as *xiagang* is caused by enterprise difficulty rather than individual culpability, is grossly unjust. The sense of grievance is also enhanced by the perception that long years of toil with low pay under poor working conditions have led to nothing. The lack of training and opportunity for skill diversification in state firms further dims people's employability, on top of their age and education disadvantages.

In fact, simply dumping redundant workers on to the labour market can precipitate a political crisis, as experience has shown. Deprived of the means of livelihood, more and more unemployed workers have taken their grievances to the streets. Chinese leaders are only too aware that waves of worker protests can explode into rebellions that endanger regime stability. As former President Jiang Zemin admitted, the lay-off of urban workers had already created considerable conflicts among the people and could spark off serious chaos (*luan*) (*Ming Pao Daily News*, 4 January 1999). Seen in these terms, the conferment of *xiagang* status and the creation of the RSCs are an act of political atonement, in particular to workers born in the 1950s who have suffered the most in the course of building socialism. This was the generation that grew up hungry in the famines of the Great Leap Forward (1958–61), had their schooling disrupted when they were sent down to the villages during the Cultural Revolution (1966–76), and could only rebuild their lives and careers after their return from exile. These people deserved special consideration.

Although the state at all levels concedes its duty to take care of the redundant workers, it cannot pick up the huge social costs on its own. Hence, both SOEs and society must share the consequences of mass redundancy. At first, state firms were required to solve their staffing problems through 'internal absorption' after getting preferential policies and tax privileges from the state. Additionally, workers were encouraged to become self-employed. Meanwhile, the state made use of its propaganda machine to brainwash state workers to accept personal sacrifices for the worthy cause of building a stronger economy.

The sound financial situation in Shanghai allowed the city to help out its SOEs and make a success of the RSCs. For places lacking Shanghai's prowess, passing the burden to the state and industrial holding companies was not feasible. The central government was also concerned that worker interests were not adequately protected and that firms escaped their duty too easily. In response, the policy on RSCs was modified to give emphasis to the protection of workers' livelihood and enhancing the role of firms in paying staff allowances and insurance premiums. At the same time, civil society was asked to play a bigger part in hiring redundant workers.

By their nature, *xiagang* and RSC policies are social policies designed to provide welfare and vocational support to a deserving group of Chinese workers. They are more than bureaucratic devices to meet identified social needs. Indeed, they play a key role in smoothing China's economic transition. Their political and sociological salience is unmistakable.

As an institutional device, the RSC permits state firms to trim their workforce to maximize efficiency. At the same time, the timing of labour exit is controlled so that furloughed workers enter the labour market in a managed way. During the period of attachment, workers benefit from retraining and labour placement services. Furthermore, requiring the centres to pay social insurance premiums protects the social rights of workers. The fulfilment of these important functions has been helpful in reducing social stress and worker grievances. As Lee (2000) pointed out, the *xiagang* phenomenon and the organizational set-up of RSCs are different from both the past practices of the planned economy, where surplus workers were resettled by the enterprises, and the capitalist method of unrestrained dismissals. To workers caught up in China's market transition, *xiagang* is definitely more humane and uniquely Chinese. As a temporary shelter that manages and cares for *xiagang* workers, the RSC is a conveyer belt between the work unit and society. The part played by the state, enterprises and society in funding and management is the outcome of a compromise between diverse interests. Preserving the social peace calls for joint efforts by all.

Nevertheless, the RSC programme is plagued by many problems. First of all, it cannot free SOEs from their employee obligations, as they still have to pay one-third of the costs. Meanwhile, the financial burden falls heavily on the local state when firms and even social security funds run into deficits. More importantly, RSCs are far from a panacea in solving the re-employment problem. Ultimately, whether *xiagang* workers succeed in getting back to work depends crucially on their personal attributes and the skills they acquire. The effectiveness of the retraining provided is hard to gauge. Given the small size of the firm-based centres and the paucity of resources at their command,

both the quality and the appropriateness of the training may be suspect. The performance of these centres will vary significantly from centre to centre and place to place.

In the final analysis, the RSC is more than a policy tool to solve a social problem. It is imbued with clear sociological significance. Under the command economy, the *danwei* system incorporated all workers into the socialist structure. In return for their allegiance, workers were promised a job for life and a certain level of material security. Being required as a worker to join the market, to become a *shehui ren* or society person, is a journey into the wilderness. The odds are especially bad for older workers without appropriate skills, education, aptitudes and expectation inventories. The invention of the RSC has been a welcome move to reduce the stress in the transition. The two-year hiatus allows space for workers to readjust their outlook and get retooled while continuing to draw social benefits.

Both the *xiagang* policy and re-employment centres are on their way out. Workers who lose their jobs for whatever reason in the future will be treated the same as unemployed personnel. A decade after the problem of redundant state workers took centre stage, the state has decided to stop differential treatment of idle workers based on political grounds. Realistically, when the last batch of *xiagang* workers leaves the RSCs, the generation that has suffered the most politically will have enjoyed its just reward and will find another niche in the new economy. In short, the special policy has completed its historical mission. The new labour market in China will treat all workers equally. What is needed in the long term are open labour markets and a social security net for all, consistent with the rights of workers and an improving market economy.

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