



Is the Chinese ‘entrepreneurial welfare state’ an industrial policy in disguise?

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ABSTRACT

What has driven China, a developing country that has only recently saved itself from nationwide poverty, to increase its investment in social welfare so rapidly and extensively in the past decade? Drawing on extensive field research in a prefecture-level district in southwest China between 2014 and 2017, the authors argue in this article that local governments in China provide welfare housing programmes as a veil for developmentalist industrial policies aimed at industrial upgrading and the improvement of dynamic efficiency. The article demonstrates the unique incentive structure behind the local Chinese governments’ role as the front-line investor in social welfare benefits, and how the local state has cunningly used the façade of welfare provision to (1) divert the earmarked budget to implement development-oriented industrial policy; and (2) fake a discursive congruence between the heavily interventionist local practice and the overall neoliberal central-level policy discourse that features deregulation, small government and a *laissez-faire* developmental pathway. Exploring this set of strategic dynamics underlining the manoeuvres of the Chinese welfare operation helps us understand the variability of welfare state forms and trajectories of developmental strategy in the Global South.

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What explains the large expansion of China’s investment in social welfare programmes amidst the global retrenchment of the welfare state in the past decade? The recent expansion of social welfare provision in China (the largest Third World country with an authoritarian regime) has been remarkable. It provides a multi-faceted case for international scholars wanting to study the dynamics and operational logic of welfare investment in the Global South. China’s dramatic expansion of social welfare is reflected in the multiplication of social programmes, greater number of beneficiaries and progressively increased welfare payments¹ (see [Figure 1](#)).

In China’s recent welfare investment, welfare housing stands as a key and signature component. The 12th Five Year Plan publicised in late 2010 aimed to build 36 million units of public housing to serve 100 million poor urban households.² The actual financial input has been impressive, too: between 2011 and 2015, at least RMB 5.9 trillion was invested in a nationwide endeavour to expand housing benefits of all kinds.³ When the governments of

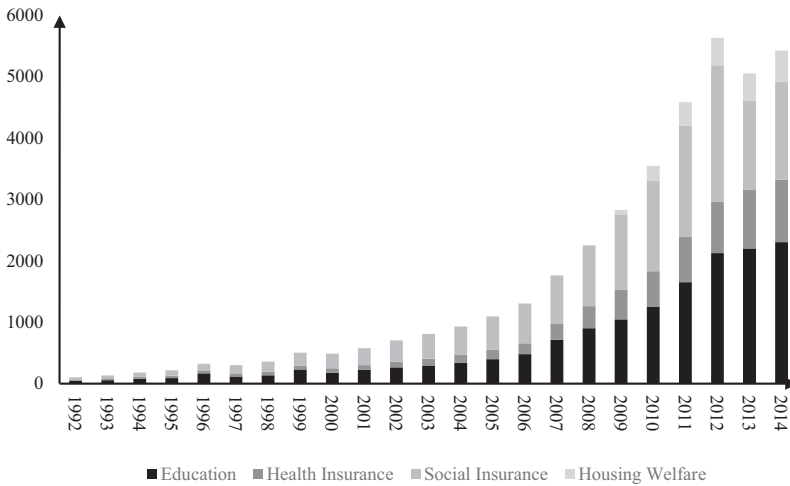


Figure 1. National social welfare expenditure, in billions of yuan (1992–2014).

Data sources: NHC, “Zhongguo weisheng he jihua shengyu”; H. Yu, *Zhongguo laodong tongji nianjian 2014*; He, “Zhongguo caizheng nianjian 2014”; Jiang and Wang, “Shi er wu yilai woguo baozhangxing.”

developing economies begin to provide welfare benefits to their population, are they really imitating the Western welfare state, or are they merely taking some other – and substantially different – policy undertakings and calling them a welfare state for the sake of political and budgetary convenience?

What has driven China, a developing country that has only recently saved itself from nationwide poverty, to increase its investment in social welfare so rapidly and extensively? Conventional wisdom highlights two major dynamics for the founding of the modern welfare state. Welfare provision is either seen as a moral obligation of the state to maintain legitimacy or it is deemed a distributed stake to ‘buy off’ potentially rebellious groups to prevent them from opposing the governing regime.⁴ We found, however, that neither explanation was sufficient to account for the extravagant expansion of China’s welfare state in recent decades, or the unusual ways in which the country’s social welfare programme operates on the societal level.

Drawing on extensive field research in a prefecture-level district in southwest China (‘Y District’ hereafter) between 2014 and 2017, we argue that the local governments in China provide welfare housing programmes as a veil for developmentalist industrial policies aimed at industrial upgrading and the improvement of dynamic efficiency. Under the encouragement of the growth-oriented cadre performance assessment system, they seek to incentivise their export-oriented local economies and thus meet the performance-centred review criteria for political promotion established by the higher level party-state.

We demonstrate the unique incentive structure behind the local Chinese governments’ role as the front-line investor in social welfare benefits, and how the local state has cunningly used this façade of welfare provision to (1) divert the earmarked budget to implement development-oriented industrial policy; and (2) fake a discursive congruence between the heavily interventionist local practice and the overall neoliberal central-level policy discourse that features deregulation, small government and a laissez-faire developmental pathway. Exploring this set of strategic dynamics underlining the manoeuvres of the Chinese welfare

operation helps us understand ‘the huge variability of welfare state forms and trajectories of development’⁵ in the Global South.⁶

Seeing like a ‘welfare state’

The welfare state, a European invention, came into being in the late nineteenth century amidst pervasive poverty, the threat of revolution and an unbalanced power relation between labour and capital. After World War II, under the influence of Keynesian economics, the welfare state spread globally and was said to be the ‘political solution to social contradictions’ in the Global North.⁷

As early as 1791, Thomas Paine, in *Rights of Man*, envisaged a prototype of the welfare state and saw welfare provision as a moral obligation of the modern state.⁸ The remarkable combination of prosperity and inequality that came with industrialisation called for government intervention to relieve the poor from suffering.⁹ This idea is resonant with Confucian wisdom. For a long time, safeguarding the people’s general welfare has been a moral responsibility and crucial foundation underpinning the legitimacy of the Chinese state.¹⁰ This tradition continues. Today, the communist state’s compassion for the people and responsibility for their welfare remain valuable components of the ruling CCP’s (Chinese Communist Party) image as a benevolent sovereign. Consequently, they are viewed as an indispensable part of the ruling regime’s moral legitimacy.¹¹

Other scholars have found a more utilitarian rationale for social welfare, focused on the welfare state’s role in addressing the increasingly confrontational labour–capital contradiction and exorcising the spectra of proletariat revolution. For them, welfare benefits are primarily a ‘social stabiliser’, buying off a potentially rebellious proletariat to prevent harm to the overall stability of the social order.¹² This logic of ‘paying for stability’ in welfare provision is particularly salient in authoritarian regimes, such as China.¹³

Despite the keen insights offered by the ‘legitimacy’ or ‘buy-off’ arguments, their explanatory power has been limited. First, although national governments in the Third World normally worry about legitimacy, their local subordinates may not share the same concern. Interestingly, the latest scholarship has drawn attention to the deviation between policy and practice in social welfare at different levels in China, manifesting the impact of this incongruence.¹⁴ Second, studies of China’s local social welfare operations have also tended to attribute the driving force behind social welfare provision at the grassroots level to the *nomenklatura*’s emphasis on social stability. Thus, local officials are believed to be incentivised to increase welfare expenditure to pacify disadvantaged social groups.¹⁵ However, as we discuss in this article, at least in Y District, housing has not been a cause for citizen complaints or protests in the past few decades. Why, then, has the local state still consistently over-invested in the construction of welfare housing and built much more than is needed?

In this article, we provide a third theoretical approach based on local welfare housing policies in China. We argue that welfare state policies are used by the local party-state as a façade for their developmentalist industrial policy to promote industrial upgrading and gain an upper hand in the global value chain competition. By investigating the driving force behind the rapidly growing investment in public housing construction in a prefecture-level district in China, we found that most of the welfare housing units in this district were assigned to entice enterprises with high productivity. Eligible households in need

only received a trickle-down welfare benefit. The welfare policies, therefore, were primarily a veil behind which the local state implemented its prescribed developmentalist industrial policy.

The ebb and flow of industrial policy

The three decades following World War II witnessed a gradual change in the dominant perspective of the role of state intervention in economic development. During this time, the overall policy climate transitioned from pro-regulation Keynesian economics to an anti-regulation view. The years from 1945 to 1970 were an 'age of regulation', when 'most countries saw an increase in government intervention in the forms of increased government expenditure, nationalisation, extension of regulation'.¹⁶ In the Global North, state regulations were viewed as a cure for 'market failures' such as monopolies and negative externalities. Concurrently, the developing world mostly aimed to reach its developmental objectives.¹⁷

Since the 1970s, the pro-regulation norms have started to turn. As the global economy has become less robust, a 'growing dissatisfaction with the existing state-led industrialisation programmes' has begun to rise.¹⁸ Nevertheless, even though economists around the globe have agreed that market forces should 'be in the driving seat' of economic development, 'it is increasingly recognised that developing societies need to embed private initiative in a framework of public action that encourages restructuring, diversification and technological dynamism beyond what market forces on their own would generate'.¹⁹

However, as Dani Rodrik argues, industrial policy should be a process of self-discovery. Because the government has bounded rationality and limited capability to promote economic development and remedy market failures, industrial policy should be more properly thought of 'as a process of economic self-discovery in the broader sense'. This means it should be treated as a dynamic process for the government and private sector to learn about economic costs and opportunities, to coordinate strategically and to solve problems together.²⁰

In the Global South, industrial policies have been widely deployed for industrial upgrading, which has been viewed in these emerging economies as the basic momentum for continuous economic growth. As Justin Lin observed, 'the main features of modern economic development are continuous technological innovation, industrial upgrading and economic diversification'.²¹ Robert Wade also recognised the upgrading of 'production structure and production-related services' as crucial to escaping from the middle-income trap and achieving sustainable economic growth.²² In a way, to facilitate economic growth is to facilitate industrial upgrading.

However, industrial upgrading does not automatically result from capital accumulation, nor can it be achieved without a proper industrial policy.²³ First, industrial upgrading means high uncertainty and great externality, which individual firms are often reluctant to pursue without compensation.²⁴ Second, industrial upgrading 'requires simultaneous improvements in education, finance, legal institutions and infrastructure', which must be taken care of by the state.²⁵ Third, industrial policy could facilitate the dynamic efficiency of an economy, which tends to breed long-term advantages.²⁶ Therefore, the state must actively compensate and encourage this discovery process to incentivise entrepreneurs to upgrade to new industries.²⁷ As we demonstrate later in this article, the local states in China are well aware of this dynamic and thus take industrial policies seriously.

But why are industrial policies disguised?

The local governments in China cannot simply implement their desired industrial policies loudly and in the open. Four obstacles prevent them from doing so: international regulatory mechanisms, the neoliberal discourse of the national government, the restrictions on budgetary arrangements and the global trend towards a 'soft' industrial policy 2.0.

First, the international developmental institutions have normally advocated for a neoliberal agenda of development, which restrains or even sanctions the use of any form of industrial policy. China's membership and participation in these intergovernmental organisations (such as World Trade Organization, International Monetary Fund, etc.) means that the latter's position on industrial policy is also binding on this largest surviving socialist regime. In addition, with increasing globalisation, states today operate in an environment in which 'there has been a tendency to discipline national economic policies through multilateral, regional or bilateral agreements'.²⁸ This makes the dominant neoliberal hostility against industrial policy even more salient.²⁹ Further, regional or bilateral trade agreements with Western countries such as the US have also frequently imposed even stricter discipline against state intervention in the domestic economy.³⁰ In such an international environment, naturally, state intervention and the industrial policies undertaken by local Chinese governments must be disguised.

Second, the non-interventionist policy discourse of the Chinese national government in the reform and opening-up era has imposed significant obstacles on local states openly adopting industrial policies. Since the beginning of Deng Xiaoping's reform and opening-up policy in 1978, the Chinese Communist Party has advocated a deregulation policy discourse.³¹ This discourse has reached another pinnacle in the Xi Jinping–Li Keqiang administration. In the *Decision on Major Issues Concerning Comprehensively Deepening Reforms of the Central Party Committee of CCP* published in November 2013, the Central Committee of the Party made clear that 'We must actively and steadily facilitate marketisation reform in breadth and in depth, considerably reduce government's direct involvement in resource allocation, allocate resources through market rules, market price and market competition, so as to maximise effectiveness and optimise efficiency'.³²

In line with this central policy tone, a series of reforms deregulating the national economy have been framed as having overriding importance. In a 2018 institutional reorganisation of the central party-state, a major aspect was to 'simplify administrative levels and decentralise the regulating power'.³³ Later, Premier Li Keqiang stressed that his administration was committed to its mission of 'decentralising, governing and serving (business interests)'.³⁴ According to the premier, this round of reform was 'a self-revolution of the government to re-shape the relationship between the state and the market'.³⁵ Industrial policies aimed at industrial upgrading are apparently the antithesis of these neoliberal central policies and must be implemented under disguise at the local level.

Third, masking industrial policy as a welfare programme is also a way for the financially challenged local governments in China to silently divert their earmarked welfare budgets to developmental goals. After the 1994 tax sharing reform, local Chinese governments incurred a great financial burden because the central government centralised a large share of tax revenue that had previously been local.³⁶ Facing tight budgets, local governments had strong incentives to look for extra financial resources to fuel local developmental investments. Many thus appropriated the large sums of central-level transfer payments earmarked

for social welfare and used them to implement local industrial policies. In 2011, approximately RMB 2.955 billion of central funding was designated for the construction of welfare housing.³⁷ The number skyrocketed to RMB 5.799 billion in 2012, and 9.37 billion in 2013.³⁸ Local officials had to camouflage their industrial policies, calling them welfare policies to safely divert the astronomical amount of earmarked welfare resources to their own developmental goals.³⁹

Fourth, hiding industrial policies behind the façade of welfare programmes is consistent with the rising global trend in new modes of 'soft' industrial policies. In considering the global economic difficulties, 'the reality is that industrial policies have run rampant during the last two decades.'⁴⁰ Usually these policies have been covert, to circumvent the restraints imposed by international developmental institutions and domestic political pressure.⁴¹ For example, the 'soft' industrial policies in the US do not directly subsidise enterprises, but 'support networks of firms in targeted sectors' and promote cooperation among enterprises. Disguised industrial policies have been increasingly adopted in both developing and middle-income countries alike. For these reasons, local governments in China have strong incentives to disguise industrial policies as welfare programmes. Below, we use the case of the welfare housing programmes in Y District to demonstrate this process.

Welfare housing: from socialist perks to disguised industrial policy

Before 1998, housing in China was generally provided through a socialist work unit-based allocation system.⁴² The party-state shouldered the costs of land acquisition, housing construction and building maintenance. The constructed housing was then allocated through work units (*danwei*) to individual households who paid extremely low rent. Viewing housing as a total expenditure, the state by was not then incentivised to invest in new construction. Thus, the living conditions of tenants became unsatisfactory, and the supply of accommodation quickly dried up. Until 1990, nine tenths of China's urban residents still lived in Soviet-style public housing provided by their respective work units.⁴³

In 1998, following the country's transition from a centrally planned economy to a market economy, the Chinese government abolished the Soviet-style welfare housing system. This was partly done to encourage internal investment in the real estate market. However, it was also intended to relieve the party-state of the financial burden of providing comprehensive welfare benefits to the urban population. Since then, urban housing has become a marketable commodity, and its prices have been on a rapid and consistent rise. However, given the increasingly formidable cost of buying a private house, the difficulty lower income groups in China have experienced when trying to find a proper living space has re-emerged as a pervasive social issue.

Nevertheless, it took nearly a decade after the housing reform for China's central government to propose a welfare housing system for low-income groups. In Document No. 24 of 2007, the State Council defined the housing problem as a 'livelihood issue (*minsheng wenti*)'.⁴⁴ Two years later, Wen Jiabao, the then Premier of China, reiterated that the housing issue 'can affect social stability'.⁴⁵ In line with the increasing outspokenness of the top leadership, the construction of a nationwide welfare housing system commenced. In the central party-state's campaign to promote the new policy, a strong emphasis was placed on the basic right to

shelter. However, the local governments' interests and calculations deviated significantly from the central-level policy goal.

From 2014 to 2017, we conducted intensive field research in Y District – a prefecture-level district in China. Y District is a prefectural-level jurisdiction in Southwest China with 23 township-level sub-units and a population of 1.08 million. It is located on the north shore and around the upper reaches of the Yangtze River, with an area of 1576 square kilometres. Relying heavily on the manufacturing industry, it is one of the most economically developed districts in its home province. To further promote local economy, the district government has constructed three industrial parks. In 2014, the output of the industrial parks exceeded RMB 61 billion, accounting for 74.3% of the gross industrial output of Y District. It is a typical Chinese prefecture with growing industries and keen desire to develop the local economy.

In Y District, we conducted in-depth interviews with 21 local officials from the Y District Government, District Bureau of Finance, Public Rental Housing Bureau (PRHB), District Bureau of Letters and Visits, L Industrial Park, and enterprises and factories. Furthermore, we reviewed 74 internal policy documents regarding social protection, welfare housing, urban planning, cadre performance assessment, and investment and economic development. Our field research made a comprehensive and deep probe into the welfare housing system of Y District.

In Y District, the public housing issue was first placed on the policy agenda in 2008. However, a full-fledged welfare housing system was not established until six years later. It was claimed that this brand-new public housing programme would 'improve the synchronised development of urban and rural regions, and [help] low-income households to obtain proper living space.'⁴⁶ The PRHB was established and designated as 'the only legitimate governmental authority to oversee the allocation of welfare housing units. Pursuant to written rules, public housing units would be allocated through an open lottery held by the Bureau.'⁴⁷ In reality, the process has been much more complicated and mysterious.

The local logic of public housing provision

In Y District, families applying for a welfare housing unit must have a local and non-rural residential permit (*feinongye hukou*). They must also pass an eligibility test on two fronts: household income and current living space. Specifically, the rules prescribe that eligible applicants must have a monthly income lower than RMB 2000 for single persons or RMB 1500 per capita for a family. In addition, to qualify for welfare housing benefits, the current living space of an eligible household must be smaller than 13 square metres per person.⁴⁸ These rigid eligibility requirements limit the pool of potential recipients of welfare housing benefits to poor urban families that live in extremely substandard conditions.

Despite the regulations, the coverage of welfare housing units has never been limited to the designated group, nor does the allocation of welfare housing units strictly follow the written rules promulgated by the local state. In various campaigns to attract direct investment, the Y District local government has explicitly used the availability of free or low-rent employee dormitories converted from welfare housing as a major incentive to lure potential business partners to invest.⁴⁹ From 2012 on, the Y District government has consistently provided the lion's share of available public housing units to highly profitable enterprises that have then converted the welfare housing apartments into free or low-rent dormitories for the migrant workers they

hire. In this way, the so-called welfare policy has become but a veil for government subsidies used to lure enterprises in the targeted industries favoured by the local party-state.

Figure 2 shows that from 2012 to 2016, both the percentage and the number of welfare housing units assigned to enterprises as workers’ dormitories grew steadily. Meanwhile, the units designated for welfare recipients slowed to only a trickle-down effect. On the one hand, the share of welfare housing assigned to enterprises and then converted to workers’ dormitories rose remarkably from 24.11% (or 75) in 2012 to 84.61% (or 12,245) in 2016.⁵⁰ Further, the number of enterprises that received welfare housing units for employee dormitories increased from 2 in 2012 to 73 in 2016. On the other hand, only 2227 of the 5379 eligible households applying for welfare housing were assigned one.⁵¹ In other words, only 15.4% of the available housing units in Y District were used to help local low-income households.

These housing units, converted from welfare housing units to employee dormitories for highly profitable enterprises, have been controlled and assigned by the local government on a case-by-case basis, bypassing the official open lottery for allocating welfare housing units. In this process, the local government has demonstrated a strong entrepreneurial mindset. Their cost–benefit calculations have prevailed over the concern for social justice that is supposed to be upheld by a conventional welfare state. We term this unique form of welfare state an ‘entrepreneurial welfare state’. It has at least three basic features that suggest the so-called local welfare policy in China is actually an industrial policy.

Using welfare housing resources to attract investment

In an entrepreneurial welfare state, social welfare programmes are used as a tool to incentivise direct investment and promote economic development. In Y District, the local government has delivered a remarkably large portion of the available welfare housing units to local enterprises as cheap or free dormitories for their labour force. These workers usually do not have a local residential permit and thus are ineligible for

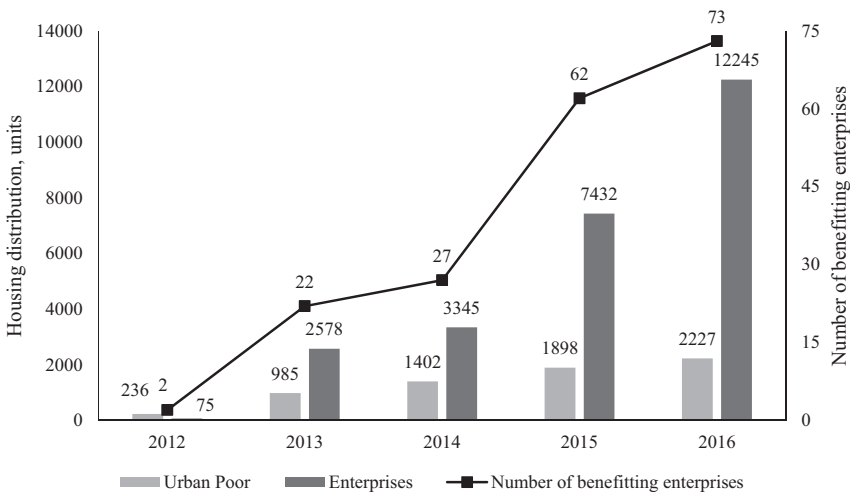


Figure 2. Allocation of public housing in Y District (2012–2016).

Source: Official Statistics of the Public Rental Housing Bureau, Y District.

welfare benefits by law. Thus, this has become a major form of subsidy for the enterprises. It has certainly helped local business in terms of alleviating their financial burden,⁵² reducing the turnover rate and attracting much-needed talent.⁵³ In turn, this business-friendly allocation has facilitated local gross domestic product (GDP) growth and increased the tax base. As one key official remarked, 'public housing provided by the government can help industrial enterprises to redirect the funds originally intended for employee accommodation to production, marketing, research and development (and this helps the local economy)'.⁵⁴

This allocation mechanism has created a positive cycle of accelerated GDP growth and a rising number of welfare housing units. On the one hand, investment has surged into Y District due to the amiable business environment. On the other hand, the prospect of a soaring number of industrial workers has pushed the local government to build more welfare housing to be used as dormitories. Take L Industrial Park, for example. From 2014 to 2016, the number of enterprises in the park increased from 175 to 255, and the number of employees grew from around 25,000 to around 41,000.⁵⁵

In contrast, the local officials have apparently not found any pragmatic benefit in delivering welfare housing resources to the urban poor.⁵⁶ They have distinguished between the welfare housing offered to the enterprises, which is treated as an investment that could bring long-term contributions to local GDP growth, and housing allocated to low-income families, which is viewed as an expenditure with no foreseeable return.

Allocation of welfare resources based on productivity

The entrepreneurial welfare state is highly selective in terms of allocating welfare resources. The principle underpinning the selection is the optimisation of industrial development, not the upholding of social justice. In Y District, the welfare housing benefit has become a way to reward productivity. Enterprises that make the most profits and contribute the most to the local state's tax revenues always receive the greatest number of housing units. This has been particularly true for high-tech start-up companies regarded by the local state as having 'high growth potential' (*gao chengzhang xing*).⁵⁷

For example, among the 38 local enterprises in L Industrial Park that received welfare housing units from the government in 2016, 28 were categorised as so-called 'sunrise industries' (eg creators/manufacturers of artificial intelligent devices, machine tool manufacturing and other high-tech industries). Their industrial output for that year had an average value of RMB 309.9 million, significantly higher than the average for the entire park (RMB 205.1 million). Investment was also important. These 38 enterprises had more significant investment plans than the rest. Each promised capital injections of at least RMB 200 million into Y District.

The workers hired by the enterprises, perceived as having a greater potential to contribute to the local economy, paid lower rent. For example, the standard rent for a public housing unit in Y District was RMB 10–12 per square metre. However, for enterprises with 'outstanding performance in GDP contribution', their workers living in welfare housing units enjoyed a 50% discount on the standard monthly rate. Among the 38 enterprises granted public housing, 21 obtained further discounts; their employees' rents were sometimes as low as RMB 5 per square metre. Star high-tech enterprises were even granted complete rent waivers.⁵⁸ In a nutshell, in the selective allocation of welfare housing units, the local

government has consistently favoured big profit-makers, resourceful investors and major tax-contributors.

To ensure that the allocation of welfare housing resources has remained effective in economic terms, the local government has regularly assessed and adjusted the list of enterprises that receive welfare housing units. In this way, it rewards the most significant tax-payers and weeds out the backsliders. According to a local official, if an enterprise expects to continue receiving welfare housing units as workers' dormitories, its investors are contractually obliged to meet a certain target of industrial output, assigned by the state.⁵⁹ If an enterprise that receives housing benefits fails its annual productivity review, the discounted rent for its employees may rise, or even worse, its access to welfare housing units may be discontinued.⁶⁰ The local government may also take back public housing units assigned to a company or raise the rent if the latter does not achieve the designated tax goal.⁶¹ In 2016, when a laptop company failed to achieve its tax goal, the local government revoked the 50% discounted rate for public housing units assigned to it.⁶² This shows that the local government has been keen to selectively cultivate and encourage enterprises with high potential to strengthen its competitive advantage. Further, the operation of the developmental policies shows that the local government has paid particular attention to the dynamic efficiency of local economic development.

Intergovernmental game of diverted budget

The local government of Y District has managed its welfare housing system in a way that reflects the entrepreneurial welfare state as a canny entrepreneur, always strategically diverting earmarked resources from higher levels in favour of its own developmental goals. The government has not been fazed by the formidable investment into the industrial policy disguised as welfare expenditure. At the same time, the entrepreneurial welfare state has carefully calculated the return on every penny of investment to maximise economic efficiency. It has diverted welfare resources as developmental incentives to enterprises that make the most profits instead of to the families most in need.

This entrepreneurial mindset obviously deviates from the central-level party-state's narrative of the social welfare system as the country's social safety net, which arguably is designed to uphold social justice. To avoid sanctions from the upper level, the entrepreneurial welfare state must use various methods to mask the real nature of its distorted social welfare operations and engage in creative interpretation of central policies to forge congruence with central policies. The constant cat-and-mouse game between central- and local-level governments is a salient feature of the entrepreneurial welfare state.

The National Auditing Office first discovered Y District's entrepreneurial manipulation of its welfare housing programmes in 2012 and reprimanded it, demanding an immediate stop to the practice of assigning welfare housing units to local enterprises as employee dormitories.⁶³ In a formal report responding to that allegation, Y District explained to the higher level authorities,

With the rapid development of laptop industries in our industrial park, concerns from business owners about the difficulty in providing accommodations for their employees have been increasing. Thus, the industries had to negotiate and coordinate with the welfare housing

authorities and arranged for the temporary use of the first batch of welfare housing units as a transitional accommodation arrangement for the industrial workers.⁶⁴

In the same document, the local government stated, 'we will take this as an important lesson and will definitely not commit similar mistakes in the future'. Nonetheless, it still attempted to bend the rules on welfare housing assignment according to its entrepreneurial needs:

As most laptop factories are labour-intensive businesses and most of their employees are migrant workers, our industrial park will negotiate closely with the provincial housing authorities and try to include migrant workers and other kinds of employees hired by these enterprises in the eligible population for welfare housing benefits.⁶⁵

Clearly, for the entrepreneurial welfare state to function smoothly, the local government's biggest concern is to avoid higher-level monitoring and intervention. The local authorities that run the entrepreneurial-welfare-state-cum-disguised-industrial-policy must maintain a careful discursive congruence with central policy narratives. They must simultaneously divert the earmarked welfare funding to industrial upgrading and technological innovation while significantly distorting the actual operation of their welfare programmes. In this systemic discursive façade, the local governments strive to map their illegitimate conversion of welfare housing units into policy instruments for economic development onto the livelihood-centred discourse on welfare provision at the central and provincial level.

Cadre performance review: a catalyst

What explains the local government's overwhelming focus on economic growth in the operation of its welfare housing programme? Our fieldwork suggests that the catalyst for establishing the unique entrepreneurial welfare state is that the pursuit of economic development is a basis for promotion within the cadre assessment system.⁶⁶

Under China's local government assessment system, stability is only sufficient to *keep* one's position; if one wishes to *reach a higher position* in the hierarchy, economic growth is the sole relevant indicator of performance. For example, in Y District the cadre performance assessment system uses a hundred-mark system in which local economic growth, gauged by 'industrial development' and 'economic situation', carries 39% of the weight.⁶⁷ Social stability crises of all kinds lead to marginal point subtractions or vetoes of promotions, but preserving stability does not add to the likelihood of officials being promoted. In other words, so long as there is no major social unrest, no points are deducted. However, no points are added for officials who successfully maintain general social stability.⁶⁸

This institutionalised and standardised cadre performance assessment mechanism incentivises officials to creatively reshape all kinds of local policies – welfare policy included – to fuel GDP growth. It also explains the local government's heavy financial investment in public housing converted to workers' dormitories. It is an attractive lure for investors, which will eventually lead to flattering numbers on the local government's performance assessment sheet. In contrast, offering public housing to the urban poor in exchange for social stability is not an especially important concern.

Data gathered from the local Bureau of Letters and Visits, a party-state agency designated to hear complaints, demonstrate that welfare housing does not act as a stabiliser. A survey

of the policy areas in which complaints have been received in Y District shows that housing difficulties or the under-provision of welfare benefits has rarely, if ever, been an issue among the general public. According to official records, among the 935 complaints or petitions handled by the office in 2016, none was related to the government's provision of social welfare, let alone public housing.⁶⁹

Therefore, economy-oriented performance assessment provides a useful lens through which to understand the motivations behind entrepreneurial welfare policies. Fundamentally, the local cadres are the most preoccupied with the mandate for economic development, which is clearly gauged and scored in their performance assessment. The entrepreneurial welfare system we observed in Y District was thus a reactive distortion of social policy to serve the overarching growth mandate.

The experiences of Y District are by no means exceptional. In many regions of China, welfare housing policies have taken a similar course: deviating from helping the poor to attracting investment, profit-making enterprises and a revenue-generating labour force.⁷⁰ Several cities have directly offered welfare housing benefits to talented professionals or industrial workers whom the local enterprises have sought to attract from outside, at the expense of the urban poor. Even now, the government of Shenzhen plans to build 350,000 public housing units, of which 280,000 will be set aside to attract and retain talented professionals, leaving only 20% of the units to meet the basic housing needs of low-income groups as the central government requires.⁷¹ Some cities have prioritised the public housing applications of skilled workers and professionals; others have lifted eligibility restrictions on income, household registration and housing difficulties to entice a more highly educated labour force.⁷² Given the universality of the cadre assessment system all over China, it is only natural that the mindset of the entrepreneurial welfare state predominates in the landscape of welfare housing provision, and has thus become a matter of national importance today.

Conclusion

The entrepreneurial welfare state in Third World countries such as China is a distinctive mode of social welfare provision that differs significantly from the established model of a welfare state in the Global North. We argue that the entrepreneurial welfare state is nothing but a guise for industrial policy that is preferred by the development-oriented local states, with only a minimum trickle-down effect in favour of the disadvantaged social groups in real need of social aid. This unique pattern of the welfare state has three key features: economic growth as a goal, a productivity based allocation mechanism and an intergovernmental game of legitimatisation for the distorted deployment of earmarked welfare resources. Overall, welfare state programmes at the local level serve as a façade for the developmentalist and interventionist state policies that are aimed at industrial upgrading.

First, economic growth is the overarching goal of the entrepreneurial welfare state. Welfare policy is tailored to benefit local development and government revenue. This developmental goal overwhelms moral claims and political considerations of social justice, equality or stability. Traditional welfare states face a serious dilemma in reconciling the budgetary challenges imposed by increased levels of social welfare payments with the political unpopularity of austerity measures. In contrast, the entrepreneurial welfare state is highly motivated to invest in social welfare projects and redirect welfare benefits to drive economic development.

Second, the allocation principle under the entrepreneurial welfare state features productivity based selectivity and cost–benefit calculations. Welfare distribution is skewed in favour of the industrial workers hired by high-tech enterprises that currently contribute (or are expected to contribute) the most to local economic development and are more competitive in the global production chain. Such a mechanism of welfare distribution echoes the Maoist era, when welfare benefits were used as ‘an assortment of rewards and sanctions to encourage politically acceptable behaviour’.⁷³ Today, it is not political loyalty but economic productivity that is rewarded by the party-state. Productivity oriented selectivity ensures that the government’s investment in its industrial policy (disguised as a welfare system) is repaid in the most efficient manner, and that its developmental goals are achieved.

Third, the local government has taken pains to maintain discursive congruence with central policy, which is reflected in the dual nature of the entrepreneurial welfare state. Appropriating welfare benefits to fuel economic development is a blatant distortion of the welfare policy narratives set out by the central party-state. Nevertheless, the local government’s head-first pursuit of growth is cultivated and encouraged by the central party-state through the universal cadre performance assessment mechanism. This means that party bosses at all levels have vested political interests in economic development. The entrepreneurial welfare state is by its nature a carefully maintained game, a collusive effort or coded play between superiors and subordinates. Local governments creatively align their conduct with official policy to legitimise their distortions, normally by selectively exaggerating passages in the original text of the policy or reinterpreting certain terms. Upper level government, receiving passable discourse that justifies the errant local implementation of the policy, turns a blind eye on the distortion. In this way, discursive compliance substitutes for substantive compliance, and economic efficiency, political mandate and welfare effectuation are achieved at the same time.

These features, summarised in the model of the ‘entrepreneurial welfare state’, indicate a logic of welfare provision distinct from that of traditional Western welfare states. The entrepreneurial state is not based on the goodwill of rulers, respect for human rights or concern for moral legitimacy. It is not even concerned with social stability. Rather, by carefully selecting beneficiaries that meet the standard of productivity, social welfare policies are tailored to galvanise economic growth.

Currently, this research has the following two limitations – yet it also opens up new space for future research. First, although this research is the very first down-to-earth case study that reveals the nature of the welfare state in China being a façade of developmentalist industrial policy, additional empirical research conducted in other regions of China is needed to prove the national existence of this unique phenomenon and also to explore cross-regional variations (if any). Based on an initial survey of media reports from all over China,⁷⁴ we suggest that our finding may in fact be of national significance; yet only cross-regional comparison can gauge the width and depth of the policy influence of the ‘entrepreneurial welfare state’ in different regions of China.

Second, whereas this research demonstrates only one case of the interventionist industrial policy being disguised as welfare housing policy, we suggest that policy manoeuvring, especially the implementation of one policy by disguising it as something substantially different, may be a pervasive pattern of governance in China and the developing world at large, where state capacity is in limbo and the advocacy of unpopular policies at times becomes necessary.

Further investigation along this line into other policy arenas may be helpful in illustrating an interesting pattern of governance on a larger scale.

Overall, the concept of the entrepreneurial welfare state offers an alternative account of social welfare provision in China. It not only partly explains the sustained growth and robustness of China's investment in social welfare programmes (and hence its welfare expansion in defiance of the global tide of austerity), but also provides an explanatory framework within which to understand the seemingly irrational scenario of a welfare system that features consistent overinvestment. This study, therefore, is a significant step in understanding not only the governance of China's burgeoning social welfare system in the early twenty-first century, but also the theory and practice of the welfare state in an unorthodox institutional context such as China's.

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Notes

1. See Ministry of Civil Affairs, "2004 nian shehui fuwu fazhan tongji gongbao" ["Social Service Development Census of 2004"], 2004, <http://www.mca.gov.cn/article/sj/tjgb/?>; Ministry of Civil Affairs, "2014 nian shehui fuwu fazhan tongji gongbao" ["Social Service Development Census of 2014"], 2014, <http://www.mca.gov.cn/article/sj/tjgb/201506/201506158324399.shtml>; Ministry of Civil Affairs, *China Labor Statistical Yearbook 2014*; Huang, "Four Worlds of Welfare in China." US\$1 was worth approximately RMB6.4 at the time of writing.
2. Wen, "3600 wan tao baozhangfang jiang dailai sha."
3. For 2011 to 2013, see Jiang and Wang, "Shi er wu yilai woguo baozhangxing"; For 2014, see Ministry of Housing and Urban-Rural Development, "Rang laobaixing douneng zaori shixian

zhu you suo ju" ["To Realise Adequate Housing for All as Soon as Possible"]. 8 March 2015, http://www.gov.cn/xinwen/2015-03/08/content_2830485.htm. For 2015, see Ministry of Housing and Urban-Rural Development, "2015 nian quanguo chengzhen baozhangxing anju gongcheng kaigong 783 wan tao, jiben jiancheng 772 wan tao" ["7.83 Million Units of Public Housing Were Under Construction in 2015 of Which 7.72 Million Units Were Basically Completed"], 8 January 2016, http://www.mohurd.gov.cn/zxydt/201601/t20160108_226257.html

4. Michelman, "In Pursuit of Constitutional Welfare Rights"; Arneson, "Equality and Equal Opportunity for Welfare"; Korpi, *Democratic Class Struggle*; Tuftes, *Political Control of the Economy*.
5. Castles et al., *Oxford Handbook of the Welfare State*.
6. This intensive study of the industrial policy – disguised in the form of welfare housing projects – in a prefectural district is significant to the understanding of the national phenomenon of entrepreneurial welfare state in China in three ways, namely: it is a typical case representation, and it provides an advantage in process tracing and possible portability of the rationality we found in this case to other similar contextual configurations.

First, the existing literature on qualitative methods has long argued that a single case study can generate insight for a broader range of cases that share similar characteristics. A 'typical case,' according to John Gerring, *Case Study Research*, 91, 'exemplifies what is considered to be a typical set of values, given some general understanding of a phenomenon'. In-depth study of the typical case enables the researcher to gain knowledge valuable for an extended set of similar phenomena. Y District is a typical case as per the following four criteria: (1) moderate size and population; (2) average economic volume and relatively rapid economic growth; (3) general coordination with the national industrial policies, which prioritises export-oriented, manufacture and innovative/high-tech industries; and (4) a lack of extreme social peculiarities, political turbulences, economic difficulties, or environmental hazards that would significantly distinguish it from other Chinese localities (for detailed information about Y District, see section "Welfare housing: from socialist perks to disguised industrial policy"). Being a typical case as such, discoveries from Y District can shed light on the dynamic and operational logic of Chinese local welfare states in a larger sense.

Second, an intensive single case study has a particular advantage in revealing the often-subtle causal mechanism in a socio-political phenomenon. The scrutiny of specific mechanisms underlying such a phenomenon, known as 'process tracing,' allows a 'diagrammable' elaboration with 'multiple types of evidence' of the long and multi-dimensional causal chains that are unlikely to be detected by other methods (Gerring, *Case Study Research*, 173). In particular, the existing literature holds that by dissecting the minutiae of the single observation, process tracing can potentially provide a 'macro-theoretical account' that is 'generalizable, and indeed may be quite broad in scope' (178–9). The intensive scrutiny of the 'welfare policies' in one prefectural district is done to trace the hidden but universally existent incentive structure and policy process behind the nationwide phenomenon of distorted allocation of welfare housing units against the actual need of local low-income households – the natural beneficiaries of such programmes (see notes 70–72).

Third, it is important to note that single case studies can detect an incentive structure that is portable to other cases in similar contexts. Based on the assumption of thin rationality, namely 'roughly that actors in most cases do things for a reason,' the incentive structures discovered in one case become an 'ideal type' that serves as 'a generalizing bridge to other contexts with similar actor constellations' (Bengtsson and Hertting, "Generalization by Mechanism," 707–8). In this research, the key variables and incentive structure we have highlighted (such as the growth-oriented cadre performance assessment system, the intergovernmental game, export-oriented local economies, the policy goal of industrial upgrading etc.) can be found almost all over China in various regional settings. Thus, this intensive case study becomes a key to our further understanding of the rationality behind the operation of welfare state policies in a wider range of settings in local China that have a similar 'actor constellation' to that of Y District.

7. Offe, *Contradictions of the Welfare State*, 60.
8. Paine, *Rights of Man*, 278.
9. *Ibid.*, 279.

10. Perry, "Chinese Conceptions of 'Rights.'"
11. Tong, "Morality, Benevolence, and Responsibility."
12. Huber and Stephens, *Development and Crisis of the Welfare State*; Korpi, "Power Resources and Employer-Centred Approaches"; Offe, *Contradictions of the Welfare State*.
13. See Beck, *Origins of the Authoritarian Welfare State in Prussia*; Acemoglu and Robinson, *Economic Origins of Dictatorship and Democracy*; Ames, *Political Survival*; Wong, "Paying for the Harmonious Society"; Solinger, "Urban Dibao."
14. Dillon, *Radical Inequalities*; Frazier, *Socialist Insecurity*; Solinger and Hu, "Welfare, Wealth and Poverty in Urban China."
15. See Edin, "State Capacity and Local Agent Control"; Huang, "Four Worlds of Welfare in China."
16. Chang, "Economics and Politics of Regulation."
17. *Ibid.*, 724.
18. *Ibid.*, 711.
19. Rodrik, *Industrial Policy for the Twenty-First Century*.
20. *Ibid.*, 382.
21. Lin, "Industrial Policy Revisited."
22. Wade, "Industrial Policy in Response."
23. *Ibid.*
24. Rodrik, *Industrial Policy for the Twenty-First Century*.
25. Lin and Chang, "Should Industrial Policy in Developing Countries Conform?"
26. De Soto, *Theory of Dynamic Efficiency*, 29.
27. See note 25.
28. See note 19.
29. See note 19.
30. See note 19.
31. Lin, Tao and Liu, "Decentralization, Deregulation and Economic Transition in China."
32. Chinese Communist Party Central Committee (CCPCC), "Zhonggong zhongyang guanyu quanmian shenhua gaige ruogan zhongda wenti de jue ding" ["Decision on Major Issues Concerning Comprehensively Deepening Reforms of the Central Party Committee of CCP"], 2013, http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm
33. CCPCC, "Zhonggong zhongyang guanyu shenhua dang he guojia jigou gaige de jue ding" ["The CCPCC's Decision on Deepening Institutional Reform in Party and State Institutions"], February 28, 2018, http://www.xinhuanet.com/politics/2018-03/04/c_1122485476.htm
34. Li, "Li Keqiang zai quanguo shenhua 'fangguanfu' gaige zhuanbian zhengfu zhineng dianhua huiyi shangde jianghua" ["Li Keqiang's Speech on the Video Conference on Nationwide Deepening of the 'Distribution Service' Reform and Transformation of Government Functions"], June 28, 2018, http://www.gov.cn/guowuyuan/2018-07/12/content_5305966.htm
35. *Ibid.*
36. Wong, "Central-Local Relations Revisited."
37. Beijing News, "Baozhangfang zijin weigui weihe meinian bubugao?" ["Why Is Public Housing Finance Misconducts Increase Each Year?"], July 2014, <http://finance.sina.com.cn/review/hgds/20140719/025919755281.shtml>
38. *Ibid.*
39. *Ibid.*
40. See note 19.
41. *Ibid.*
42. See Wu, "Changes in the Structure of Public Housing Provision"; Wang and Murie, "Commercial Housing Development in Urban China"; Chen, Jing, Man, Yang, "Public Housing in Mainland China."
43. World Bank, *Housing Indicator Programme*.
44. State Council, "Guowuyuan guanyu jie jue chengshi dishouru jiating zhufang kunnan de ruogan yijian" ["Opinions of the State Council on Solving Housing Difficulties of Urban Low-Income Families"], 2007, http://www.gov.cn/zwggk/2007-08/13/content_714481.htm

45. Wen Jiabao, "Wending fangjia shi zhengfu de zeren" ["It Is Government's Responsibility to Stabilise Housing Price"], September 14, 2010, http://finance.ifeng.com/a/20100914/2616886_0.shtml
46. C Province Government (CPG). "Guanyu jiang chengshi lianzu zhufang baozhang fanwei kuoda dao chengshi dishouru zhufang kunnan jiating de tongzhi" ["Notice of Extending the Eligibility of Urban Cheap-Rent Housing to the Urban Low-Income Households with Housing Difficulty"], C Province Government Archive, 2010.
47. Y District Government (YDG), "Y qu renmin zhengfu bangongshi guanyu yinfa gonggong zulin zhufang guanli shishi xize de tongzhi" ["Notice of Issuing the Administrative Details of Public Housings in Y District"], March 2013, Y District Government Archive.
48. PRHB, *Y qu gonggong zulin zhufang guanliju guanyu*.
49. Interview conducted in Y district on August 25, 2014.
50. See note 48.
51. See note 48.
52. Interview conducted in Y district on August 28, 2014.
53. Ibid.
54. Interview conducted in Y district on August 27, 2014.
55. Ibid.
56. Ibid.
57. Ibid.
58. Interview conducted in Y District on August 25, 2014.
59. Ibid.
60. Ibid.
61. Ibid.
62. Ibid.
63. Ibid.
64. YDG, "C sheng Y qu gongye yuanqu guanweihui guanyu yi, erqi lianzufang jianshe he linshi liyong qingkuang de shuoming" ["Clarification of Y District on the Construction and Provisional Use of the First and Second Batches of Low-Rent Housing"], November 2012, Y District Government Archive.
65. Ibid.
66. For existing studies on China's cadre evaluation system, see Burns, "Strengthening Central Party Control"; Edin, "State Capacity and Local Agent Control"; Edin, "Remaking the Communist Party-State"; Bo, *Chinese Provincial Leaders*; Landry, *Decentralized Authoritarianism in China*; Shih, Adolph and Liu, "Getting ahead in the Communist Party."
67. CPG, "Guanyu yinfa C sheng 2013 nian jingji shehui fazhan shiji kaohe gongzuo shishi fangan de tongzhi" ["Notice of Issuing the Method of C Province Economic and Social Development Performance Assessment"], C Province Government Archive, 2014.
68. Ibid.
69. Interview conducted in Y district on October 13, 2017. According to official statistics, among the 935 complaints or petitions received by Y District in 2016, 19.79% were about insufficient compensation for land acquisition, 18.07% were about urban planning and management issues such as unlicensed construction, and 14.87% were about agriculture-related disputes. Other types of disputes included judicial disputes (14.12%), labour disputes (14.01%), family disputes (9.52%), and disputes related to the use of water, electricity and fuel (9.63%). Interview with official of Bureau of Letters and Visits, Y District, October 2017.
70. For example, in 2016, Haidian District of Beijing allowed high-tech start-ups to rent public housing at a discounted price; those seen as 'high-quality' enterprises were put at the top of the list. See Haidian Finance Bureau, "Guanyu yinfa Haidian qu chuanku rencai gonggong zulin zhufang chegzu pingshen banfa de tongzhi" ["Notice of Issuing the Public Housing Allocation Method for Innovators and Start-up Entrepreneurs in Haidian District"], December 2016, <https://www.chinanews.com/cj/2018/01-17/8426644.shtml>. In 2017, the housing authority in Guangzhou allocated public housing to innovative businesses. See Guangzhou

- Housing and Urban–Rural Construction Committee, “Guangzhou shi xin jiuye wufang zhigong gonggong zulin zhufang baozhang banfa” [“The Method of Public Housing Allocation for Newly Recruited Employees with Housing Difficulties in Guangzhou”], January 2017, <http://gz.bendibao.com/life/2018426/240239.shtml>
71. “Shenzhen shisanwu baozhangfang fangliang gongying wunian 35 wantao huo chao shang-pinfang” [“350 Thousand Units of Public Housing Provision in Shenzhen During the 13th Five Year Plan may Exceed the Provision of Commodity Housing”], February 19, 2016, http://zjj.sz.gov.cn/csml/bgs/xxgk/gzdt_1/201602/t20160222_3467057.htm
 72. See Nanjing Municipal Government, “Nanjing shi rencai anju” [“The Provisional Method for Settlement of Talents in Nanjing”], April 2017, http://fcj.nanjing.gov.cn/ztzl/zfbz/zcfg/201901/t20190114_1373010.html; Xi’an Municipal Government, “Guanyu xin biye daxue-sheng shenqing zulin xing baozhangfang de gonggao” [“Notice on Recent Graduates’ Applications for Public Housing”], April 2017, <http://fgj.xa.gov.cn/zw/detail.aspx?firsttypeid=4&id=7174>
 73. Lü and Perry, *Danwei: The Chinese Workplace*.
 74. See notes 70–72.

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