DOI: 10.54254/2753-7048/2025.LC19683

European Inspirations on Chinese Welfare State Development: A Comparative Analysis

Shiran Xu[1,a,*]

[1]Beanstalk International Bilingual School, Haidian Academy, Beijing, 100097, China
a. StefanXu27HDA@bibs.com.cn
**corresponding author*

Abstract: The effectiveness and the applicability of European welfare policy, especially those implemented by the early welfare states of the Organisation for Economic Co-operation and Development (OECD), have been claimed as the sources of their leading prosperity. Developing countries that underwent reforms and socio-economic transitions hold incentives and materialistic basis to initiate welfare programs similar to Europe's. Research significance of this paper lies within the comparative welfare analysis between China, a typical developing country that experienced drastic reforms, and developed OECD European welfare states, casting doubt on whether China can adopt the entire European welfare policy. Attempting to provide suggestions for China's future welfare development, this study exemplifies the results derived from European welfare implementations, with a focus on the European welfare measurements, shaping factors, and the Chinese distinctiveness possessed within its welfare development. As a result, this study contends that due to deviance on historical factors and measurements cultivating entrenched bilateral distinctiveness on welfare policies, it is impractical for China to construct its welfare system by imitating the European welfare mode.

Keywords: welfare state, historical factors, socio-economic development.

1. Introduction

Marching to the 21st century, challenges of balancing domestic social turbulence emerged for developing countries to confront. Previously, through the whole post-colonial period, developing countries in Latin America or East Asia shared little concern on the problems considered by Europeans and Americans, who constitute the well-developed western nations. However, taking 21st century as a threshold, lots of them started to imitate the mode of establishing a welfare state, in referring to the successful predecessors. This transition could be attributed to the process of globalization, with nuanced division of labor amplifying the comparative advantage of nations that previously been left behind. Also, domestic reforms, such as China's Reforms and Opening-up policy, released developing country's economic potential, foreshadowing their rising strength and regional leadership. As their state sectors and government's account accumulate increasing surplus, sufficient motives lie here for developing nations to refine welfare programs. Since the previous solutions were usually the source for new social problems, to cement the stem of a welfare state was prioritized on these state's agenda [1, 2]. Subsequently, welfare state research was no longer been restricted within the European scope, but extended to study the newly emerged welfare state cases in the globe [3].

DOI: 10.54254/2753-7048/2025.LC19683

Being a typical object for study, China, who underwent drastic economic progress after 1978 reforms, holds its own distinctiveness. In comparison with Central and Eastern European (CEE) countries who shared similar socio-economic transitions, China possesses vast area and population, relatively centralized, but is open to Foreign Direct Investment and is cost-efficient to implement changes in both economic and political measures [4]. Later, the Reform and Opening-up policy brought opportunities and fortunes to the Chinese in 1980s, leveraging the national economy to an unprecedented level. Mortgage market and export-led growth models have long supported the continuous elevation of China’s Gross Domestic Product (GDP). Accompanying China’s rapid economic progress, social issues have been escalating for decades. Housing bubble and shrinking real income, with expanding inequalities in medical care and education, minimized resident’s welfare, diminishing citizen’s faith in the market and government’s authority; whereas European nations’ experiences shaded light for addressing social problems in China. As the pillar supporting the European Social Model, the welfare state’s ideology plays an indispensable role in shaping European society toward a mode that is conducive to citizens, including the construction of a universal social protection system, general public services, and an inclusive and cohesive society. After the post-war period, European welfare policies, strengthened by the Keynesian hypothesis, stimulated the economy and prevented periodic economic instabilities from happening. These effects were the representation of distinct European factors, measurements, and European dominant welfare studies, which have long been considered as European welfare states’ essence [5, 6].

Therefore, rather than aligning with the path of welfare studies insisted by central Europe and British academies, who elaborate on CEE and China’s welfare comparison, this study focuses on the comparative study between advanced European countries of the Organisation for Economic Co-operation and Development (OECD) and Chinese’s welfare developments, aiming to facilitate the consensus on bilateral welfare distinctiveness [4, 7]. Via illustrating the materialistic benefits realized in western welfare state, articulating the process of European and Chinese welfare system’s formation, and analyzing China’s unique social and institutional features, this study contends that due to historical heritage, distinct measurements and influencing factors, the state would not embrace the entire OECD European welfare policies while modifying a Chinese version.

2. Achievement in European Welfare Development

The role-model OCED European countries were well-developed and industrialized, according to welfare studies’ perspective, few years after the major post-war reconstructions were taken place [1]. While acknowledging the vital role a welfare policy played in leveraging the economy positively, this section argues that the advantages for employing a welfare policy in European cases will motivate the Chinese to imitate this mode, for the sake of materialistic prosperity.

Three aspects contribute to the endorsement for European welfare development. Firstly, expanding welfare state, referring to the increasing amount of government expenditure on welfare programs and taxation transfers, exerted no negative effect to economic growth [1]. Findings derived from cross-national measures of the average tax-burden in 18 OECD economies build up the credibility of this statement. It reveals the absence of a relationship between higher tax rate and economic growth within these 18 samples, from 1966 to 1990 [8]. In addition, scholars who evaluated the impact of government welfare spending on economic growth revealed stunning result. They measured the welfare state government in aspects including level of government outlay, government consumption, and total taxation. Nevertheless, no impact on economic growth was related to these measures. As the interference of demographic factors was controlled, the positive correlation between level of social security covered by government and national growth rate was proven valid [9]. Utilizing multivariate statistical analysis, the research found a positive correlation between the level of social security transfers and economic growth for 17 OECD countries: during the post-war period, a 5%

increase in social policy transfers would lead to a 0.9% increase in the economy, according to the effect of welfare programs identified above [10]. Based on these results, China's concern over the plausible economic dormancy resulting from the incremental effort devoted to welfare programs is unrealistic.

Secondly, government's expenditure sustaining welfare developments, in advanced and industrialized European cases, not only imposed no burdens for growth, but also boosted these economies promisingly. From 1950 to 1973, OECD countries' average rate of growth was 3.7, three times more in amount than previous span before 1930. Simultaneously, the percentage sharing of social insurance expenditure in these nations' GDP consistently expanded, finally reaching 15% in 1970. Subsequently, social insurance expenditures as a percentage of GDP rose to its peak around 22% of GDP in 1995, while the average growth rate for OECD members maintained around 2.2% for past three decades. This accomplishment refuted the neoclassic economists' prediction on the negative correlation between growth and the size of welfare, also formed a contradiction with the 1.2 average rate of growth from 1913 to 1950 [1].

Thirdly, the technological advancements and major innovations were largely empowered by welfare programs in European Union (EU) countries. Two branches of indicators are entailed to clarify the economic and the social outcome of EU members' innovation initiatives. Starting with the economic aspect of innovative effort, Sweden and Germany, whose government expenditure on social protection was close to 20% in proportion to their GDP in 2019, all scored high among EU countries as the first and second place on research and development (R&D) spending, which indicates an economy's attitude toward technology innovation. Being a credible indicator for technology maturity, and most importantly, unfolding exploitation degree of technological knowledge used for potential economic gain, the number of patent registrations determines a state's inventive performance of economies. German, Austria, and the Nordic countries, including Sweden and Denmark, performed outstandingly on this measurement, who also devoted much effort to develop welfare programs. In terms of social consequence brought by innovation, approximately 30% of the workforce in Nordic welfare states has tertiary education and pursuits career in science and technology, which justifies the consistent economic progress enjoyed by these countries in contemporary era [11]. Based on previous inferential results, the more financial support a state provides to encourage academic research, promotion of training, life-long learning programs for labor force, and levels of education, the better the economy will perform on innovation [11].

3. Europe's Construction of Welfare State

As the prototype of modern national state began to emerge in Europe, two factors contributed to the shift of local authorities' attitude to improve the living standard of its people and modify the previous solution to social problems: the Industrial Revolution and the spreading "Civil Right" derived from American Revolution in 1776 and French Revolution in 1789. National state governors began to recognize the consequences of rapid development, and the worker's gradually united advocacy for social rights. Nations such as England and Prussia provided welfare policies not only granted cash benefits, but also regulated factories and restricted child labor, responding to various industrialization-generated issues in the first half of the 19th century. The institution specialized in collecting demographic data, aiming to improve on the effectiveness of welfare programs, and the academic conferences contributing theoretical augments on the state's welfare policy were also the endorsements behind modern European welfare state [6].

In the transition to 20th century, when European confronted more internal and external dynamics, as more nations got independence, scholars have devised three measurements to standardize the shape and function of a welfare state, which were three policy outputs summarized from European experience and related study. Firstly, welfare state regulates private sectors through legislative

DOI: 10.54254/2753-7048/2025.LC19683

approach, encouraging them to create positive economic externalities, which are conducive to the society as a whole. Policies relating with social protection, health services, housing and urban planning, education generalization and labor market justice are prioritized in welfare states according to these measurements. Secondly, welfare state redistributes incomes in a progressive manner through taxation and public expenditures. Thirdly, welfare state guarantees social and economic rights to the entire population, according to their qualifications of residence, nationality or citizenship [12].

Independent variables, or the factors contributing to these dependent policy outputs, are entailed for a comprehensive understanding to the reasons behind European welfare states. Firstly, industrialization brought drastic economic development and transformation, which resulted in apparent demographic changes. Decline in mortality and fertility rates, move to smaller households, and increase in divorce and remarriage were the main outcomes for the industrialization-caused demographic shifts. These trends played a vital role in shaping new social policies, from social protection to health services. Secondly, the conflicts of social classes established European welfare features. Stretching from 1881 to 1981, labors advocated for "greater state-economic intervention, full-employment policies, universal social policies, and greater fiscal redistribution and economic equality." Whereas entrepreneurs and businesses contended on policies that "favoured incentives to growth, private provision plus low coverage of social benefits, and low redistribution." These conflicts overtime not only shaped the arrangement of power resources between the main social classes within developed European countries, but also determined the range, extent, focus, and the re-distributive effects of economic and social policies. Additionally, divergent religious faith established profound influence within the European state stemming from the Protestant Reformation, which intervened the welfare outcomes. For instance, the social transfers and women's working rate, counted as persistent European welfare policy features, were directly correlated with the proportion of regional population being baptized [12].

Through adopting all the basic guidelines, and in response to factors diverting the function of policies, OECD European nations' construction of mature welfare state, possessing universal welfare programs, began to realize in the post-war period. The most intense activities of European welfare system initiated after WWII; these novel attempts transformed the existing social programs, which provided minimum benefits to ease the extreme poverty, into a comprehensive system of universal benefit. For instance, England started to stimulate the legislation for family allowances, elder pensions, and health insurance, aiming to "guarantee freedom from wants for all citizens"; Sweden offered easy access of pension and family allowance in 1947 domestically; Germany in 1957 passed the legislation contained welfare programs, enjoyed by the majority of citizens [5]. With following decades to come, up to the dawn of the 21st century, though policies have changed in European states, the historical factors and the persistent recognition of welfare measurements were maintained, which served as scaffolds for European welfare states, promoting economic and innovative prosperity, as identified in section 2.

4. Process and Features of China's Welfare Construction

The unique aspect of China's construction of welfare state, which differentiate from European experience, is the welfare measurement. The factors influencing China's welfare policies have profound contextual remarks, thus shaping the distinctiveness of the Chinese welfare system among Europeans, whether it is their essence or the social transition that fosters policy changes.

The essence, also the origin of future welfare complexities, rooted in the state planned economy, from 1950s-1980s. The goal for China's welfare system, initially, was to guarantee full employment for the workers affiliated by the state sectors. These sectors' employers held the responsibility to provide pension, housing, health care, and children's early education for the urban workers, who constituted the pillar for urban economic growth. Conversely, the rural dwellers received much less

DOI: 10.54254/2753-7048/2025.LC19683

welfare influence, in comparison with their urban counterparts. Limited housing and pensions, with only basic health services, were delivered to rural farmers through local cooperative schemes; this situation contradicted to the urban circumstance where local government covered the low-cost housing, free schooling, and health services for the urban workers, whose employers did not realize promising welfare benefits. This division continued when such supporting local scheme collapsed in the early 1980s [2, 13]. The long-lasting urban welfare bias was rooted from those policies and became a feature of Chinese welfare system. Solutions to address this bias were soon taken into place from 1980s to 1990s, when rural reforms intended to reduce poverty by stimulating economy and improving incomes. Specific policies were designed to target the poorest areas, mainly through financial investment and support. These attempts did successfully reduce China's domestic absolute poverty rate to an unprecedented level. However, inequalities in urban areas were enlarged due to welfare reforms' negligence to the low-income households in wealthier urban areas [2, 13].

Additionally, the means of production in China possessed essential difference to European's mode. Rather than the private sector's profit driven incentive, the state ownership of the productive enterprises was the dominant pillar to China's economy, even after the reform of late 1970s. These productive enterprises were operated by the state to maintain maximum social benefits. One responsibility of those state sectors was to construct a universal welfare system, which allocate welfare resources to all of their employees. Therefore, government was no longer entailed to sustain a welfare system through direct spending and redistributing of resources; this pivotal role embedded in well-functioning European welfare state was marginalized in China's welfare modification. Nevertheless, large state organizations established "work units", including institutions such as medical clinics and primary schools under their direct control. Housing and social security, which were mainly compensated by government expenditure in European cases, were covered by work unit in a comprehensive extent. For instance, state-owned unit spent 13.7% of their wage cost on employee's insurance; this portion still leveraged to reach 28.2% by 1989. Collectively, these spending accumulated to 25.3 billion yuan, weighting 1.6% of its GDP in the same year, even exceeded the portion on national defense. According to empirical studies on Gross National Product (GNP) measure, the state's total spending only included a limited portion of public welfare expenditures, which was also reflected as a less than 5% of China's GNP on education, health services, social security and poor relief. This inconclusive result was soon interpreted as the work unit welfare (workfare) was calculated to the sum. From 1985 to 1990, 18.89% of GNP in total was spent on public and work unit welfare; this portion still weighted 13.72% to aggregate production in 1993 when the state's expenditure on price subsidies to deficit enterprises was reduced [13].

At this stage, only the capital investment and maintenance beyond an individual work unit's capacity to compensate were counted on the state's budget. Chinese government means of providing welfare was limited. Non-employment related social services or the public project with affordable amount of initial fixed cost were seeking for government's direct investment and subsidy; constructions of universal primary education, welfare targeting on the disabled people and disaster victims, and hospitals available to the society became the major objects where state's revenue flowed into [13]. Additionally, the European design of residual welfare model only provided individual with allowance by welfare institutions, when the two "natural channels"-the private market and the family-were unable to supply welfare services. However, for Chinese work units, either productive enterprises or government organizations, were expected by the state to provide sufficient welfare for individual employees; the population who were excluded from the range of workfare were expected to rely on their working family members. Family connections in urban areas, where the workfare convenience based on family unit was guaranteed, were emphasized in the provision of welfare; whereas in rural areas, strong family support were also assumed by the government to amplify the influence of workfare; in practice, the majority of rural population who lacked work-unit based

DOI: 10.54254/2753-7048/2025.LC19683

connections were excluded from this urban privilege, and many of them strive to gain benefits through the "Five-Guarantees Scheme", designed to eliminate absolute poverty in rural areas. In general, Chinese welfare state differed from its OECD European role models to the extent that, limited role of the state in welfare delivery, featured the distinctiveness of China's welfare construction [13].

Subsequently, the welfare conditions in China was transformed, after the economic reform was introduced since 1978. From this year, state-owned complex was no longer unconditionally supported by the government. As a result, expenditures used to sustain the functioning of relating work unit and welfare programs became affordable to these enterprises, escalating through the absence of government's subsidy. Opened market introduced worldwide investment, as well as competitions, and pushed the state enterprise to reconsider the costly burden of aging workforce. Furthermore, the self-employment boom, exemplified through food and vegetable markets, waned the viability and increased the deficiency for state-owned enterprises in these particular markets. Simultaneously, industries where foreign investment inevitably attracted younger labor force, exacerbating the state-owned industries' competitive shortcomings [13].

Accompanying with the economic surge and the socio-economic reforms activated since the late 1970s, welfare policies in China also underwent drastic changes. Novel social insurance schemes focusing on retirement benefits were developed. They were categorized under ownership, types of jobs, and unique calculation of contributions and benefits. Most importantly, welfare expenditures were dispatched with individual enterprises. The financial burden long suffered by these enterprises with waning human capital was relieved. Conversely, the state collected the employer and employee's contributions to this new retirement insurance and managed them in a collective pool. Under this refined Chinese welfare system, the redistribution and operating mechanisms of social benefits were held in the state's control. For instance, it manages a centralized fund in a balanced state, conducting the retirement payment; the state also proposed tax cuts to firms who made monetary contributions to this collective pool of social insurance. Even to this stage, despite of these welfare reforms, the role of workfare is still deeply rooted in the measurements and factors shaping China's welfare policies, since the mechanism of Chinese workfare evolved to become an essential part of national economy. In general, European welfare mode will find it difficult to be implemented in China, where a marginal public sector financial commitment to welfare polices persisted, and the majority of the welfare benefits were provided through the workfare system [13, 14].

The transitions for China's welfare state was derived from the following quintessential notions. Firstly, rather than holding a European's centralized fiscal system, China has retained a decentralized fiscal system. This exerted barriers for national-wide fiscal programs, focusing on the redistribution of wealth, to be established. As local governments were responsible for funding local welfare provisions, urban bias and purely-economic motives were hard to avoid; through announcing national-wide frameworks, the state tried to mitigate the inequality of welfare development originated from decentralized operations varying locally [2]. Secondly, Chinese government has long prioritized the function of welfare policy as to stabilize the society and maintaining orders; this angle for devising welfare policies has long been neglected in the European welfare state's measurements and shaping factors. Thirdly, waves of urbanization after 2010s was a demographic factor influencing China's welfare state construction. With nuanced deviance among background and demand, and increasing advocacy to address inequality and welfare deficiencies, newly-emerged city dwellers brought novel dynamics and measurements to the China's welfare state, entailing new designs, even modifications to priors [14].

5. Conclusion

This paper provides a comparative study that unfolds the constructions of welfare state underwent by OECD European countries and China, aiming to clarify the vital measurements and factors, which

DOI: 10.54254/2753-7048/2025.LC19683

are serving as reference, contributing to future comparative or analytical welfare studies between these two samples. Since little literature has delved into the comparative interpretation of measurements, historical factors, and policy analysis, the significance of this study reveals in offering insights to those marginalized areas in welfare studies, and striving to generate suggestions on whether China should imitate the complete mode of the OECD European welfare state or not.

Overall, this study elaborates on the context for the comparative welfare study, illustrating the unrestricted spread of welfare state from Europe to the globe. OECD European countries, who are advanced and developed countries, with mature welfare systems, may provide references and hints to the development of Chinese welfare state. Next, the remarkable economic and innovative achievements attained by OECD European nations through implementing welfare policies were emphasized, serving as materialistic motives for China to adopt their modes. However, after the cautious analysis of European foundations, measurements and influencing factors contributing to the formation of post-war welfare states, and the aligning analytical path focused on corresponding Chinese aspects, this study generated stunning result. Due to the deviance on bilateral social-political development, the role of state, and the differentiation on persistent issues shaping the function of welfare policies, adopting the complete OECD welfare system to China was impractical and impossible to solve the long-lasting social issues derived from China's previous solutions.

The sample of this study, starting from China's perspective, has been limited to the scope of early European OECD members. In addition, due to the dominant analysis focuses on the historical factors and measurements deriving from the 20th century context, this study has not yet provided constructive suggestions for Chinese welfare state development in the 21st century. Moving forward, this study has settled a comparative reference for future study who seek to utilize invaluable sources and historical comparisons, in order to present suggestions dedicating to China's complex but unique welfare state.

References

[1] *Mares, I. (2007) The economic consequences of the welfare state. International Social Security Review, 60(2-3), 65-81.*

[2] *Duckett, J. (2012) China's 21st-century welfare reforms. Local Economy, 27(5-6), 645-650.*

[3] *Öktem, K. G. (2020) The welfare state as universal social security: A global analysis. Social Inclusion, 8(1), 103-113.*

[4] *Csaba, L. (1996) The political economy of the reform strategy: China and Eastern Europe compared. Communist Economies and Economic Transformation, 8(1), 53-65.*

[5] *Quadagno, J. (1987) Theories of the welfare state. Annual Review of Sociology, 13(1), 109-128.*

[6] *Ştefan, G. M. (2015) European Welfare State in a Historical Perspective. A Critical Review. European Journal of Interdisciplinary Studies, 7(1), 25-38.*

[7] *Duckett, J. (2003) China's social security reforms and the comparative politics of market transition. Journal of Communist Studies and Transition Politics, 19(1), 80-101.*

[8] *Mendoza, E. G., Razin, A. and Tesar, L. L. (1994) Effective tax rates in macroeconomics: Cross-country estimates of tax rates on factor incomes and consumption. Journal of Monetary Economics, 34(3), 297-323.*

[9] *McCallum, J. and Blais, A. (1987) Government, special interest groups, and economic growth. Public Choice, 54, 3-18.*

[10] *Korpi, W. (1985) Economic growth and the welfare state: leaky bucket or irrigation system? European sociological review, 1(2), 97-118.*

[11] *Hajighasemi, A., Oghazi, P., Aliyari, S. and Pashkevich, N. (2022) The impact of welfare state systems on innovation performance and competitiveness: European country clusters. Journal of Innovation and Knowledge, 7(4), 100236.*

[12] *Gough, I. (2008) European welfare states: explanations and lessons for developing countries. In Dani, A. A. and de Haan, A., Inclusive states: Social policy and structural inequalities. Washington D.C.: The World Bank.*

[13] *Walker, A. and Wong, C. K. (1996) Rethinking the western construction of the welfare state. International Journal of Health Services, 26(1), 67-92.*

[14] *Gao, Q., Yang, S. and Li, S. (2013) The Chinese welfare state in transition: 1988–2007. Journal of Social Policy, 42(4), 743-762.*