

**CHINA BREAKS “IRON RICE BOWL”
OF PUBLIC SERVICE UNITS**

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Executive Summary

1. In April 2012 the Chinese government publicized reform guidelines that will affect 40 million staff and retirees in the public service units (PSUs, *shiye danwei*) including schools, hospitals, media and museums.
2. According to the guidelines, the government classified PSUs into three categories: units with administrative functions, public service providers and commercial units. PSUs with administrative functions will be managed as part of the civil service while commercial units will be fully transformed into corporations.
3. Public service providers will continue to exist in the form of PSUs and are further sub-divided into two: Category I provides basic public services like compulsory education and public health, and Category II includes universities and specialist clinics whose services could be partially marketized.
4. The government will provide all the funding to Category I sectors, and support Category II sectors through financial subsidies and service purchase.
5. All PSUs are required to do away with the “iron rice bowl” employment concept of guaranteed lifetime employment and government-paid pensions. Employers now will have to sign contracts with employees whose pension, medical care and unemployment compensation are dependent upon the latter’s contribution to the public pension pooling instead of the government budget.
6. Education and health sectors account for more than 60% of PSU’s total employment. About 60% of China’s intellectuals are working for all sorts of PSUs, accounting for one third of the government’s total fiscal expenditure.
7. The tripartite reforms for state-owned enterprises, PSUs and the civil service constitute China’s long-term efforts to restructure its public sectors.

8. The reform is to create a less costly, but more efficient public sector, where a number of functions are being marketized or passed on to society. The public sector is becoming less egalitarian with a widening income disparity.
9. The reform does not involve a loosening of Party control over the core bureaucracy, since the Party-state has exclusively retained the “iron rice bowl” concept for its own officials to consolidate its rule.