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Transforming the Developmental Welfare State in East Asia

Edited by
Huck-ju Kwon

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Contents

List of Figures vii

List of Tables viii

Foreword by Thandika Mkandawire x

Preface and Acknowledgements xi

Notes on the Contributors xii

An Overview of the Study: The Developmental Welfare State and Policy Reforms in East Asia 1
Huck-ju Kwon

Part I The Politics of Welfare Developmentalism

1 Reform of the Developmental Welfare State in Korea: Advocacy Coalitions and Health Politics 27
Huck-ju Kwon

2 Democracy, Development and Health in Taiwan 50
Joseph Wong

3 The New Politics of the Welfare State in a Developmental Context: Explaining the 1990s Social Care Expansion in Japan 73
Ito Peng

4 Welfare Developmentalism in Singapore and Malaysia 98
Chua Beng Huat

5 The Politics of Welfare Developmentalism in Hong Kong 118
Eliza W. Y. Lee

Part II The Institutional Dynamics of Welfare Developmentalism

6 Development Strategies and Unemployment Policies in Korea 143
Ilcheong Yi and Byung-hee Lee

7 Unemployment and Policy Responses in Taiwan: Gender and Family Implications 170
Fen-ling Chen

8 One and a Half Cheers for Provident Funds in Malaysia and Singapore 191
M Ramesh

9 Social Care in Hong Kong: The Dynamics of the Welfare Mix 209
Veronica Pearson

Part III Welfare Developmentalism in Formation?

10 China's Social Policy: Reform and Development in the Context of Marketization and Globalization 231
Xinping Guan

11 Challenges of Implementing Universal Health Care in Thailand 257
Viroj Tangcharoensathien, Waranya Teokul and Lalita Chanwongpaisarn

Index 283

List of Figures

6.1	The number of craftsman trainees, by training institute, 1967–81	151
6.2	Composition of the Employment Insurance Programme, 1995	153
6.3	Expenditure on EIP, by security dimension, 1997–2001	163
7.1	Unemployment rate, Taiwan, 1966–2002	172
7.2	Increasing/declining percentage of labour participation rate, by gender, 1991–2001	176
7.3	Comparison of family expenditure, different income groups, 1990–2001	177
10.1	Pensions and medical benefits in state sectors, before and in the early stages of economic reform in China	239
10.2	Financial mechanisms of pension systems, before and after economic reform in China	243
10.3	Financial mechanisms, old and new medical insurance systems in China	244
10.4	Changes in government social expenditure: social expenditure as a percentage of GDP, 1980–2000	251
11.1	Expenditure profiles, CSMBS, 1988–2002	267
11.2	Model of health insurance system, Thailand, 2002	277

List of Tables

I.1	Key indicators in four East Asian economies, 1996–2000	10
I.2	The extension of unemployment benefits, 1997–2000	14
1.1	Selected macroeconomic indicators, Korea, 1961–95	33
1.2	Coverage of NHI, 1977–89	37
1.3	Tax returns of non-wage and salary earners, 1999	40
1.4	Changes in employment status, 1995–9	42
2.1	The timing of social welfare reform in authoritarian Taiwan, 1947–1970s	56
2.2	Three phases of health care reform, 1950s–1999	68
5.1	Public expenditure: GDP ratio, Hong Kong, 1967–2003	119
5.2	Economic growth in GDP and growth in social services expenditure, Hong Kong, 1967–2003	124
6.1	Unemployment rate, Korea, 1970–96	149
6.2	Trends in major economic and social indicators, 1996–2001	156
6.3	Expenditures and beneficiaries of unemployment benefit under the EIP, 1997–2001	158
6.4	Coverage rate by EIP, by employment status, August 2002	158
6.5	Beneficiaries of the EDP under the EIP, 1997–2001	159
6.6	Expenditures and beneficiaries of the ESP, 1997–2001	160
7.1	Statistics on approved indirect investment in China from Taiwan, 1991–2002	173
7.2	Foreign workers in the Taiwan area, 1994–2002	174
7.3	Movements of the unemployed, by gender and age	175
7.4	Source of living expenses during unemployment, 1978, 1997 and 2001	179
7.5	Important policies for unemployment, Taiwan, 1994–2003	180
7A.1	Important social and employment policy, Taiwan, 1950–2002	188
10.1	Welfare arrangements before economic reform in China	234
10.2	Government expenditure on social, cultural and educational services, as a percentage of total government expenditure, 1980–2000	251
10.3	Government expenditure on education, health and social relief and welfare, 1991–2000	253
11.1	Characteristics of health insurance and welfare schemes, Thailand, 1999	263
11.2	Population coverage and trends, 1991, 1996, 2000, 2002	266
11.3	National health expenditure profiles, Thailand, 1994–2000	266

11.4 Health spending profiles, 1996 and 1998 266
11.5 Percentage of households classified by percentage of non-food expenditure on health, 1994–2002 271
11.6 Accessibility to Low-Income Health Card and Voluntary Health Card schemes, 2000 273

Foreword

One of the greatest challenges in social development is the building of a state–society nexus that is developmental, democratic and socially inclusive. Do the developmental trajectories of countries today point to the possibility of arriving at such a socio-political structure of accumulation? What is the underlying politics behind the historical experiences that witnessed the transformation to such a state–society nexus? To answer those questions, UNRISD has carried out a research project on 'Social Policy in a Development Context', which has examined the ways in which social policy can be an instrument of economic development without compromising the intrinsic values of democracy, equity and human security. The social policy development in East Asia presents one of the most important test cases in this respect. We have known that social policies in East Asia have been instrumental for economic development as in the previous 'late industrializers'. Are they socially inclusive in the sense that all citizens have equitable entitlement so that they are able to pursue their own life goals within society? Based on studies of eight East Asian late industrializers, this volume shows that development and social inclusion can go hand-in-hand, although those countries under study tell us diverse stories. In contrast to the contention that social protection can be achieved as an after-thought, this book places great emphasis on the importance of an integrated approach to economic and social development, and it will be an important contribution to the international debate.

THANDIKA MKANDAWIRE
Director, UNRISD

Preface and Acknowledgements

This volume is one of the research outputs within the UNRISD project on 'Social Policy in a Development Context', which explores the ways in which social policy can be developmental while pursuing intrinsic goals of social protection. Thandika Mkandawire, UNRISD Director, who gave life to this research project, provided intellectual insights for this volume from the beginning. His insatiable quest for policy innovations for economic and social development in the developing countries spurred all our research. I would also express my gratitude to the Swedish International Development Agency, the UK's Department for International Development and the Ford Foundation, who provided financial support for this project together with the UNRISD core funding. I have also been fortunate to work with other Research Coordinators who have led sub-projects within the overall work: Jimi Adesina, Valentine Moghadam, Massoud Kanshenas, Manuel Riesco, Olli Kangas and Joakim Palme, Shahra Razavi, Yusuf Bangura, Maureen Mackintosh, Meri Koivusalo and Andrea Cornia. I also thank Nicolas Yates, Sarah Cook and Stein Kuhnle, who gave comments on many chapters in this volume at the workshop in Bangkok in June 2003. My thanks also go to UNRISD administrative staffs, in particular, Wendy Salvo and Jo Grin-Yates, who have provided administrative support for the project throughout. I am indebted to my Research Assistants, Justin MacDermott and Alexander Peyre: I have had to respond their critiques as well as enjoyed their research support. Amanda Watkinson at Palgrave Macmillan turned the manuscript into a book with great efficiency. I also thank my colleagues at the Department of Public Administration, Sung Kuyn Kwan University, who allowed me leave. Especially I would like to thank Sung-tae Kim, who took over the Chair at the Department when I came to Geneva. Finally, I would like to express my gratitude to the other contributors to this book. Without their professionalism and perseverance, this book could not have come to fruition.

Palais des Nations, Geneva HUCK-JU KWON

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An Overview of the Study: The Developmental Welfare State and Policy Reforms in East Asia

Huck-ju Kwon

The welfare states[1] in East Asia have undergone significant changes since the Asian economic crisis of 1997–8. New social programmes were introduced and existing ones were strengthened through reforms. In consequence, state institutions, and the welfare state in particular, play a greater role amid instability and flexibility in the globalized market. These changes seem to counter the neo-liberal argument that market-driven globalization renders the welfare state of marginal importance in economic life (e.g. Ohmae 1995; Beck 2000). Although there have been counter arguments to this assertion regarding European experience (e.g. Pierson 1998), the welfare reforms in East Asia have provided an important example that social inclusion can go hand in hand with economic development. What are the underlying dynamics of such reform, and are there policy implications in the development context? To answer these questions, UNRISD (United Nations Research Institute for Social Development) launched a research project[2] on social policy reform in East Asia, covering Korea, Taiwan, Japan, Singapore, Malaysia, Hong Kong, China and Thailand. The researchers participating in this project are equipped with first-hand experience and in-depth knowledge about the countries concerned, as well as methodological rigour. This book is an outcome of the research project and structured into three parts. Part I examines the politics of welfare developmentalism in East Asia, in which economic imperatives for reforms were transformed into social policy reform, while Part II analyses the institutional dynamics of welfare developmentalism. The chapters in Part II will show the workings of social policy programmes in East Asia and explain the link between economic policy and social policy in a development context. While Parts I and II are concerned with East Asian countries which have made good economic progress – that is, the 'Tiger' economies and Japan – Part III deals with China and Thailand, where rapid economic growth is a recent phenomenon. It seeks to find whether these countries will move closer to their East Asian neighbours in their social policy. In this Overview, I will elaborate the concept of the developmental welfare state, which is the analytical framework for this book, and explain the reform of development in East Asia through that framework, while the following chapters will analyse the politics and institutional dynamic of the developmental welfare state, by focusing on country cases.

East Asia and the two strands of welfare developmentalism

The rapid economic development of the East Asian 'Tiger' economies was due largely to the developmental state, which played a strategic role in the process of industrialization (e.g. Johnson 1982; White 1988; Woo-Cumings 1999). However, it was not just economic policy but also social policy that was institutionalized so as to be able to play a part in the overall strategy for economic development. Hort and Kuhnle (2000: 167–8) showed that East Asian countries introduced the first social security programmes at lower levels of socio-economic development than the European countries. This suggests that East Asian countries adopted social welfare programmes as policy instruments for economic development. Goodman and White (1998: 17) highlight the characteristics of the East Asian welfare states that were incorporated in the state developmental strategy: a development ideology that subordinated welfare to economic efficiency, discouraged dependence on the state, promoted private sources of welfare, and diverted the financial resources of social insurance to investment in infrastructure.

This preoccupation with economic development led to the welfare state being, in its initial phase, composed predominantly of social insurance programmes for industrial workers, in which people were required to pay contributions before having any entitlement to social benefits. As a result, only selected groups of people had access to social protection, leaving the vulnerable section of the population outside the system. To avoid a demand for universal entitlement, the state did not provide funding for the welfare programmes, but enforced the rules, formal and informal, which regulated the payment of contributions for social benefits by companies and their employees. The social insurance programmes were operated by quasi-governmental agencies, working at arm's length from the government.

Because of the selectivity of the system, the East Asian welfare state in the initial stage of development had its inevitable downside. Since social policy programmes covered mainly industrial workers, the welfare state tended to reinforce socioeconomic inequalities. Kwon (1997) pointed out that the lion's share of redistribution through social policies went to high-income earners, reflecting the fact that wage earners in large-scale businesses and state sector employees were the first group of people covered by social policy programmes. The vulnerable people in society suffered not only because of their difficult situation but were also stigmatized by being excluded from the welfare state. The government maintained a regressive welfare system and suppressed dissenting voices. These characteristics of the East Asian welfare state are well summarized by the notion of the 'developmental welfare state', where elite policy makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it and use social policy as an instrument for attaining that goal (Gough 2001).

Of course, the concept of the developmental welfare state[3] is a theoretical construct, aimed at capturing its distinctive features. The welfare states in individual East Asian countries have evolved as their socio-economic structures have changed – for example, through the process of democratization and industrialization. National health insurance in Korea, for instance, was extended to cover the entire population in 1988–9. In Taiwan, National health insurance (NHI) was introduced in 1995 with a central management system. The democratization of politics played an important part in these changes, resulting in similar but distinctive health systems in Korea and Taiwan. Singapore developed a welfare state that was anchored in a Central Provident Fund, and Malaysia introduced its New Economic Policy (NEP) in 1970, which aimed mainly to redistribute economic resources along ethnic lines while developing its own Employees' Provident Fund. Hong Kong established a similar mandatory provident scheme, in addition to the welfare programmes, predominantly based on the idea of public assistance by the state. These welfare states originated during British colonial rule and were influenced in subsequent periods by nation-building efforts. Given the fact that they took such different paths, however, the developmental aspect of these welfare states is as strong as in their counterparts in Northeast Asia. We also need to pay attention, as Peng argues in Chapter 3 in this volume, to the contention that Japan (where the developmental welfare state in East Asia took its form in the first place) has now moved somewhat away from it. Peng argues that the recent development of the Japanese welfare state cannot simply be explained by the concept of the developmental welfare state as initially conceived, even though the early period of Japanese social policy development fitted well into it. Peng applies a pluralistic political model as well as a developmentalist one in her explanation of recent welfare reform in Japan. This clearly indicates that it is necessary to elaborate further the concept of the developmental welfare state.

The developmental welfare state in the real world was sternly tested in terms of its effectiveness as a social protection system during the Asian Economic Crisis of 1997–8, which exposed its weaknesses. For example, during the crisis in Korea, one of the hardest-hit countries, it was very clear that the welfare state could not cope well with the sudden rise in unemployment, because it had been based on the assumption of full employment – and, therefore, minimal support for the unemployed. While the economy grew fast, the number of the unemployed was small, and those who were unemployed relied on their families or on their savings as a safety net. During the economic crisis, the welfare state that had focused on workers employed in the formal sectors did not help those who lost their jobs. As in Taiwan and Singapore, the public assistance programmes, which were based on a very low level of means-tested criteria, were not available to them in times of need. In response, the Korean government launched a range of temporary public works projects and extended the Employment Insurance Programme. After the worst phase of the crisis had passed, a new public assistance programme, the Minimum Living Standard Guarantee, was introduced. This programme recognized entitlement to benefits as a social right and raised the level of benefits according to the *relative concept of poverty*, which is an important departure from the earlier welfare rationale. In Taiwan, the Employment Insurance Programme, which functioned mainly as unemployment insurance, was first introduced in 1999 in response to the rise in the unemployment rate of the late 1990s. National Health Insurance, introduced in 1995, had already signalled a new direction for welfare state development, it was a universal programme, covering the entire population, and the government contributed a part of the funding not only for public employees but also for farmers and the self-employed.

Considering that the developmental welfare state is based on the idea of discouraging people from dependence on the state, while providing necessary benefits for those working in productive sectors, these welfare reforms reflect important changes. How do we explain them? Are these changes in the developmental welfare state pointing in a new direction that will lead to a different path from that of the past? Kwon (2002) has raised the question whether the welfare state in East Asia is moving beyond welfare developmentalism. Changes have taken place not only in social welfare programmes, but also in the politics of social policy. Highlighting changes in the politics of social policy in which different groups of social actors are actively engaged in social policy making, Wong (2004) uses the notion of 'mainstreaming social policy' in politics. However, Kwon and Wong both remain cautious about whether, using Titmuss' term, the clear shift to the institutional welfare state has taken place. A simple answer of 'no' to the question of this shift needs to be tentative, since there have been important changes in the developmental welfare state.

In contrast to Korea and Taiwan, the governments in Singapore, Malaysia and Hong Kong did not carry out major reforms in social policy. There has been no major reform in the Central Provident Fund in Singapore or the Employees' Provident Fund in Malaysia. Although the Mandatory Provident Fund was introduced in 2000, there was no big shake-up of the welfare state in Hong Kong. On the contrary, the Hong Kong government tried to check the expansion of the welfare state after the hand-over in 1997, as Lee and Pearson argue in Chapters 5 and 9 in this volume. The welfare state in Singapore and Hong Kong shows strong continuity. What are the underlying factors of these different responses among the East Asian countries?

To capture these changes and continuities, it is necessary to elaborate the concept of the developmental welfare state further, especially its political, economic and social aspects. It is important to recognize that the developmental use of social policy is not particularly new, and if one looks back to the history of the welfare state, two different strands of the developmental welfare state can be discerned. The most notable example is Bismarck's social policy in Germany in the 1880s (Rimlinger 1971), which sought to facilitate industrialization through social insurance programmes, and at the same time to undermine political support for the socialist movement in Prussia. Bismarckian social policy did not attach equal importance to the intrinsic goals of social policy such as human well-being, social justice and redistribution. Social policy was conceived as only instrumental to economic and political objectives. In this respect, the welfare states in East Asia before the recent reform were clearly in line with the Bismarckian concept.

There has also been another strand in the developmental use of social policy. An early example is the Scandinavian experiment with active labour market policy in the 1930s (Dahl, Dropping and Lødemel 2001). While providing income maintenance, this policy was intended to provide recipients with the necessary skills that would enable them to enter the labour market, to make their own living and subsequently to contribute to economic development. This strand of welfare developmentalism was further elaborated by the United Nations and its specialized agencies in the late 1960s and 1970s. For example, in 1966 the UN Economic and Social Council passed a resolution in which it emphasized the interrelated character of economic and social factors and the importance of incorporating social development into economic development in order to achieve a better standard of living. This resolution was developed in more detail by a group of experts on social policy. The chairman of the group was Gunnar Myrdal, who argued for a unified approach to social and economic planning in developing countries. The group criticized the tendency in economics to distinguish between economic and social phenomena, separating social development from economic development (UNDESA 1971: 4). It argued that social factors, such as excessive concentration of wealth and income, inequalities in educational opportunities and inegalitarian social and power structures, impede development and should be dealt with by social policy. In other words, *economic development requires social policy*. The experts went on to propose four principles of social policy, which could be regarded as the core of the second strand of welfare developmentalism: (1) to leave no important section of the population outside the scope of change and development; (2) to make it a principal objective to activate a wider sector of the population and to ensure its participation in development; (3) to accept and aim at social equity as being morally important, as well as a significant element in increasing long-term economic efficiency; and (4) to give high priority to the development of human potential, especially that of children, by preventing malnutrition during their early years and by providing health services and equal opportunities (UNDESA 1971: 11). Although the Nordic and Northern European countries continued their efforts, this UN initiative failed to have a significant impact on policy making in the developing countries, due to the worldwide economic recession in the 1970s. The ascendancy of neo-liberalism in the 1980s also prevented this strand of welfare developmentalism from influencing development thinking. Yet some scholars continued research on ways in which economic development and social development could go hand in hand (e.g. Midgley 1982, 1995), and some of the UN agencies such as United Nations Development Programme (UNDP) (1990) and the United Nations Research Institute for Social Development (UNRISD) (2000) attempted to reinvigorate the idea of welfare developmentalism.

The key principles of this second strand of welfare developmentalism are productivism, universal social investment and democratic governance (hereafter, 'inclusive welfare developmentalism'), while the Bismarckian strand has features of productivism, selective social investment and authoritarianism (hereafter, 'selective welfare developmentalism'). If the welfare states in East Asia fall under the selective type of the developmental welfare state, will the recent changes transform the welfare state in Korea and Taiwan into an inclusive type? Has Japan already arrived there? What are the driving forces for such a transformation, if such transformations really have taken place? What are the institutional advantages and drawbacks that the East Asian welfare states have experienced in the process of change?

Before we try to answer these questions, it is also necessary to make it clear what we mean by the 'development state', since the developmental welfare states, either selective or inclusive, are discussed in the context of the developmental state with particular attention to social policy. We define a 'developmental state' as a state that plays a strategic role in economic development with a bureaucracy that is given sufficient scope to take initiatives and operate effectively (Johnson 1999). Here, economic development is given priority over other spheres of public policy, and the national economy as a whole has priority over the comparative advantage of particular industries. This is a minimalist definition compared to the conventional one, which also carries with it a heavy load of economic, political and social implications. Although the developmental state has shown an affinity with authoritarian politics, we do not assume that the developmental state is intrinsically opposed to democracy, just as the leading commentators have never denied the possibility of democratic politics within the developmental state (White 1988, 1998; Johnson 1999).[4] We also do not assume that the welfare state within such a paradigm should be a selective one. However, our minimal definition suggests that the overarching economic goal defines the nature of the welfare state. Of course, this link is not automatic, but is intermediated by the politics of each country. The hypothesis arising from our conception of the developmental state is that once the overarching goal of economic policy is reset, other public policies, including social policy, will be readjusted in line with the new policy paradigm. In the remaining part of this Overview I will argue that the shift in the overall goal of economic policy from extensive growth based on cheap labour to economic competitiveness based on high-quality products, which was hastened by the Asian Economic Crisis, brought about new definitions of developmental social policy in Korea and Taiwan, and created enough room to accommodate political demands for greater social rights. This is an interesting contrast to Singapore and Hong Kong, where the paradigm of economic policy was not reset and the politics did not undergo major changes. This explains why the welfare states remain essentially the same as before the economic crisis in these two countries.

Changes in economic structure and redefinition of developmental social policy

Based on their data analysis of West European countries, Huber and Stephens (2001) argue that there is a clear link between the production regime and the welfare regime that a country may have developed. They also argue that countries with different production regimes tend to respond to economic challenges with different social policy reforms. Of course, the link is not automatic and depends on the intermediate political process. Such links have been equally evident in the developmental welfare state in East Asian countries, since social policy has been used as an instrument for economic development strategies. In order to highlight the developmental nature of social policy, let us for the moment focus on the developmental strategy of Korea, Taiwan, Singapore and Hong Kong. Take the example of unemployment insurance. Although it was regarded as hampering economic development in these East Asian 'Tiger' economies, it is now perceived as developmental in economies such as Korea and Taiwan now economic restructuring has taken place.

Even though the state played a strategic role in the economic development of all the East Asian economies examined in this book, the role of the state in different countries was not exactly the same. In Korea and Taiwan, the state deliberately intervened in the economic decision making of firms to facilitate industrialization of the whole economy, rather than just certain sectors with comparative advantages. Economic development in both countries was set as an overarching goal of public policy. This was related partly to the nationalist zeal of the authoritarian leaders – Park Chung-Hee in Korea and Chiang Kai-shek in Taiwan – who first embarked on the economic development plan. It is fair to say that not only these political leaders but also bureaucrats and the public in general regarded economic development as an overarching imperative in order to put their countries on an equal footing with the West (Haggard 1988). More importantly, the authoritarian governments in both countries attempted to legitimise their rule by economic development. This is why Korea and Taiwan took the road to economic development through state intervention instead of letting the market do the job.

Amsden (1989) argued that the Korean state intervened in the market mechanism and deliberately distorted market prices in order to compete internationally. This is not a unique experience in the history of economic development. What made the Korean case different was the discipline the state exercised over big business, known as the *chaebols*.[5] The Korean state imposed performance standards on private firms, and once these standards were met provided various kinds of subsidy – for example, low-interest capital – allowing businesses to enter new markets or consolidate their monopoly status. The other side of the industrial policy in Korea during the period of rapid economic growth was the harsh suppression of trade unions and labour movements. Political suppression was not, however, the only measure used to ensure industrial stability and workers' loyalty. The Park and following governments established a range of policies to enhance the welfare of industrial workers. This is why major social insurance programmes started with large-scale firms such as Industrial Accident Insurance, National Health Insurance and the National Pension Programme (Kwon 1999). A cheap but well-trained labour force was an essential requisite for the export-oriented industrialization strategy. In this context, as Yi and Lee's Chapter 6 in this volume argues, vocational training and occupational welfare programmes for workers were promoted by the state, which private firms perceived as orders rather than guidelines. These occupational welfare benefits were very often workplace-based and consequently non-transferable, so that workers' loyalty to firms was ensured.

The role of the state in Taiwan during the period of rapid economic growth is similar to that in Korea. Wade (1988) explains that the aim of government intervention was not to encourage firms to maximize profitability based on current comparative advantage, but rather to control the composition of national investment so that Taiwan could establish a flexible and integrated production structure (Wade 1988: 54). What was different in Taiwan was that the share of the large conglomerates in the economy was smaller than in Korea and such conglomerates were concentrated in the state-controlled strategic industries, such as the China Petroleum Corporation. A large share of economic production was undertaken by small- and medium-sized enterprises (SMEs). These firms were run by families: the head of the family was often the owner/manager and the other family members worked for wages (Hsiung 1996). Given the strong authoritarian state, the trade union movements were weak and not perceived by the state as a threat to the economic development plan. Labour Insurance, which was one of the first major social insurance programmes during the development period, was targeted mainly on industrial workers in large-scale firms, and the state sector workers were among those first covered by health insurance programmes. Within these overall economic strategies, social protection for vulnerable people in society was left to families. Some social insurance programmes, such as unemployment insurance, were never on the agenda, since they were perceived as discouraging the work ethic and encouraging dependence on the state. It is also important to note that women were doubly burdened in the export-oriented industrialization in both Korea and Taiwan, since they were the main providers of cheap labour for industry as well as of welfare for their families.

In Singapore and Hong Kong, social development was not a priority, and as in Taiwan and Korea it was subordinated to the overall economic development strategy. Nevertheless, their strategies were different from those pursued by Korea and Taiwan during the period of rapid economic growth. This resulted in a different structure of the welfare state. Singapore also set economic development as the overriding goal for society. Initial conditions soon after independence in 1965 were not favourable for Singapore to undertake industrialization projects because of the hostility of her neighbours, Indonesia and Malaysia (Singapore split from the Malay Federation in 1965), the multi-ethnic composition of the population and the volatility of politics. The economic strategy of the People's Action Party (PAP) was to build a sound infrastructure, to ensure workforce compliance, provide generous tax incentives and allow international capital completely to own their business operations, as Chua illustrates in Chapter 4 in this volume. In contrast to the strategy of Korea and Taiwan to build a national economy with vertical integration of industries, Singapore attempted to build an international platform for industrialization and left international capital to carry out its own business instead of giving it guidelines and punishing it if it did not follow them, as in Korea and Taiwan. The Central Provident Fund was central to this economic policy. Initially established by the British colonial government to provide lump-sum retirement pensions, it was used as an effective way of capital mobilization (see Chapter 8 by Ramesh in this volume). One of the important innovations that the Singapore government devised was to link the Central Provident Fund to housing policy. Chua explains that the Central Provident Fund was a vital part of the capital formation of Singapore through its housing programmes; improved housing conditions through the Central Provident Fund provided permanent shelter, improved sanitation and health conditions and enhanced well-being, which then led to increasing labour productivity. It is, however, important to recognize that this seemingly 'virtuous circle' was based on three very authoritarian policies: the Internal Security Act of 1958, the Land Acquisition Act of 1966, and the Industrial Relations Act of 1968. The Internal Security Act allowed the government to detain anyone it saw as opposing social stability for extendable two-year terms of detention; the Land Acquisition Act allowed the government to acquire any land it deemed necessary, which was an effective nationalization of land; and the Industrial Relations Act severely curtailed trade union movements.

Hong Kong pursued a very similar industrialization strategy to that of Singapore during the period of rapid economic growth, although the British colonial government never explicitly declared such a policy, according to Lee's Chapter 5 in this volume. In a way, it is fair to say that Hong Kong was the pioneer of industrialization strategy through the building of an international entrepôt for trade and finance with some export-oriented industries. What was different in Hong Kong was that it did not have a provident fund like Singapore. The provident funds in the British colonies were introduced as part of the decolonization process, which was why it was discussed under the last British Governor in Hong Kong, Chris Patten, towards the end of the British governance in Hong Kong. What was very similar in Hong Kong and Singapore was that housing policy was central to social policy as an instrument of economic development. The Housing Authority of the colonial government built numerous rental and home ownership estates. Hong Kong also developed comprehensive social assistance programmes, which were introduced under the auspices of the governor, David Wilson (Hong Kong Government 1991). These programmes were financed by public revenues: in other words, the state was the main provider in financing welfare programmes, which was unique among East Asian welfare states.

Despite such differences in economic strategy, these four East Asian economies were very successful during the 1970s, 1980s and the first part of the 1990s. Their developmental strategies were challenged to a great extent as these countries became exposed to global competition, as was manifested during the Asian Economic Crisis. As Table I.1 suggests, the four economies were equally influenced by the crisis, and serious economic policy rethinking took place in Korea and Taiwan, while Singapore and Hong Kong basically

Table I.1 Key indicators in four East Asian economies, 1996–2000

Country	Indicator	1996	1997	1998	1999	2000
Korea	GDP growth rate	6.7	5.0	–6.7	10.9	9.3
	Unemployment rate	2.0	2.6	6.8	6.3	4.1
Taiwan	GDP growth rate	6.1	6.7	4.6	5.4	5.9
	Unemployment rate	2.6	2.7	2.7	2.9	3.0
Singapore	GDP growth rate	7.7	8.5	–0.1	6.9	10.3
	Unemployment rate	3.0	2.4	3.2	4.6	4.4
Hong Kong	GDP growth rate	4.5	5.0	–5.3	3.0	10.5
	Unemployment rate	2.8	2.2	4.7	6.2	4.9

Source: Asian Development Bank (2002).

continued their strategy for the international entrepôt of trade and finance. Although it was inevitable that Singapore and Hong Kong would be affected by the international economic downturn, there seemed to be no other viable alternatives to the current economic strategy than trying to remain as a centre of international trade and finance, given the deepening of global economic integration. It is true that there has been a critical re-examination of the existing economic paradigm in Singapore and Hong Kong. Both countries now emphasize the importance of building a high-tech and knowledge-based economy, but such new emphasis is still in line with the existing framework of economic development. Social policy responses to the crisis in Singapore and Hong Kong were also within the selective form of the developmental welfare state. During the crisis, the Singapore government lowered the employers' contributions to the Central Provident Fund from 20 to 10 per cent, as in 1986. Hong Kong introduced the Mandatory Provident Fund in 2000, but it was a pension fund just like the Central Provident Fund. In other words, there were no fundamental changes in the developmental welfare state, although there have been attempts to reduce welfare expenditure since the crisis.

In contrast, Korea and Taiwan suffered from the structural problems behind the headline indicators. In fact, they were already identified before the Asian Economic Crisis. Korea's international competitiveness rapidly decreased during the 1990s. As Park (2001) shows, the average increase in wages was 14.3 per cent, while labour productivity increased by 10.4 per cent. As we have already pointed out, Korean firms provided various company welfare benefits to their workers in order to maintain their loyalty. Furthermore, the life-time employment and seniority-based remuneration system remained an implicit contract between employers and employees. Such company welfare benefits were arranged on the basis of low wages and weak trade unions. However, once trade unions were allowed to mobilize workers and successfully increase the level of wages from the late 1980s, the existing formula of company welfare benefits could not be sustained.

Korea's economic growth was mainly based on cheap labour costs, and the loss of international price competitiveness raised a fundamental question about the existing economic strategy and the developmental welfare state. This was also prompted by China and other East Asian developing countries encroaching on areas where Korea had traditionally been competitive. The Korean government saw that the country would need to develop a high-tech-based economy with a flexible labour market, and in 1990 launched the 'Seven-Year Development Plan for High-Tech Industry'. The aim of this plan was to bring high technology into the Korean economy and make it competitive (Ahn 1998: 134). The Korean government also put in place the institutional arrangements necessary for structural adjustment. The inevitable corollary of structural adjustment was to lay off workers and staff in sectors that were no longer competitive. The Employment Insurance

Programme, which included job-training schemes as well as unemployment benefits, was introduced in 1995. This led to a new definition of 'developmental social policy' in Korea, and a significant change in social policy: providing benefits to those who were not working and training them outside of companies. What remained essentially the same was the state's effort to utilize social policy as an instrument of economic policy. The other side of the coin was to reform the labour market so that employers could lay off their workers if necessary. This was now harder to do than before because Korea had undergone a democratization process and the bureaucrats could no longer rely on the authoritarian power of the President in passing controversial programmes through the National Assembly.

Taiwan also faced a problem of high labour costs. Before martial law was lifted, trade unions in Taiwan were controlled by the state. Once this law was lifted in 1987, trade union movements and the Taiwan Labour Front, in particular, started to mobilize workers. They demanded political freedom and higher wages, and the number of strikes increased sharply (Chen, Ko and Lawler 2003). The response from the government was to promote a capital- and skill-intensive industrial structure instead of a labour-intensive one. As in Korea, Taiwan made significant progress on this front, notably in the information technology (IT) industry. Taiwanese employers, however, also responded to the rising cost of labour in other ways. They began to move their operations to mainland China. As Chen reports in Chapter 7 in this volume, Taiwanese investment in China increased sixteen times during the period 1991–2001, due to increased capital mobility, as global economic integration deepened. For Taiwanese entrepreneurs, either in labour- or capital-intensive industry, China provided an excellent investment opportunity as both a cheap labour supplier and an enormous market. This in turn led to an increase in unemployment in Taiwan. The unemployment rate was low by international standards, but for the developmental welfare state in selective form, based on full employment without unemployment insurance, it posed a serious challenge. It also emerged that the unemployed were typically male workers from the manufacturing sectors, and that they tended to remain long-term unemployed. This suggests that the selective form of the developmental welfare state could not serve the need of the Taiwanese economy. Since the Taiwanese economy escaped the 'domino effect' of the financial crisis because of its huge foreign reserves, policy change was less dramatic than in Korea. This does not mean that changes in social policy were less significant in Taiwan, however, and it also introduced unemployment insurance with a training programme package in 1999.

Democratic politics and inclusive social policy

It would be misleading to assume that the politics of the developmental welfare state would automatically produce the public policy decisions required for economic development, particularly when it was undergoing democratization. The new understanding of 'developmental' social policy needed to find a meaning in practice through the political process. At the beginning, however, the Korean government attempted to adjust social policy according to the new set of economic goals without building broad political support. For example, in March 1997, the Kim Young-sam government passed a bill to revise the Labour Standard Law through the National Assembly behind locked doors without opposition members, which had been a typical tactic of the government to pass the bills it wanted. It aimed to reform the labour market in order to make it easier for employers to lay off workers. The opposition party, then led by Kim Dae-jung, strongly opposed the bill, as did the public. The governing party, at the last minute, halted the provision of lay-offs in the bill for two years in an effort to gain wider support. This raised serious doubts about the ability of the state to carry through its economic reform under democratic politics, which then sparked a chain reaction of the Asian Financial Crisis at the end of 1997.

The crisis produced a surprise winner in the presidential election at the end of 1997: the long-time opposition leader, Kim Dae-jung and gave the Korean government another opportunity to carry out labour market reform. In February 1998 the President-elect established a tripartite committee, the Employees–Employers–Government Committee, to forge a social consensus for reform. It is worth noting that the Korean Confederation of Trade Unions, which had been subject to harsh suppression by the government, participated in this committee, as did the Federation of Korean Trade Unions. This committee was thus able to produce a broad-based social consensus for reform (Kwon 2003). The committee agreed to the labour market reform, but also recommended that the government implement a package of social protection measures for the unemployed, later called the 'Master Plan for Tackling Unemployment'. The Master Plan included, *inter alia*, the swift extension of the Employment Insurance Programme, the implementation of public works projects, and the reinforcement of employment services (see Table I.2). The training schemes within the Employment Insurance Programme were put into full operation. Yi and Lee argue in Chapter 6 in this volume that policy emphasis shifted from *job security* to *job capability* of workers, in their recipient-centred analysis of labour market policy.

Since, unlike Korea, Taiwan was not hit by the economic crisis, the policy response was less urgent, but was built in a similar way on social consensus initiated by the new government. In 2000, the opposition candidate of the Democratic Progressive Party, Chen Shui-bian, was elected to the presidency. During the campaign, Chen had unveiled his labour policies, which departed from the traditional Kuomintang (KMT) line: further autonomy for the trade union movements; re-examination of the privatization policy

Table I.2 The extension of unemployment benefits (benefit coverage[a]), 1997–2000 (in per cent)

Country	1997	1998	1999	2000
Korea	7.8	26.34	33.1	33.3
Taiwan	n.a.	n.a.	13.9	35.9

Notes:
[a] Benefit coverage refers to proportion of people receiving unemployment benefits among the unemployed.
n.a. = not applicable.
Sources: *Korea Statistical Yearbook and Employment Insurance Review*; *Statistical Yearbook of the Republic of China and Council of Labour Affairs*, http://dbsi.cla.tw/stat/.

of state-owned enterprises (SOEs); and labour–management conferences (Chen, Ko and Lawler 2003). After the election, the Democratic Progressive Party (DPP) government convened the first 'National Economic Development and Consultation Conference' in 2001. The conference agreed to reform the three basic labour laws, which are under review at the time of writing (Lin 2003). After this conference, the Employment Insurance Programme integrated the existing, but fragmented, unemployment benefit and training schemes in 2003. In a nutshell, the unemployment insurance programme, the last programme the developmental welfare state would consider for introduction because of its possible disincentive effects, became a centrepiece of the system in the newly defined 'developmental' welfare state in Korea and Taiwan.

Although a shift in economic strategy in Korea and Taiwan brought about the new understanding of 'developmental' social policy, it was not the whole story. Under the politics of democratization, there emerged *advocacy coalitions* who pressed their agenda for an inclusive social policy. It is also important to note that these new advocacy coalitions did not suddenly take on social policy as the opportunities arose. For many years there had existed advocacy coalitions that had pursued change in the developmental welfare state in Korea and Taiwan. Their roles in social policy making have often been mentioned in passing in the existing literature on comparative social policy, since these actors often failed to achieve their policy outcomes under authoritarian politics. At first, these advocacy coalitions did not have a very clear idea about inclusive social policy or a coherent political strategy to be able to pursue policy outcomes. Kwon's Chapter 1 in this volume explains that in Korea the advocacy coalition for an inclusive health insurance system did not have a clear logic about social justice, and argues that they had to compromise their positions under the authoritarian politics from the early 1960s until the late 1980s. Their first serious attempt (in 1988) to integrate the health care system, which would have included the self-employed and farmers under one national health insurance, failed because President Roh vetoed the integration bill initiated by the opposition party. As the advocacy coalition, which initially comprised only policy experts and academics, extended their network to the grassroots civil societies, bureaucrats and politicians, their ideas and political strategy became more coherent. In 1998, when the Kim Dae-jung government came to power, this group successfully seized key positions in the government and were able to integrate National Health Insurance in Korea in 2000. Nevertheless, integration reform was not a clear-cut victory for the advocacy coalition, since the financial integration was not completed, while the administration side was. This was partly due to the antiquated tax system and strong objections from the opposition party in the National Assembly.

Another major breakthrough towards an inclusive social policy was also made by basically the same advocacy coalition: the reform of the public assistance programme. During the Asian Economic Crisis, the existing public assistance programme, based on a strict means-test idea, did not help the poor. The advocacy coalition was able to introduce the Minimum Living Standard Guarantee, which recognized the right of every citizen to a decent living as a social right. It abolished the so-called 'family test' to provide cash benefits to those who had non-poor family members and increased the level of benefits based on the concept of relative poverty (Kwon 2003). It is worth noting that the reform of the programme was also part of Kim Dae-jung's political strategy to win a majority in the National Assembly in the 2000 general election. The new public assistance programme also includes a range of workfare and training programmes as well as cash benefits. The catchword, 'productive welfare state', used by the Kim Dae-jung government in the general election (Presidential Office 2000), summarized the nature of welfare reform after the Asian Economic Crisis.

National Health Insurance was also an important part of the democratization process in Taiwan. Once *Tangwai* (meaning 'outside the party') was allowed to form a political party (the DPP) in 1986, it fought elections (initially only local elections) on a platform of democratization, 'Taiwanization' and social welfare (Lu 1992). In fact the DPP's social policy manifestos turned out to be more effective than those of 'Taiwanization' in local elections, as some DPP candidates were successful with a policy for old-age allowances. It was also true that a majority of the Taiwanese wanted to avoid the issue of 'Taiwanization' because of military intimidation from Beijing. In this context, the KMT, the then governing party, decided to introduce National Health Insurance (NHI) in 1995, five years earlier than planned. Before the introduction of the universal health insurance programme, only public sector employees, school teachers and employees in large-scale firms were covered by the various social insurance programmes. Farmers had their own health insurance from 1989, but the majority of the population was not covered by any public health insurance. As the DPP began to address the issue, the KMT had no choice other than to introduce NHI (Hwang 1995), which covered the whole population, with the government providing funding for the self-employed, informal sector workers and farmers. This was an important departure from the selective form of the developmental welfare state in Taiwan. Nevertheless, the KMT government placed an important conditionality on the new NHI: the government was required to review the administrative and financing arrangements within five years after its introduction (Ku 1998). In particular, a multiple-carrier system was to be considered against the existing single-carrier system.

The KMT government started to prepare the NHI reform as early as in 1997. The Department of Health drew up a policy draft for a health system of multiple insurance carriers. The proposal failed to go through the legislative process in 1999, contrary to the KMT government's intention, partly due to the factional split of the KMT in the run-up to the Presidential election. Wong's Chapter 2 in this volume also points out that the citizens' advocacy coalition, the 'NHI coalition', was an active player in the efforts to resist reform, successfully arguing that multi-insurance carrier reform would return NHI to a selective and fragmented system.

While the democratic politics in Korea and Taiwan accommodated new 'developmental' social policies and initiated a universal health care system, politics in Singapore and Hong Kong were relatively stable. Whether Singapore's 'guided' democracy is democratic or not has been a controversial issue for some time. Nevertheless it is important to recognize that the Singapore government has enjoyed what Chua calls 'performance legitimacy' from the population (see Chapter 4 in this volume). Despite the hand-over of sovereignty to China in 1997, Hong Kong's politics remains 'absorbed by administration', with the exception of the period in which Chris Patten attempted to introduce a quasi-democratization process before the hand-over. Given this political stability, and since there has been no major shift in economic strategy in Singapore and Hong Kong, it was not necessary to change an economic and social policy paradigm that had proved to be successful in achieving its aims: a platform for a global city of trade and finance, as Ramesh explains in Chapter 8 in this volume. It is worth noting recent protest over the introduction of an anti-subversion law in Hong Kong that showed a growing pressure for democratization of politics, but it is not very clear whether this will lead to a significant democratic reform. It is also worth noting that the overall size of the welfare state has grown in response to structural factors such as the ageing of the population in Hong Kong and Singapore.

Varieties of developmental welfare states in East Asia

Even though the 'Tiger' economies in East Asia share the characteristics of the developmental welfare state, there are differences in the structure of their welfare state. We have also argued that their social reforms in response to the Asian Economic Crisis were different. Korea and Taiwan moved toward the inclusive type of the developmental state while Singapore and Hong Kong maintained the main characteristics of their selective welfare states. This book attempts to explain such differences based on the theoretical propositions derived from the concept of the developmental welfare state: instrumentality of social policy for economic development and realization of policy changes through the democratization of politics. To what extent can we explain the social reforms in other East Asian welfare states, such as Japan and Malaysia? Will the emerging welfare states in China and Thailand be similar to those of their neighbours?

As Peng argues in Chapter 3 in this volume, the developmentalist perspective has its limitations in explaining the welfare reforms in Japan regarding long-term care insurance and new child care programmes. She goes on to explain these changes from a pluralistic model. Peng places emphasis on the role of civil society groups, and argues that the welfare state in Japan has become more inclusive as a result. It is an interesting observation concerning Japan, where the developmental welfare state first took shape. The state, not to mention the Ministry of Finance, does not dominate policy making as it used to, and social policy is no longer solely based on the paradigm of the 'economy first'. To be sure, the welfare state in Japan has become comprehensive and the developmental features are not so predominant. However, the proposition of the instrumentality of social policy for economic policy is still valid if one pays careful attention to the underlying rationale of social policy reform in Japan. The reason why fertility decline and rapid ageing in Japan were perceived as shocks to the nation, as Peng explains in Chapter 3, is strongly related to developmental thinking. Japan cannot compete with a rapidly declining working population (Ministry of Finance 1986). To tackle this issue, it was necessary to attend to the needs of women who had been doubly burdened by family care and work, since at the centre of the fertility decline and rapid ageing was women's response to paternalistic developmental social policy. Long-term care insurance and new child care programmes were the policy responses, but as Peng argues, civil society groups played an active role in the social policy reform process as the domination of the Liberal Democratic Party (LDP) gave way to more contested politics. The welfare state in Japan became more inclusive and its developmental features less prominent. The contention is that the welfare state in Japan has become an inclusive type of developmental welfare state as social protection has become more inclusive and social groups of women and the elderly begun to play an active role. However, to be able to confirm such a contention, it is necessary to develop a set of quantitative criteria that can clearly demarcate the selective and inclusive forms of the developmental welfare state. This has not been addressed in this book, and future research should tackle such an empirical challenge.

Malaysia adds an important variation to the developmental welfare state. The historical background and institutional configuration of the welfare state in Malaysia parallels those in Singapore. Malaysia also adopted a similar developmental strategy, although Singapore made earlier headway in their economic development. Because of such similarities, this volume placed Singapore and Malaysia together in Chapters 4 and 8 to distil subtle differences from similarities within the overall framework of the book. However, the policy regime called the New Economic Policy (NEP) in Malaysia is unique, not only in comparison with Singapore but also in the context of East Asia as a whole. It was introduced in 1970 (after the race riots in the previous year) in order to raise the Malays' share of domestic capital to about 30 per cent, and it redistributed share ownership and education opportunities in favour of the Malay population. Although it has been linked with some incidences of corruption and caused Chinese resentment, it did not cause unbearable burden to non-Malay communities since it was implemented when Malaysia was experiencing extraordinary economic growth, (see Chua's Chapter 4 in this volume). This redistributive policy was not related so much to economic development as to the political and racial context, which was at odds with the hypothesis of the developmental welfare state. It is true that the NEP as a social policy is unique in East Asia, but one also needs to remember that other East Asian countries (such as Korea and Taiwan) carried out land reform soon after the end of the Second World War, the aim of which was redistribution of land, the main source of wealth that time. This raises the theoretical question as to whether relatively equal income distribution is necessary for the state to pursue a developmentalist economic strategy with an instrumental social policy. We shall leave this question for future research.

With respect to China and Thailand, it could be unjustifiable simply to consider their emerging welfare state as examples of the developmental welfare state. Instead of making a premature judgement, Part III of this book examines the ongoing reform process. Chapters 10 and 11 show clear contrast in the direction of reform in China and Thailand. According to Guan's Chapter 10, social policy reform in China has two overarching concerns: reorganizing the welfare system in order to facilitate marketization of economy and preserving the stability of the prevailing political order. This clearly follows the logic of the selective strand of the developmental welfare state. As Guan shows, such policy orientation has resulted in a dual system of social policy: urban and rural welfare systems. This dual system seems to be unable to reduce the growing inequality, even if it does not worsen it. It is also worth noting that the emerging social programmes in China are based on the social insurance model, closer to the Northeast Asian economies such as Japan, Korea and Taiwan, rather than on the provident model of Southeast Asia, such as Singapore and Malaysia.

In contrast, Thailand achieved a universal health insurance system to which all Thai people have access, as explained in Chapter 11 by Tangcharoensathien, Teokul and Chanwongpaisarn. The Thai health system comprises three main insurance programmes. Public employees were covered by the Civil Servant Medical Benefit Schemes after 1978, while the Social Security Scheme provided health care to formal sector employees after 1990. These relatively well-off people were first protected by the public health insurance schemes while people without formal employers were ignored. After exploring a couple of health care programmes for low-income people, Thailand innovated a so-called '30 Bahts' system, in which people pay the flat rate of 30 Bahts when they visit clinics and hospitals. The system covers people other than public employees and formal sector workers, and universal coverage of health insurance was achieved in 2002. As Tangcharoensathien, Teokul and Chanwongpaisarn point out in their chapter this coverage was achieved in the wake of the Asian Economic Crisis in which Thailand was the first to be hit. The Thai Rak Thai Party was able to win a landslide victory, mainly due to its commitment to universal coverage of health insurance. The Thai experience does not fit the perspective of the developmental welfare state, since economic development has not been a main consideration. At the same, it is necessary to follow where the development of social policy in Thailand is going, since the Thai system has not instituted a comprehensive system of social policy.

Concluding remarks

This book will examine the politics of the developmental welfare state and its institutional dynamics in depth, focusing on individual countries. This introduction has attempted to distil the close link between social policy and economic development in East Asia by applying the concept of the developmental welfare state. In particular, it has argued that the recent reform in Korea and Taiwan was mainly due to a shift in the overall goal of economic policy from extensive economic growth to economic competitiveness based on technology, triggered by the Asian Economic Crisis. In consequence, the developmental welfare state in these two countries has moved towards the inclusive type of developmental welfare state, although it falls far short of those in the Scandinavian countries. In contrast, the welfare states in Singapore and Hong Kong (and to a large extent Malaysia) remained largely unchanged, the paradigm of economic policy was not reset and the political structure was unchanged. Instead of resorting to the deterministic explanation, I have explained how the political dynamics of each countries intermediated policy reforms. The politics of democratization (or lack of it) was salient in realizing economic imperatives in social policy. The role of civil society groups and their advocacy coalitions played a crucial role in the process of policy reform.

This overview has also shown that there are varieties of the developmental welfare state in East Asia, and that these varieties are not at times easily explained by the developmental welfare state. Has Japan graduated from the selective developmental welfare state? To be able to answer this question, as we have pointed out, it is necessary to develop a set of quantitative criteria determining the difference between the selective and inclusive forms of the developmental welfare state. Will China and Thailand be next candidates for the developmental state? Instead of making a snap judgement, it will be necessary to follow further developments in these countries. The concept of developmental welfare state should provide useful insights.

In the wider context of economic and social development, recent experiences in East Asia, in particular, those of Korea and Taiwan, counter the assertion that social protection should come as an afterthought of economic development. Moving to the more socially inclusive welfare states helped these two countries to emerge from the economic crisis without many adverse social effects such as a sharp rise of poverty or a serious worsening of income inequality. It will be useful for the development debate if the idea of the developmental welfare state is explored in the context of other developing countries in contrast to the contention that considerations for social protection should only come after concerns of economic development. In terms of policy implications, in addition to inclusive welfare reform after the economic crisis it is instructive to emphasize that Korea and Taiwan had developed social policy institutions in an incremental fashion for quite some time, which proved to be a basis for the inclusive reforms, and that those social forces which had been frustrated persevered in pursuing their social agenda.

Of course, not everything is rosy in East Asia. Levels of unemployment remain relatively high compared to those in the past, and governments have struggled to finance welfare states following expansion of the programmes. Nevertheless, considering that economic development has been set as a trade-off with social protection and democracy in the development context, the East Asian experiences show that it is possible to make simultaneous progress towards democracy, economic development and social inclusion.

Notes

1. The 'welfare state' refers here to the set of social policies and institutions that aim to protect citizens from social contingencies, poverty and illness, but it does not necessarily mean that the optimum level of well-being of citizens is achieved nor that all citizens have access to social benefits.
2. This project is part of the UNRISD project on 'Social Policy in a Development Context', which comprises four thematic sub-projects, and five region-centred sub-projects.The former includes projects on 'Gender and Social Policy in a Development Context', 'Commercialization of Health Care', 'Pro-Poor Macroeconomics and Social Policy' and 'Democratization and Social Policy'. The latter are concerned with the historical trajectories of social policy in 'late industrializers' in sub-Saharan

Africa, the Nordic countries, the Middle East and North Africa, East Asia and Latin America. The research outcome of these projects will be published in the current series.

3. In a similar vein, Holliday (2000) uses the term 'productivist welfare regimes' when he argues that the East Asian welfare regimes constitute a fourth welfare regime. This chapter uses the concept of the 'developmental welfare state' partly because it allows us to examine the political, economic and social context of the welfare state in East Asia and partly because it enable us to draw on the rich literature of development studies that has elaborated the concept of the developmental state.
4. White (1998) points out the socioeconomic conditions that are conducive to democracy in the developmental state: a higher level of socioeconomic development, a relatively homogeneous population, a strong sense of national identity, a cohesive social structure, a society lacking in gross inequalities, a vibrant civil society and a well-developed political party system (White 1998: 45–6).
5. A *chaebol* is a large business conglomerate, usually based on a single family having controlling interests in a variety companies, similar to the Japanese *zaibatsu*.

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Part I

The Politics of Welfare Developmentalism

1

Reform of the Developmental Welfare State in Korea: Advocacy Coalitions and Health Politics

Huck-ju Kwon

Introduction

The welfare state in Korea has undergone a significant transformation since the Asian Economic Crisis in 1997–8. Before the social policy reform after 1997, the characteristics of the Korean welfare state could be well described as a 'developmental welfare state in a selective form'. Social policy was used as an instrument of economic policy (productivist), the welfare programmes were structured in such a way that risk-pooling was narrow within particular social categories (selective) and the major social policy initiatives were motivated by political justification of an authoritarian regime (authoritarian). The recent social policy reforms were carried out in order to change the welfare state in the latter two dimensions, while maintaining a productivist orientation. As we shall discuss, the separate health funds under National Health Insurance (NHI) were integrated into one administrative authority which operates two national funds. The integration will make the NHI universal in terms of insuring all citizens with different income levels and risk probabilities with two national risk-pools (universal). Employment Insurance was also extended to workplaces with one or more regular employees,[1] and the National Pension Programme to the self-employed. The Minimum Living Standard Guarantee (MLSG) introduced in 2000 is set to give benefits as a social right to those with income below the poverty line without a prior family and demographic test.[2] These reform initiatives were undertaken by the government that came to power by winning a democratic election as an opposition party, with a broad-based social consensus in the wake of the economic crisis of 1997–8 (democratic) (Kuhnle 2001).

From this observation a question immediately arises about the welfare reform: has the Korean welfare state moved from a selective to an inclusive developmental welfare state? It is one thing to introduce programmes with certain aims, but achieving policy goals is another. For instance, social insurance programmes such as the Employment Insurance Programme and the National Pension Programme cover virtually all regular employees, but are able to cover only half of temporary workers (Kim 2001), although these programmes were intended to cover them all. The NHI, which has achieved the goal of universal coverage, is still the exception rather the norm. It is still far too early to assess the claim that the Korean welfare state is truly universal. More relevant questions to ask at this juncture would be about the rationale for the reform: what is the political dynamics underlying the new direction of the welfare state? Are those reforms really aimed at creating a developmental welfare state of an inclusive nature? What compromises have been made? These are the questions this chapter seeks to answer through the *advocacy coalition approach*. The advocacy coalition approach is particularly useful in examining the political actors across the state and non-state institutions, who pursue certain policy outcomes. An 'advocacy coalition' refers to a group of political actors from various public and private organizations who share a set of beliefs and who seek to realize their common goals over time (Sabatier 1986). Of course, an advocacy coalition cannot spring up simply because some political actors, policy experts and concerned citizens share a belief system and policy goals. An advocacy coalition needs a close, though informal, network of contact, cooperation and organizational structure. More than one advocacy coalition normally competes with each other over policy outcomes on important issues, and they pursue their goals against a background of political institutions, some taking advantage of them and others having difficulties. The extent to which advocacy coalitions are able to influence policy decisions is often dependent on their institutional strength as well as the soundness of their arguments, and it often takes some length of time to develop an effective political strategy that can help it to advance its policy goals within the existing institutional dynamics (Sabatier and Jenkins-Smith 1993: 17). Moreover, the policy paradigms that guide advocacy coalitions in their policy orientation are not always coherent. People involved in policy debates often learn from such experience and sometimes modify their views in the historical process. It is therefore necessary to follow a succession of debates instead of concentrating on one big moment in order to understand how incremental policy changes can come about.

In this chapter, I will investigate the policy debates over the NHI at four discrete points in time since the 1960s, with special attention to the financing arrangements of the programme. The financing of the NHI has been the most important and recurrent subject of debate, and the tension over the paradigm of the welfare state has been strongly reflected in them. In fact, the health insurance reform in 2000 that integrated the fragmented health funds within the NHI was an important *volte-face* in the social policy paradigm after a long period of an 'economy-first' approach. The integration reform, as will be explained, aimed not only at widening the risk pool of health insurance but also at enhancing *equity* by redistributing financial responsibility for the

NHI. This reform was not an isolated policy change but an important social policy initiative, one of a series including the introduction of the MLSG in 2000, and the extension of the Employment Insurance Programme in 1998–9, which all placed new emphasis on social rights while maintaining a productivist orientation of social policy. The integration reform had been on the agenda since the 1960s, but was carried out only by social policy reform after the Asian Economic Crisis (1997–8). Why was the integration reform overlooked for such a long time, and how was it adopted in the wake of the Asian Economic Crisis? This chapter will examine the debates over the NHI at four discrete points in time to analyse how advocacy coalitions developed their arguments on health policy and elaborated their political strategies within the institutional dynamics of Korean politics. This chapter will argue that the new thrust of the welfare state since the Asian Economic Crisis stemmed from the political evolution of the advocacy coalition, which had striven for an inclusive welfare state after a frustrating experience of failures in the preceding period.

The analysis of the advocacy coalition will be an important contribution to the study of social policy for two reasons. First, it is an attempt to shed light on the advocacy coalition for the inclusive welfare state which has been not been as well examined as it should have been, partly because the coalition has often failed to produce the policy programmes that they wanted. In previous studies on the politics of social policy in Korea, the analytical focus was placed on the top decision makers who made effective policy decisions. These studies showed that social policy was used as a justification for authoritarian politics and an instrument of economic policy (Kwon 1998; Gough 2001). However, there have been policy paradigms other than the 'economy-first' one. In particular, the paradigm of the inclusive welfare state provided policy guidelines for the advocacy coalition. Of course, its ideas and political strategy were not coherent in the beginning, policy debates were not conducted on an equal footing under the authoritarian regime, and this is why policy paradigms other than the official government line were not as well analysed as they should have been. This chapter will analyse the evolution of the advocacy coalition, following the policy debates between the competing policy paradigms in the context of the politics in which they unfolded, and paying particular attention to the advocacy coalition which presented different views from the predominant ones. This examination will lead us to understand how Korea was able to respond with a new thrust of welfare policy to the Asian Economic Crisis.

Secondly, this chapter seeks to bring *historical perspectives* to the globalization and social policy discourse with respect to Korea. Those who emphasize the neo-liberal nature of globalization argue that market-driven global convergence renders the institutions of the state of marginal importance in economic life (Ohmae 1995). The increasing power of multinational corporations (MNCs) who want the cheapest fiscal conditions and the most favourable infrastructure is a driving force of such convergence (Beck 2000). In this process, the welfare state can become a major victim, facing inevitable decline in terms of expenditure and programmes. In contrast to this strong interpretation of globalization, a more realistic view argues that state institutions – and the welfare state, in particular – work as a shock absorber amid instability and flexibility in a globalized market. For example, Rodrik (1998) argues that there is a positive correlation between social expenditure ratios and the openness of the market. The Korean experience after the Asian Economic Crisis is often referred to here (Deacon 2002). Even in this strand of thinking, there is a deterministic tone of explanation that does not give a full account of how countries like Korea came up with policy choices aiming to strengthen social policy institutions. If one looks at the past experiences of responses to macroeconomic shocks that were strongly related to the international economy, these policy responses were more like neo-liberal structural adjustments, and strengthening the welfare state was not a norm. Many Latin American countries in the 1970s returned to authoritarian politics to contain popular demand instead of adopting welfare policies when they faced economic crisis (Stallings 1999). Some European countries, such as the UK, implemented austerity policies when they were faced with economic recessions in the 1970s and 1980s. Why Korea responded to the Asian Economic Crisis – a clear manifestation of globalization challenges – with strong social policy initiatives needs close examination. This chapter will seek to answer the question by analysing the political interactions among political forces with different views on social policy.

Applying the advocacy coalition approach to explain policy changes requires a certain amount of caution. Middle-range theories such as the advocacy coalition approach can explain policy changes at a certain point in time, but these changes take place against the background of structural conditions, such as the level of industrialization, unionization of workers, the degree of openness in trade, the population structure and the political structure of the country. As the literature of social policy has demonstrated, these structural factors strongly influence the development of social policy over the long term. It would be easy to attribute policy changes that take place at certain points in time to certain advocacy coalitions who have argued for such change. In many cases, however, *structural factors* had already set the conditions for such changes, which can be seen as the given conditions if one deals only with the question in a shorter span of time, since the structural influence on policy changes takes place in the longer term. This does not suggest that the structural factors overdetermine policy trajectories; they rather create the *policy space* which opens a possibility for a range of policy trajectories. Middle-range theories like the advocacy coalition approach can explain why one policy trajectory was chosen rather than another. In order to take structural influences into account, this chapter will pay due attention to the different structural conditions in examining four policy debates over the NHI.

Advocacy coalitions and the politics of national health insurance

The NHI is one of the main contours of the Korean welfare state. It was introduced in 1977 and extended to cover the whole population in 1988–9. The history of NHI in fact goes back to 1962 when it was first considered by the military government. In 2000, the fragmented health funds within the NHI were integrated into the National Health Insurance Corporation as a single insurer. Financing was divided into two separate accounts according to job categories: salaried employees in the public and private sectors and residence-based members who do not have employers to pay for half of their contributions for the NHI. These accounts maintained separate finance flows: revenue from contributions and expenditure on health care payment are operated separately. Under the current structure, citizens pay their contributions as employees or residence-based members to the NHI and hospitals and clinics treat their patients and reimburse the cost on a fee-for-service basis.

Before the reform in 2000, separate health funds under the NHI umbrella operated health insurance for their own members. The main topic of the policy debates was the integration of these separate funds into one national fund. Policy debates on the NHI had taken place since the 1960s, but there were a number of occasions which had had more significant implications for policy change than others. This section will focus on four policy debates at discrete points of time under different structural conditions. This will allow us to analyse the critical discussions in terms of the evolution of advocacy coalitions, which in turn will lead us to explain the policy changes in the wake of the Asian Economic Crisis. We will discuss two debates under the authoritarian government and two cases after democratization.

Health politics under authoritarian industrialization

The first debate

The NHI was first considered in the early 1960s just after the military *coup d'état* of 1961. The military government announced its intention to introduce social programmes at a news conference in January 1962. This announcement was an effort to appeal directly to people with substantial policy ideas after the military government had consolidated its power structure during its first six months in power. The task of preparing a policy programme went to the Committee for Social Security (CSS) (Ministry of Labour 1981: 25). In fact, the CSS gained official status within the Ministry of Health and Social Affairs after this task was assigned to it. Before that time, it had been a private study group of people including bureaucrats from the Ministry of

Health and Social Affairs, doctors and academics who were concerned with social policy. Because this group had a meeting every Wednesday, the members called themselves the 'Wednesday Group'. The group produced several pamphlets, most of which outlined social welfare programmes and identified possible obstacles to introducing such programmes (Choe 1991: 17). The CSS had a number of ingredients for a successful advocacy coalition to achieve its policy goals. It included people with expertise on social policy, which was rarely found at that time in Korea. It also gained official status within the government, which positioned it near to the centre of the decision making process. There was no lack of enthusiasm among the members of the CSS for introducing social policy programmes. The CSS organized its efforts into two strands of research after the chairman of the Health and Social Affairs Committee of the military government requested it to design social programmes related to health care and workers' safety (Seo 1962). One of the research teams (the Labour Section), therefore, studied various social insurance programmes that would benefit workers. Its focus was on two policy options: an unemployment programme and an industrial accident programme. Eventually the Labour Section decided to recommend the military government to introduce an industrial accident insurance programme. The Health Care Section, which was responsible for health care policy within the CSS, conducted a survey of 500 residents in Seoul to study health conditions and behaviour (Choe 1991). The findings of the survey showed that low-income households did not have access to the hospitals they needed for economic reasons. They mostly relied on medicines purchased at pharmacies. The Health Care Section concluded that a health care programme was necessary to protect the health of citizens, in particular those from low-income families. Despite such a conclusion, they could not recommend a health care programme for the poor since they could not find a funding mechanism for it. Instead, the Health Care Section recommended a health insurance programme that would cover only employees in workplaces with 500 workers or more. One of the CSS experts later explained that the financial feasibility of the programme was taken more seriously than the equity concern. In consequence, the Health Care Section came up with a proposal for an insurance programme under which employees and employers would pay contributions to a fund that, in turn, would pay hospitals and clinics for their health services. There was no provision for government funding for those who could not pay contributions. In this proposal, they were simply left out and no debate over equity took place. It seems that the debate was internalized in the mind of experts. As Mills explained (Mills 1985), it was not a unique case since the health insurance programme in many developing countries often started with those who could afford it rather than those who needed it most.

The CSS' recommendations went to the Supreme Council for National Reconstruction, the highest decision making body under the military

Table 1.1 Selected macroeconomic indicators, Korea, 1961–95

Indicator	**1961**	**1976**	**1986**	**1995**
GNP *per capita* ($US)	82	650	2,023	10,076
Volume of international trade ($US bn)	4.99	162.3	662.9	2,601
Proportion of agricultural population (%)	56.9	35.7	19.8	11.5

Source: National Statistical Office (1995).

government. The recommendation for industrial accident insurance came through without much difficulty, since the military government was about to embark on an ambitious first Five-Year Economic Plan for industrialization. In contrast, the health insurance proposal faced serious opposition, in particular from the Secretary of the Vice-Chairmen of the Supreme Council. The argument against the recommendation was that it would be difficult to impose another financial burden on top of taxation. The proposal for health insurance was perceived as too idealistic, and in the end only the National Health Insurance law was passed without any plan for implementation. Instead, the Supreme Council decided to launch a pilot programme in two workplaces, even where the pilot programme was introduced, it was on a voluntary basis, which hampered any long-term success.

The CSS' failure with the introduction of health insurance was clearly related to its lack of the critical qualities required for a successful advocacy coalition. Although it had policy expertise and access to decision making, it did not have a network of supporters that might have aligned with them when faced with opposition. More importantly, however, the CSS did not have room to manoeuvre since the highly disciplined institutional hierarchy under the military government did not allow voices other than official ones. Given those constraints, it is also important to note that the CSS had compromised its position even at the proposal stage. The CSS was concerned with equity in health, but it did not pursue the issue and the CSS was perceived by the top decision makers of the military government as a group of idealists concerned mainly with equity. We need to put these positions into perspective in terms of the level of economic development in Korea. Table 1.1 shows that Korea in the early 1960s was a very poor country where policy options were inevitably limited for both policy makers and experts. What is important in this first debate on health policy is that it gave rise to an advocacy coalition who could participate in the following debates. It is also worth noting that health insurance was not perceived as developmental, in contrast to Industrial Accident Insurance, at this time.

The second debate

In 1971 the Park government created a government think-tank, the Korea Development Institute (KDI). Its aim was to conduct research on policy issues concerning the overall national economy and to design the nation's Five-Year Economic Plan. It was President Park's personal creation, in an effort to boost economic development. In 1972, the Constitution was changed in order to guarantee the life-time presidency of President Park, and a good performance in the economy was ever more important to justify the authoritarian regime.[3] Economic development became the overall paradigm for policy decisions, within this framework, the KDI took responsibility for health policy research and recommendations. In 1976, it formed a Health Policy Unit comprising experts from the KDI and officials from the Ministry of Health and Social Affairs and the Economic Planning Board to prepare a proposal for health insurance policy. The Ministry of Health and Social Affairs and the KDI had also previously considered such an idea (Sin 1976), but the idea of the introduction of health insurance was boosted by the conditionality of the US loan to Korea in 1975. The main preoccupation of the KDI in its preparation of the proposals was that they should be in line with the overall economic plan. In the end, the Health Policy Unit recommended a health insurance programme covering employees of the workplaces with more than 500 people, almost the same as that which the CSS had previously recommended. This time, however, national health insurance for workers in large-scale companies was perceived as an instrument for economic policy. Equity in general, and health protection for low-income households in particular, was not on the agenda. Rather, it was intended to extend health insurance in an incremental manner for eventual coverage of the entire population (Sin 1976). Medical assistance for extremely poor households was introduced within the public assistance programme in 1979. In 1977, compulsory health insurance for large-scale companies implemented and a separate health insurance fund was launched for public sector employees under the same law in 1979.

Within the NHI umbrella, separate health funds were set up, based on the workplaces. Employers and employees contributed to their own separate funds, these funds then paid hospitals for the treatment of their members through the national coordination agency, but there was no mechanism for financial transfers between health insurance funds within the NHI. There was no subvention from the government to health funds, except for administrative costs at the initial stage. This structure was convenient for the expansion of the programme because a new expansion would not disturb the existing financing arrangement. However, it became clear that it would be difficult for the programme with such a structure to be extended to those without employers, such as farmers, self-employed people and urban informal sector workers.

A significant debate took place in 1980 when the Ministry of Health and Social Affairs (MoHS) launched a plan to integrate the health insurance funds of private sector employees with those of public sector employees as a part of long-term strategy for the universal NHI coverage. The MoHS wanted to integrate separately managed health funds into one insurer for administration and financing, seen as essential for the extension of the programme to the entire population. This plan was prepared by the CSS and was supported by key officials within the MoHS, the minister for the MoHS was convinced that the plan should go ahead.

It is worth explaining here the political background of this proposal. In 1979, when the Korean economy experienced a deep downturn, popular protest over the regime emerged to threaten the authoritarian order. In October, President Park was murdered by the chief of his intelligence agency during a private meeting with key intelligence people to discuss their response to the unrest. Amid political uncertainty, General Chun staged a *coup d'état*, arresting leading politicians and quelling civil protests, leaving hundreds of dead in the southern city of Kawnagju. Chun was elected President by the rubber-stamp electoral college established by President Park and his military council launched a manifesto that placed social justice and social welfare at the top of the agenda during the election period. However, once in government, convinced by the bureaucrats in the economy ministries, Chun adopted a stabilization policy, which became an overall policy paradigm of the government (Haggard and Moon 1990). In fact, Chun adopted the same political strategy as Park had: legitimacy through economic performance. This time, it was *economic stabilization* instead of economic growth that was set as an overall policy goal. Policies for social justice and social welfare were seen as incompatible with stabilization policy. Of course, the government did not publicly admit their U-turn.

Partly because of misreading the policy agenda of the government, and partly from the administrative necessity to integrate the fragmented health funds within the NHI, the minister and bureaucrats of the MoHS and the CSS went ahead with the plan for integration of health funds and then asked the approval of the President. The plan was reviewed by the policy staffs at the Presidential Office and they recommended that it should be returned to the Ministry for further research – effectively, a rejection of the proposal. The brief by the policy advisers of the President referred to the four reasons for the rejection (Kim 1992: 59):

(1) Integration of health insurance funds would lead to a situation in which the state took all responsibility for financing the NHI
(2) The citizens and the state would confront each other directly over the level of insurance contribution, especially when it was necessary to raise it
(3) Parties involved in insurance are likely to abuse the system if the insurer is too big
(4) Farmers and self-employed would have to ask the state to pay for half of their contributions as the equivalent of employers' contributions for employees.

It is clear from reading this brief that the Presidential Office's main concern was the political and financial stability of the government. It suggested that the government should not opt for a health policy that might lead to political confrontation, nor should it make any financial commitment to the health insurance programme. Effectively, it opposed the idea of expanding health insurance to those outside the programme because of political and financial concerns. President Chun decided to reject the proposal for the integration of health insurance funds as his advisers suggested, failure to get Presidential blessing was effectively the end of the policy proposal.

Once again, the CSS and officials in the MoHS had failed to carry through their policy agenda. This failure stemmed mainly from authoritarian politics, which did not allow voices differing from the official line to be heard. To be an effective advocacy coalition, the CSS and other officials needed support from outside the government, but they never tried to get such support, which seemed impossible. The CSS was abolished by the new minister of the MoHS and the officials who had argued for the integration plan were forced to resign from the government (Kim 1992: 62). As an advocacy coalition, the CSS and the people involved in the policy proposal had not yet developed a coherent belief system on an inclusive welfare state. They were concerned with the extension of health insurance to those outside the programme, which had an important implications for the inclusive welfare state, but they did not articulate their position or try to pursue the policy vigorously. Because of this failure, the NHI remained in selective form as an instrument of the developmental strategy, covering only industrial workers employed in large-scale workplaces. The government was also determined not to spend money on health insurance and was keen to avoid any possible political confrontation that might arise in relation to health policy. Nevertheless, this second debate set the main issues for the NHI in the following years: integration of health funds and financial transfers between them.

Health politics and democratization

The third debate

After the second debate in the early 1980s, public debates on the NHI took place through the public media and academic papers published during this period. However, the debates had never been at the centre of politics in Korea during the intervening period up to the third debate in the late 1980s. Korean politics in the 1980s were largely dominated by the political conflict between the authoritarian government and the civil movements for democracy, the serious political challenges to the authoritarian government came from the university campuses, although there were occasional political confrontations between the governing and opposition parties in the National Assembly. As Lee (1987) has described, there were two veto groups that dominated Korean politics in this period: the military and the students. The

Table 1.2 Coverage of NHI, 1977–89 (% of whole population)

	Industrial	Government	Self-employed	Residential	Others	Total
1977	10.33	–	–	–	–	10.33
1978	10.34	10.15	–	–	–	20.49
1981	18.70	10.27	0.06	0.47	0.19	29.69
1984	28.75	10.11	2.02	0.97	0.53	42.38
1987	36.01	10.50	3.17	0.76	0.69	51.13
1988	38.76	9.67	2.58	16.15	0.64	67.48
1989	38.96	10.55	0.00	44.69	0.00	94.2

Notes: Figures include contribution-paying members and their families.
– = Not implemented.
Source: National Health Insurance Corporation (1990).

student political movements focused their efforts on the issue of constitutional reform for a direct election for the Presidency. In contrast to their predecessors, the student movements in the 1980s were influenced by socialist theories, in particular on social change. Nevertheless, the movements were never seriously engaged in health policy debates since they feared that it would distract from their efforts for democratization. The notions of social justice and equity were set to be taken seriously for the future policy debates, while trade unions that might have participated in the debate were not able to do so owing to tight control by the government.

The NHI grew rapidly during this period, it being extended to cover employees of medium-sized firms. The amendment of the National Health Insurance Law of 1981 allowed the self-employed to join by organizing their own funds within the NHI. Growth was mainly confined to employees in the formal sectors (Table 1.2), however. Those without employers who might have paid half a contribution were left out until 1988–9 when the NHI became a universal programme. Although the NHI covered a narrow range of treatment and one could claim benefits for only six months in any one year, its popularity grew because the membership became a symbol of the middle class. As the coverage of the NHI increased, those outside the programme felt increasingly excluded from the mainstream of society. These people shared a common characteristic in that they were not salaried employees – farmers, self-employed, urban informal workers, unemployed and elderly people – and there was a growing grievance about this exclusion.

From 1986 the Chun government examined policy options for the extension of the NHI to cover the entire population. The governing party, which had recognized the people's grievance about exclusion, requested the government to prepare a policy proposal. Since it became likely that there would be a direct popular election for the Presidency at the end of 1987, the government had no other option than to extend the NHI to the whole population, requiring a government subsidy for those previously left out. Opposition parties in their electioneering also made it clear that they would make the NHI a universal programme. The contentious issue was the question whether to create a single insurer that would manage the administration and finance of the NHI, or to stick to the existing structure of separate funds that had operated health insurance since the NHI's introduction. The Chun government decided that with the second option.

In December 1987, Roh Tae-woo, the governing candidate, was elected as President. As politics underwent a democratization process, debates on social policy moved to the political domain, in clear contrast to the previous debates in which discussion had taken place only within the government. Those who had argued previously for integration at the CSS and the MoHS now left the government and spearheaded the advocacy coalitions, which this time emerged stronger. Some of them moved to universities and provided expertise to the advocacy coalitions. A number of grass root organizations, in particular those based on farmers and the urban poor, joined in the advocacy coalitions, giving it a network of mass mobilization (Lee 1997: 70–2). The opposition parties were also in favour of integration, and they began to emerge as an advocacy coalition for equity in health with better shape in terms of policies, participants and institutional networks.

The Association of Social Security Studies was established, and presented the case for integration to the public. The idea of equity and redistribution was put forward as an argument for integration, in contrast to the previous stress on an administrative rationale. There were four main points of the argument (Kim 1992):

(1) To integrate all health funds within the NHI into one National Fund to widen the pooling of risk
(2) To ensure the access of low-income groups to health services
(3) To increase horizontal equity of health insurance contributions
(4) To increase efficiency of health insurance administration.

The line of thinking was basically the same as before, but the emphasis had shifted from administrative concern to social equity and inclusiveness. The experience with the NHI since its introduction in 1977 had showed that there were rich health funds, which had a surplus in their finances, while others were struggling to balance their books. Because of the varying financial situation, people with the same level of income paid different amounts of contributions to their health funds, which raised the issue of horizontal equity. A more serious concern raised was about the financial viability of health funds for farmers, the self-employed and others who were classified as residence-based members. Their funds were small and had fluctuating revenue. Given their fragmented structure, it was argued, the health funds for these residence-based members would be faced with financial difficulties which would then threaten the programme itself. The integration of all funds within the NHI would widen the pooling of risks, facilitate redistribution of financing and secure the future of the programme.

The general election for the National Assembly in 1988 gave a big boost to the advocacy coalition. The governing party failed to secure a majority of seats and three opposition parties began to form a policy alliance for certain issues. In particular, the opposition parties were united for the integration of the NHI. In March 1988, the opposition parties tabled an amendment bill for National Health Insurance, which was certain to be passed in the National Assembly.

Those who opposed the integration of the NHI also put forward their argument in public. In the previous debate, the objection to integration had been about the political security of the authoritarian regime. It was the President who effectively concluded the debate without an exhaustive exchange of ideas in public. By contrast, this time a group of economists who specialized in health insurance put forward an argument against the idea of integration. They also participated in the public hearings, such as that held by the MoHS in 1988. They argued that the integration of health insurance would weaken the idea of self-reliance among citizens. In a smaller and separated insurance fund, they argued, people would tend to use health services prudently since excessive use would lead to an increase in contributions; in the case of a nation-wide health fund, according to them, people would not care much about the finance of the health fund since their prudence would make no difference. This logic, based on the theory of rational choice, was contentious because the size of the small health insurance funds that had been operating was big enough for members to behave 'irresponsibly'. The stronger objection to integration, however, stemmed from the inadequacy of the Korean tax system.

One of the important premises on which support for integration was based was the idea of *equity by redistribution*: pooling together all different income groups into one national fund, charging contributions according to their levels of income and protecting those in need irrespective of their level of contributions. The necessary condition for this redistributive mechanism to work turned on the question of whether the government or the National Health Insurance Corporation would be able to gauge the precise levels of people's incomes in order to charge them according to their ability to pay. For wage and salary earners, it would not be difficult to know exactly how much they earned, as in most countries, however, it would be difficult to obtain precise information on the self-employed. They tended to underreport their levels of income, and Korea was no exception to this. Korea was faced the problem that the number of people and businesses exempt from filing tax documents was exceptionally large owing to the antiquated tax system. Despite the recent government efforts, the situation has not greatly improved (Table 1.3).

Table 1.3 Tax returns of non-wage and salary earners (global tax payers), 1999

Global tax payers	**3,407,662**	**Taxpayers to file return**	**1,342,153**
Those under tax threshold	2,047,371	Based on estimated income	748,762
Taxpayers to file returns	1,360,291	Based on bookkeeping	593,391
Ratio of those filing (%)	39.9	Ratio of those bookkeeping (%)	43.3

Source: National Tax Service (2000).

This became the main objection to integration, which ran directly against the basic conditions for achieving equity by redistribution. If those with higher levels of income paid less than lower-income people, redistribution would take place in the opposite way, in particular, wage and salary earners would lose out to the self-employed. This led business interest groups such as the Korean Chamber of Commerce and the Korean Federation of Business to oppose the integration of the NHI.

For the first time, an issue on social policy occupied the centre stage of public debate. In 1988 the opposition parties passed the bill for integration, and in an attempt to avoid the Presidential veto, revised the original bill to allow the integration to take place in a step-by-step manner and tightened the conditions for financial transfers between funds during the transitional period. President Roh, however, vetoed the bill: he feared that he would lose support from the upper- and middle-income classes who were expected to lose out in an integrated system. He did not want to impose concessions on his supporters in a confrontation with the National Assembly. It is worth noting that government ministries such as the Ministers of Finance (MoF) and the MoHS (now deprived of supporters for integration) advised the President to veto the bill. The NHI was thus extended only to the whole population under the existing structure of separate funds. Those without employers were classified as residence-based members, and their health funds were organized along the line of administrative districts with their contributions set based on multiple factors such as their incomes, dwellings, cars and farmlands, among other things. In other words, the NHI became 'universal' in the sense that everyone had health insurance, but not 'inclusive' in the sense that they were segregated in terms of risk-pooling and redistribution. After this confrontation, President Roh secretly approached the two opposition parties for talks on the merger of their parties because he could not continue to fight against a hostile National Assembly. This secret negotiation successfully ended up creating a majority-holding governing party, while one party led by Kim Dae-jung remained in opposition.

The third debate witnessed a well-equipped advocacy coalition emerging after the frustration of the two previous occasions. Their policy goals and instruments began to shape coherently. Equity in health insurance became a major goal and the policy mechanism for the goal was clear-cut: pooling different income groups into one national fund. In terms of its network of supporters, the advocacy coalition made a link with grass root organizations and political parties. Despite all these advantages, the advocacy coalition again failed to achieve what it sought. It could not carry through its policy agenda though the institutional bottleneck, the Presidential veto. More importantly, a serious weakness was exposed in their proposed mechanism had: owing to the deficiency in the tax system, the proposed contribution mechanism did not guarantee a fair system of burden sharing.

The fourth debate

Before we look into the fourth debate on health policy, it is necessary to examine the changing labour market conditions for social policy that were dramatically exposed in the wake of the economic crisis of 1997–8, since they form the backdrop of the social policy reforms. In the period of extensive growth of the Korean economy in the 1970s and 1980s, firms in the growing sectors and *chaebols*,[4] in particular, had first choice of the most productive workers and provided so called 'life-time' employment to their workers in exchange for their loyalty. Social policy was also set to provide protection to them first, there were also a range of firm-level welfare provisions such as support for housing and education (Yi 2002). In the area of unemployment, however, there was very little protection before the introduction of the Employment Insurance Programme in 1995. Social support for the unemployed was regarded as unaffordable in Korea, not only because of its financial implications but also because of its perceived disincentive effects on work. Public assistance for the poor was also based on a strict means-test principle and provided only minimal assistance in order to avoid work disincentives. These are the central features of the developmental welfare state in a selective form.

The introduction of the Employment Insurance Programme in 1995 was the first sign of change in the understanding of what a 'productive' social policy would be like. In 1990, the Korean government embarked on a 'Seven-year Development Plan for High-tech Industry' (Ahn 1998). The aim of the plan was to bring the Korean economy into high technology and competitiveness, shaking out less competitive industry. The government envisaged that the inevitable corollary of such structural adjustment would be the rise of unemployment from the sectors that had lost competitiveness. The Employment Insurance Programme was set to provide those unemployed workers with training and new skills as an active labour market measure as well as unemployment benefits (Yoo 1995).[5] However, the Employment Insurance Programme was implemented only in the large-scale workplaces and did not reach the majority of workers. This was partly because the employment rate was kept low throughout the late 1980s and the 1990s, and partly because high-tech industries such as the semiconductor industry performed very well in the early the 1990s. All this made the Korean government complacent about unemployment, and in consequence the new thinking on productive social policy was not taken any further.

The Asian Economic Crisis of 1997–8 forced the government, business and trade unions to change what they had defined as a 'productive social policy'. During the crisis, many businesses went into bankruptcy or were put into administration, including three of the largest *chaebols* – Daewoo, Kia and Hanbo – which had been regarded as 'too-big-to-die'. For the rest to survive it was an urgent imperative to lay off a great part of their workers, and a comprehensive social policy became regarded as necessary to ease the lay-off process. In this situation, company-centred and fragmented welfare programmes that were designed to narrow the pool of redistribution within the productive sectors became unsustainable, and social protection for the unemployed was urgently required. The tripartite committee, the Employees–Employers–Government Committee set up during the crisis, was able to forge a social consensus that the government should introduce to the National Assembly a bill which would make lay-offs easier with a number of social protection measures such as the extending the Employment Insurance Programme, strengthening the public employment services and implementing public works projects (Kwon 2001). In other words, universal and more comprehensive social protection for unemployment had become 'productive' in the wake of the Asian Economic Crisis.

After the labour market reform, the unemployment rate reached 8.6 per cent in February 1999, its highest for twenty years. After the worst had passed, the unemployment rate came down to a level slightly higher than in the pre-crisis period. However, the labour market structure had significantly changed. First, the seniority system, which had been predominant in most workplaces in Korea, was severely undermined, and older employees were put under strong pressure to leave jobs earlier than they would have liked. Secondly, there were noticeable changes in employment status (see Table 1.4). The proportion of regular workers was markedly reduced, while the proportion of temporary and daily workers increased. For temporary and daily workers, employment security was fragile in addition to the low level of compensation. This trend had already emerged some time before the labour market reform,

Table 1.4 Changes in employment status, 1995–9 (wage earners, per cent)

Status	1995	1996	1997	1998	1999
Regular workers	58.1	56.6	54.1	53.0	48.3
Temporary workers	27.7	29.5	31.6	32.8	33.4
Daily workers	14.2	13.8	14.3	14.2	18.3

Source: Ministry of Labour (2000).

but reform measures such as legalization of private agencies for laid-off workers made it irreversible. Among regular workers, more and more people were employed on short-term contracts. The Korean labour market became more flexible than ever before, and the livelihood of wage and salary earners became increasingly insecure.

The changes in structural conditions did not, however, necessarily lead to wider social policy reform, and the integration of the NHI in particular. First, it would be overdeterministic to assume that the tripartite committee could be set up automatically in order to forge ahead of the social consensus. The Kim Young-sam government and its senior bureaucrats were too discredited for their mishandling of economic policy to exercise such leadership (Kim 2001). It was possible only because the presidential election, taking place during the economic crisis, produced a victory for the opposition candidate, Kim Dae-jung. It was his political ability that brought the three parties together, and in particular the two hostile trade unions – the Federation of Korean Trade Unions and the Korean Confederation of Trade Unions. The Korean Confederation of Trade Unions, which had been a target of harsh treatment under the previous government, believed that the Kim government would be different from the previous one, and saw the tripartite committee as an opportunity to put forward their arguments. Secondly, the business and trade union representatives, except those from the Korean Confederation of Trade Unions, were not enthusiastic about the integration of the NHI since they shared a common interest in the existing system. At the tripartite committee, it was the members of the advocacy coalitions for the integration of the NHI who took the opportunity of being on the committee and successfully put forward their agenda.

In fact, the advocacy coalition was reinforced before the economic crisis. In 1994, the Korean Confederation of Trade Unions and the Citizens' Coalition for Participatory Democracy had spearheaded the formation of a Coalition for the Integration of National Health Insurance, which included seventy seven social pressure groups and maintained close contact with the opposition party led by Kim Dae-jung. This coalition represented many of the progressive political forces in Korea, and exerted strong pressure on the Kim Young-sam government, which had a dubious stance on health policy. President Kim Young-sam promised the integration of National Health Insurance, but after taking office his government were reluctant to push it through. The advocacy coalition concentrated its efforts on building social support for integration and establishing a network in the National Assembly, since it believed that it was now dependent only upon a political decision since the pros and cons of integration had been thoroughly exposed (Lee 2000).

The situation dragged on without a breakthrough until 1997 when the governing party's candidate for presidency distanced himself from the Kim Young-sam government. The governing party decided to integrate the health funds, contrary to the government stance. The political parties in the

National Assembly were able to agree a compromise on a health insurance bill in 1997; the bill, however, proposed integration of the health funds only for public sector employees and those for residence-based members, while leaving the health funds for employees as they were. The Kim Young-sam government considered whether it should veto the bill, but did not do so, and the bill became law.

At the Presidential election in December 1997, Kim Dae-jung was elected, in the middle of the Asian Economic Crisis of 1997–8. Kim convened the tripartite committee to push ahead with economic reform with a social consensus. The advocacy coalition, which wanted full integration, put the issue on the committee agenda. Some members of the coalition also participated in the Transition Committee for the New Government. President Kim then appointed the bureaucrat who had been dismissed by the Chun government because of his support for integration to be the Minister of Health and Welfare. This meant that the advocacy coalition for integration had taken a hold on key decision points. The Kim government were able to push through the new law that would integrate all the health funds with the NHI in 2000. The Kim government was, however, able to integrate only the administration side of health insurance. It had to reorganize the financing structure into two separate accounts according to job categories: one for employees in the public and private sectors and the other for residence-based members. This was mainly because the government could not find a solution to the problem of establishing a fair contribution system: information about the levels of the incomes of the self-employed still remained elusive. This concession was made in the run-up to the general election scheduled for April 2000.

The advocacy coalition did not stop here, and pursued the introduction of the MLSG by establishing a new ad hoc committee spearheaded by the Citizens' Coalition for Participatory Democracy. The five principles for the MLSG, which were advanced by the advocacy coalition, showed that they had evolved a coherent argument on social rights (Lee 2000: 147):

(1) The state should be responsible for the minimum living standard for every citizen (*state responsibility*)
(2) Citizens' rights to a minimum living standard should be recognized as legal rights (*social rights*)
(3) The minimum living standard should be applied not only to income but also to all aspects of everyday living (*inclusiveness*)
(4) The right to a minimum living standard should be guaranteed for every citizen (*universal coverage*)
(5) Citizens' participation must be secured for the policy making and implementation of the MLSG (*participation*) (authors' translation).

The advocacy coalition's effort was also successful here since President Kim targeted low-income groups to rally political support for his government.

In August 1999, he launched a new policy initiative, the so-called 'Productive Welfare', in his address on National Liberation Day. This new idea placed emphasis on welfare that could be instrumental to the rise of economic productivity such as the active labour market policy in Scandinavian countries. It 'takes the right to work seriously' (Presidential Office 2000: 9). At the same time the idea of productive welfare recognized citizenship as the basic principle of the welfare system (Presidential Office 2000: 7). Productive Welfare claims to regard social protection as well as economic growth as overarching policy goals. The rationale of this new social policy initiative can be understood in terms of the developmental welfare state in an inclusive form.

Despite such efforts, the Kim government failed to win a majority of the seats in the National Assembly in the general election, and some of the reforms began to backfire after this defeat. The most notable was the policy of redefining the functional division between physicians and pharmacists: physicians prescribe and pharmacists deliver medicine. This functional line of division had been blurred from the time when Korea was very poor, where clinics and hospitals were few and far between and pharmacists effectively played the role of primary health care personnel. This reform was carried through with the integration reform, but led to strikes by doctors and trainee doctors throughout the second half of 2000. Pharmacists were in support of the reform, although they were not entirely happy about it. Citizens had to suffer from a number of disruptions in the health care system, and did not show strong support for the reform. Without a majority in the National Assembly, the Kim government had to make concession to doctors, increasing health care fees by almost 60 per cent to pacify doctors and trainee doctors.[6] In March 2001, the chief executive of the National Health Insurance Corporation announced that the NHI would be financially bankrupt in a month unless the government provided extra funding. With this announcement, the Kim government and the active members of the advocacy coalition for the integration of National Health Insurance became the subject of strong criticism and lost a great deal of its political support, which had already become fragile.

Concluding remarks

This chapter has analysed the policy debates on NHI, with special attention to the evolution of the advocacy coalition. It has sought to examine whether the rationale of welfare reform since the Asian Economic Crisis points toward the inclusive developmental welfare state and how the new direction took shape under the shadow of the paradigm of 'economy-first', which had overridden social policy making for many years. The chapter showed that the coalition which pursued a universal health care system and strove for equity in health was able to carry through the integration reform of the NHI in 2000 because it successfully seized a number of strategic points of decision making in the constellation of institutions in the wake of the Asian Economic Crisis and the governmental shift of 1997–8. The chapter argued that the health care reform in 2000 was not only an outcome of the social policy initiatives after the Asian Economic Crisis but was also a product of the frustrating experience of the advocacy coalition in the past. It identified the first formation of the advocacy coalition with the group of social policy experts who were concerned with inclusive health policy in the first debate, taking place in the early 1960s. With a poverty-stricken economy and authoritarian politics, they were not able to argue strongly for their policy agenda for equity and rather opted for the prevailing development agenda. In the second debate in the early 1980s, despite its widened network, the advocacy coalition was defeated in their effort to integrate the NHI due to the political preoccupation of the authoritarian government with avoiding political confrontation and financial commitment. The first two debates took place within the authoritarian government, and were conducted in a manner that did not allow participants to debate on an equal footing. Some of the advocacy coalition members were forced to resign from the government, which in fact gave the coalition an opportunity to widen its network of supporters and a freedom to speak out in the later debates.

The third debate (later 1980s) witnessed the full-blown discussion between those who argued for and against the integration of the NHI. Those who opposed integration put forwarded an argument based on individual responsibility, while the advocacy coalition for integration advanced an argument for risk-pooling, equity and redistribution. In the course of the debate, it emerged that the antiquated tax system would be an obstacle to the integration of the NHI. The advocacy coalition also broadened its network during this debate, it began to connect with grass root organizations such as those of farmers, and to reach out to the political parties. It was also able to elaborate policy goals and policy instruments in a coherent manner, pooling different income groups into one national fund to achieve equity in health insurance. In the end, however, the coalition's proposal was blocked by the Presidential veto after passing through the National Assembly in 1988. What should be noted in the third debate is that it was conducted within the context of democratization and economic development. Although the integration of the NHI was blocked, universal coverage was achieved without political disagreement even before the third debate had taken place. This shows that structural factors such as democratization and economic development, which emerged throughout the 1980s in Korea, could be very decisive in social policy development.

In the fourth debate, after the Asian Economic Crisis, the advocacy coalition was able to get things right in terms of coherent argument, political strategy and institutional advantage, having learned from past failures. The coalition put forward the ideas of social inclusion and democratic participation as social policy paradigms. It also argued that primary responsibility for social protection lay with the state. Well positioned in the institutional setting under the Kim Dae-jung government, the coalition was able to change the thrust of the developmental welfare state towards the inclusive model, an outcome of an evolution that had stretched over thirty years. For this reason, this chapter argues that the policy direction that the Korean government took in the wake of the Asian Economic Crisis was neither a simple choice between two competing options readily available nor a decision predetermined by globalization. However, it would also be misleading if we attributed the change in the nature of the developmental welfare state solely to the advocacy coalition. It was rather an outcome of interplay between continuous political effort and structural influences, which opened up the possibility of change. The Asian Economic Crisis forced political and economic actors to rethink what they had defined as 'productive' social policy, leading them to make a social compromise. The new understanding of 'productive' welfare was conducive to a universal welfare system instead of a company-centred fragmented one. The change of government during the Asian Economic Crisis, which showed the remarkable resilience of democracy in Korea, also gave a political opportunity for the advocacy coalition. Nevertheless, structural influences did not necessarily point toward welfare reform for the inclusive developmental welfare state. It was rather an opportunity well taken. This dose not, however, mean that the coalition would necessarily get things right. In undertaking redefinition policy of health care functions, the coalition was vulnerable to mistakes and political backlashes. The question of whether the new thrust of the developmental welfare state will be maintained still remains open, depending on the successful implementation of the newly introduced social programmes and institutional reforms such as those of the tax system.

Notes

1. With the exception of the agricultural and fishery industries.
2. In the previous public assistance programme, people aged from 15 to 59 were automatically disallowed benefits (demographic test) and the elderly whose children had incomes higher than the poverty line were also disallowed (family test).
3. Park fought two successful Presidential elections before the constitutional change. Yet, the last Presidential election was so close that Park was not sure that he or his successor would stay in power.
4. A *chaebol* is a large business conglomerate, usually based on a single family having controlling interests in a variety of companies, similar to the Japanese *zaibatsu*.
5. The introduction of the Employment Insurance Programme was related to the progress of democratization. Kim Young-sam was elected to the Presidency (1993–8) as the first civilian President, and his government wanted to present itself differently from the previous governments, which had been lukewarm to unemployment protection (Kwon 2001).
6. An increase in health care fees took place on four occasions – July 2000 (9.2 per cent), August 2000 (6.5 per cent), September 2000 (6.5 per cent) and January 2001 (6.5 per cent).

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2

Democracy, Development and Health in Taiwan

Joseph Wong

Introduction

This chapter traces the development of health care policy in postwar Taiwan. Specifically, it explores the political logic of social welfare reform, first under authoritarianism and then later during the period of democratization. This chapter finds, empirically, that continual health policy reform in Taiwan has resulted in a social policy trajectory towards greater inclusion in social welfare. This pattern is particularly evident after the initiation of the democratic transition beginning in the late 1980s. Indeed, the processes of health care reform and health care policy making reflected important political changes, in both the structure of governance as well as in the place of social policy agendas within Taiwan's larger developmental project. Simply put, democratization facilitated the birth of the welfare state in Taiwan.

Limited health insurance coverage in Taiwan was first institutionalized during the 1950s. Between the 1950s and the late 1980s, a period that corresponded with Taiwan's authoritarian developmental state, health care reform was piecemeal, non-universal and beneficiaries were selected based on their strategic importance to the regime. Politically, the authoritarian developmental state adhered to a social policy reform pattern of crisis and *selective* compensation. Political crises for the regime in Taiwan motivated the government to initiate some social policy reform, though the scope of reform compensated only select political and economic clients of the state. Social policy was never for the purpose of socio-economic redistribution.

The universalization of medical insurance occurred after the democratic transition was initiated during the late 1980s. The institutionalization of political competition altered the politics of social policy agenda setting, resulting in the implementation of the universal and integrated National Health Insurance (NHI) programme in 1995. The introduction of political democracy – or, more specifically, the institutionalization of political competition – compelled the previously conservative Kuomintang (KMT) regime to initiate universal health care reform. Unlike during the authoritarian period, the KMT government was forced to confront new challenges of crisis and *universal* compensation.

During the late 1990s, the KMT government attempted to privatize and marketize the NHI system in order to divert financial and administrative responsibilities away from the state. The attempt to retrench health care policy, however, was blocked by myriad political forces comprising both opposition and ruling party policy makers within the legislature, the bureaucracy and a rejuvenated civil society. Institutional change endemic to democratic transition expanded the health care policy network in Taiwan, and the politics of policy making consequently became more contested during the late 1990s.

The next three sections of the chapter recount, in greater detail, these different phases of health care reform in Taiwan. They elaborate on the distinct political logic of social policy reform at three different stages of Taiwan's political development – first the authoritarian period, followed by the moment of democratic breakthrough, and then continued democratic consolidation into the late 1990s. The evidence shows that democratic reform in Taiwan has impacted the politics of health care policy making, thus turning the course of health policy reform towards greater social inclusion. The final concluding section evaluates this new social policy trajectory. It illuminates the increasingly important place that social welfare agendas enjoy in Taiwan's *democratic* developmental project. For this reason, then, we should expect that the direction of social policy reform in Taiwan will continue towards welfare deepening, despite what appear to be the overwhelming imperatives of economic globalization and welfare state retrenchment.

Authoritarianism and welfare

While still fighting the Chinese Civil War on the mainland, the KMT began to provide social insurance benefits to government and military personnel in exchange for their political loyalty to the KMT regime (Lin 1994: 183). It was not until 1950, however, that the provincial government of Taiwan first implemented a limited Labour Insurance (LI) programme for non-state workers. The LI scheme covered those employed by firms with at least twenty employees. Throughout the 1950s, the KMT regime gradually expanded the scope of social insurance coverage to workers in smaller enterprises (ten employees or more), fishermen and military personnel. Voluntary social insurance benefits were extended to those workers in firms with fewer than ten employees. In 1958, the central government formally legislated the Labour Insurance and Government Employees' Insurance (GEI) Acts, thus shifting the financial and administrative responsibilities for social insurance provision to the central government (Chan 1985).

These social insurance schemes provided 'bundled benefits' packages, of which health care accounted for the majority of insurance expenditures.[1]

For instance, by the 1970s, over half of social insurance outlays from the LI programme went to cover the costs of medical care, and approximately 60 per cent of an employee's total labour insurance premium was spent on health care services (Chiang 1999: 95). The cost of medical care treatment was directly paid out from the LI and GEI schemes. As such, insured patients were not required to pay any point-of-delivery user fees or co-pay levies.

Prices and payment for medical care services provided by the social insurance programmes were negotiated into fee-for-service (FFS) schedules. Primary care physicians and hospitals were compensated through a multi-tiered FFS system wherein services performed at large medical centres were priced higher. Doctors could also charge 'market' prices for treatments rendered to those patients without social insurance coverage. These unregulated prices tended to be higher than the prices outlined in the FFS schedules. For those covered by some social insurance scheme, this was not a problem. However, for uninsured patients – approximately 80 per cent of the population in 1980 – this multi-tiered pricing system adversely affected their ability to pay for, and thus limited their access to, quality medical care services (Lin 1997: 138–9). The non-universal scope of social insurance weakened social protection for vulnerable sectors in society.

Calculations for monthly social insurance contribution rates (premiums) differed between the LI and GEI programmes. Enrolees in the LI programme contributed the equivalent of 7 per cent of their monthly income for social insurance. The employer paid 80 per cent of the premium and the worker contributed the remaining 20 per cent. Self-employed workers enroled in the voluntary LI programme paid 70 per cent of the monthly premium while the government contributed 30 per cent. Like industrial workers, government employees also paid a 7 per cent monthly contribution, though the state subsidized 65 per cent of this premium and the employee paid the balance. In 1977, the monthly premium rate for government employees was increased to 9 per cent of an employee's monthly income (Wu 1998: 179–81).

Social insurance programmes in Taiwan remained virtually untouched for the next two decades. A flurry of new social policy activity emerged again during the 1970s when the KMT regime confronted a series of political setbacks, both internationally and at home. The expulsion of the Republic of China on Taiwan from the United Nations and the subsequent normalization of relations between the USA and China during the 1970s slowly undermined the legitimacy of the KMT state. On the home front, the KMT began to lose its uncontested hold in local elections,[2] and anti-KMT protests during the late 1970s exacerbated the KMT's legitimacy crisis. It was under these political circumstances that President Chiang Ching-Kuo initiated a new social welfare task force.

In May 1978, the cabinet announced that it planned to reform the LI programme. The LI revision, implemented in 1979, expanded the scope of coverage to workers by relaxing eligibility requirements. Workers employed in smaller firms (five or more employees) were enroled into the LI programme on a non-voluntary basis. Minimum age requirements for enrolees were also abolished.[3] Old-age lump-sum benefits were provided for any enrolee of retirement age who had been insured for at least one year in the LI programme, a significant reduction from the previous fifteen-year eligibility rule. Self-employed workers now had to contribute 60 per cent of the monthly insurance premium (originally set at 70 per cent) with the government paying the remaining 40 per cent. The net effect of the 1979 reform was an increase in the number of enrolees in the LI programme, from 2.3 million workers in 1970 to 4.15 million in 1985 (CEPD 1999).

Policy implications

In 1980, social insurance coverage reached only 17 per cent of the population. The 1979 LI revisions contributed to a gradual increase in the number of people enroled in social insurance schemes. Furthermore, the government introduced in 1985 a pilot programme for farmers' insurance (FI) in a limited number of townships. After its first year of operation, the FI scheme covered 7 per cent of the agricultural labour force or about 0.5 per cent of the entire population. Due to the immediate popularity of the FI programme and increased enrolment in the LI scheme, the scope of social insurance coverage reached 37.5 per cent of the population in 1988. However, the continued exclusion of dependents and self-employed workers meant that social insurance coverage rate remained well short of universal through the early 1990s (CEPD 1999).

The structural organization of social insurance in Taiwan was more or less an integrated system with few insurance carriers. Unlike in South Korea, where health insurance was financially and administratively decentralized and organized by enterprises or in smaller regional units, social insurance in Taiwan promoted a fair degree of social solidarity (through patient pooling) for those who benefited from the schemes. Though monthly social insurance contributions in Taiwan were collected by decentralized 'insurance units', such as trade or occupational unions, the funds were consolidated under each of the social insurance schemes (LI, FI or GEI). Financial pooling across wage groups and occupational risk-pooling was thus greatly enhanced. However, the non-universal scope of social insurance severely minimized the aggregate impact of pooling and redistribution across the *entire* population.

Additionally, the structural separation of the labour insurance scheme and the government employees' insurance scheme created significant inequities between the two programmes. The LI programme did not provide coverage for the dependants of enrolees, excluding children and the aged, despite the fact that the most frequent users of medical care services tended to be from these specific age groups (Chiang 1999: 43). In contrast, beginning in 1982, dependants of government workers received social insurance benefits. For workers, LI functioned as an individual-based employment insurance scheme whereas, for government employees, social insurance covered entire households. Second, and perhaps most strikingly, workers enroled in the LI programme who claimed their old-age benefits (lump-sum) were forced to forfeit their medical care coverage. Simply put, retired workers had to choose either to continue their health coverage or collect their old-age benefits. The take-up rate for old-age benefits for those enroled in the LI scheme was consequently very low. As a result of a revision to the GEI programme in 1965, retired civil servants could enjoy *both* old-age benefits and continued medical care coverage. To make matters comparatively worse for workers, old-age benefits under the LI scheme, in terms of cash value, were only half the value of old-age payments under the GEI programme (Lee 1997: 143). Though this structural disparity emerged as a major policy issue during the late 1970s, it was not addressed in the 1979 LI revisions.

Crisis and selective compensation

The authoritarian developmental state and its policies were crafted, above all else, to promote rapid economic growth and sustain industrial development while preserving the authority of the KMT regime (Wade 1990). With respect to the economic side of the equation, the notion that early initiatives in social policy innovation were for ‘productivist’ purposes (i.e. the creation of human capital), as suggested by the World Bank and others, is not entirely unfounded (World Bank 1993; Holliday 2000). However, the claim that the KMT regime in Taiwan had no concern for the distributive consequences of rapid economic growth is somewhat problematic when we consider the politics of Taiwan’s authoritarian developmental state.

An important lesson the KMT learned while on the mainland was the need to not only deliver economic development, but to also ensure that the fruits of development were shared. This lesson resonated among policy makers with respect to agricultural policy on Taiwan and contributed to redistributive land reform early after the KMT relocated to the island. Furthermore, Sun Yat-Sen’s left-leaning ‘principles’ shaped the KMT’s ideas about balanced economic growth (Hsu 1994). Perhaps most important, however, were the ethnic tensions between the KMT mainlanders, a minority group in Taiwan, and the ethnic Taiwanese. Political stability was crucial for the KMT regime. Extreme socioeconomic inequality was understood by the KMT leadership to be a potential source of political conflict. Concerns over the distributive consequences of economic development were therefore aimed at preempting any political threats to the authoritarian regime. The KMT party-state in Taiwan was not able to impose the type of unifying economic nationalism seen, for instance, in Korea under Park Chung Hee (Park 1962; Chung 1986; Woo 1991). In this respect, growth with relative equity was motivated by the KMT’s instinct for political survival.

Economic policy makers believed that aggregate growth would trickle down and consequently raise the standard of living for all. The developmental state thus tended to rely on macroeconomic policies rather than on social policy for promoting rapid economic growth and for addressing distributive concerns. Land reform, industrial financing, enterprise organization, structuring a more 'hands-off' relationship between the state and business and the use of fiscal policy were ways in which the KMT regime actively prevented the concentration of capital and wealth (Cheng 1993; Lau 1990). The KMT was less concerned, however, with the *redistributive* potential of social policy reform. For many economic policy makers in Taiwan, redistributive social policy was believed to have a negative impact on aggregate growth. Ku Yeun-Wen argues that while the KMT regime 'did have the option of pursuing universal welfare measures, *it chose not to*' (Ku 1997: 146, emphasis added). The idea of substantive social policy simply did not jibe with the way that policymakers at that time understood the goals and processes of economic development. This conception of development – and thus the limited role of the state in actively promoting redistributive equity – constrained the scope of social insurance reform during the authoritarian period.

Nonetheless, the authoritarian developmental state in Taiwan did gradually expand social insurance coverage and conduct some social policy innovation between the 1950s and the mid-1980s. Social policy reform was shaped by a political logic that Japan specialist Kent Calder (1988) calls 'crisis and compensation'. In authoritarian Taiwan, policy innovation was always initiated in response to a political crisis of the state. Similar to other authoritarian regimes, LI, GEI, FI and other social protection policies were instrumentally used by the state to 'deflect popular discontent' (Amenta and Skocpol 1986: 148), for the purposes of 'buying social peace' (Malloy 1979: 160–1), to 'preempt discontent' (Weyland 1996: 104–5), or to 'prove their [state leaders'] legitimacy' (Kwon 1999: 19–20). Social policy was a political instrument for regime legitimation, used when the authoritarian developmental state confronted a crisis of legitimacy. The historical evidence affirms this assertion (Table 2.1).

The political logic of crisis and compensation not only determined the *timing* of social policy reform, but it also shaped the *trajectory* of reform in authoritarian Taiwan. This was especially clear in patterns of gradual health care reform between the 1950s and the early 1980s. For one, political crisis demanded quick policy change. Because social policy making in authoritarian in Taiwan was essentially reactive, policy making was hurried. Reform in social insurance – and, by extension, health care – therefore involved little structural change. Reform *could only be piecemeal*. Second, quite unlike the pattern of crisis and compensation observed by Calder in democratic Japan, social policy compensation in authoritarian Taiwan was *strategically selective* in its targets. Social insurance benefits were extended only to those who were employed. Furthermore, social insurance in authoritarian Taiwan disproportionately favoured those employed in the public service sector and their dependants. For the KMT,

Table 2.1 The timing of social welfare reform in authoritarian Taiwan, 1947–1970s

Crisis	**Compensation**
1947 Anti-KMT riots	**1950–8** Labour insurance
1949 Formal arrival of KMT	**1953** Military personnel insurance
1950 Party reorganization campaign	**1958** Labour Insurance Law
	1958 Government Employees Insurance
1971 Expulsion from the United Nations	**1972** Vocational Training Act
1978 US-China relations normalized	**1972** Social Assistance Programmes
late 1970s Opposition movements mobilize	**1973** Child Welfare Law
1970s Loss of legislative seats	**1974** Labour Security and Health Law
	1975 Public Housing Act
	1979 Labour insurance revisions
	1980 Social Assistance Law, Aged Welfare Law, Handicapped Welfare Law

it was imperative that civil servants and public sector employees remain loyal to the ruling party.

Democratic breakthrough and universal health care: 1988–95

Beginning in the late 1980s, the KMT government initiated a new round of health care reform. While earlier patterns of health care policy change had been piecemeal, the medical insurance reform efforts of the late 1980s and early 1990s were truly transformative. The NHI policy, implemented in 1995, completely restructured medical insurance provision, in both the scope of medical insurance coverage and in the programme's administration. That the planning process for the NHI began around the time of democratic breakthrough in Taiwan was no coincidence: the dynamics of democratic transition in Taiwan shaped the development of universal health care in significant ways.

Democratic transition

Before we can begin making the connection between democratic transition and social policy reform in Taiwan, it is first necessary to understand the specific characteristics of Taiwan's democratization experience. Democratic transition in Taiwan was sparked by an enduring conflict between the ethnic Taiwanese and the Chinese mainlanders associated with the KMT. For anti-KMT activists, democracy was a way to redistribute political power in Taiwan to be more representative of the ethnic makeup of the island. It was also seen among Taiwanese independence advocates as a way to hasten Taiwan's self-determination *vis-à-vis* China. The legitimacy crisis faced by the KMT during the 1970s helped bolster the opposition's cause (Wachman

1994; Rigger 1996). The *Tangwai* opposition movement (meaning 'outside the party') became a major grass root force and provided the base for what would eventually emerge as the opposition political party.

Yet, as alluded to earlier, the KMT was quite skilled in managing these legitimacy crises. Politically, the KMT leadership, particularly President Chiang Ching-kuo himself, recognized that the ruling party needed to reconstitute itself as a party *of the* Taiwanese and *for the* Taiwanese (Dickson 1997; Chao and Myers 1998). The KMT needed to adapt to new political realities, beginning in the late 1970s, it began a controlled process of gradual political decompression. To undermine the opposition's claims that the KMT was a foreign party, the KMT strategically initiated the gradual 'Taiwanization' of the party-state. Ethnic Taiwanese were brought into positions of relative importance in the party leadership, within the cabinet, the bureaucracy and at local levels. Indeed, by the mid-1980s, two-thirds of the KMT membership had been born in Taiwan (Winckler 1984; Huang 1996). Though the KMT began to allow non-KMT candidates to run in local elections in the 1950s, this process of electoral opening was speeded up during the 1970s. In 1980, the ruling party permitted non-KMT candidates to participate in supplemental elections for the national legislature. These liberalization initiatives softened the image of the KMT.

From the perspective of the ruling party, this strategy of controlled liberalization afforded the KMT the authority to essentially manage democratic transition from above. To be sure, the KMT continued to win over 80 per cent of the popular vote throughout the early 1980s; during this period, President Chiang also initiated early dialogue with opposition movement leaders. When the *Tangwai* leaders announced in September 1986 the official – though then still illegal – formation of the opposition Democratic Progressive Party (DPP), President Chiang oversaw the speedy passage of a civil organization law and proceeded to lift martial law in 1987. This was a significant breakthrough in democratic reform.

The initiation of democratic transition should not be interpreted as an admission of defeat by the KMT, however, but rather as a strategic move by President Chiang to reinvent and then rejuvenate the KMT's dominance (Dickson 1997: 213). If democratic transition was inevitable, then the KMT wanted to ensure that it could manage this process, thus maintaining the party's hegemonic position in the new political order. The KMT continued consistently to win over 70 per cent of the contested seats in supplemental legislative elections during the late 1980s. Though opposition party leaders were a part of the democratic crafting process, the KMT leadership essentially set the agenda for the 1990 National Affairs Conference on constitutional reform (Lin, Higley and Huang 1998). In short, in navigating the sea of change endemic to democratic transformation, the KMT was very much at the helm. It is in this particular context that we can begin to make sense of the universal health care reform process which began in the late 1980s.

Health care reform

Universal health care reform was initiated for both administrative and political reasons. In terms of public administration, the KMT government reasoned that a structural reorganization and centralization of medical insurance provision would rationalize the premium collection system, streamline administrative redundancies between the various social insurance schemes and create a more efficient decision making mechanism within the state apparatus. There were also important political considerations involved. It was no coincidence that public pronouncements about the KMT's intention to create a universal and equitable health care system were made during election years.[4] Public opinion, in general, favoured social welfare reform (Chu 1992: 84). Farmers' mobilization during the late 1980s put more pressure on the KMT government to universalize social policy measures (Hsiao 1994). By initiating social welfare reform, particularly in a social policy area as important as health care, the KMT essentially coopted the opposition party's platform and thus took away important bases of electoral support from the still-nascent DPP. Universal health care reform was a politically motivated and strategically preemptive initiative on the part of the KMT government. The political logic of universal health care reform was again one of crisis and compensation, though under democratic conditions, the KMT government could no longer afford to be selective in the range of social policy beneficiaries.

Even though political forces outside of the party-state set the health care reform agenda, the KMT dominated the actual policy decision making process. The policy making process was unequivocally KMT state-led. In 1988, the cabinet-level Council for Economic Planning and Development (CEPD) created a small task force put in charge of designing the NHI programme, comprising Taiwan's top public health scholars and foreign health policy experts. In its 1990 report to the Executive Yuan, the task force proposed an administratively and financially integrated medical insurance scheme. The centralized and publicly administered Bureau of National Health Insurance (BNHI) was to function as the sole health insurance carrier under the direction of the Department of Health (DoH) (CEPD 1990: 50, 104–5). The CEPD proposal was then passed on to the Health Insurance Reform Small Group of the DoH. The DoH small group worked closely with cabinet members and KMT leaders throughout the early 1990s. The final NHI reform bill was presented to the Legislative Yuan in October 1993. The legislature passed the NHI Act in 1994 and the programme began operating in March 1995.

The universal health care reform process was dominated by the state apparatus, and in particular the KMT party leadership. Few actors were involved in the actual policy formulation process (Lin 1997: 293). Even the legislature was limited in its capacity to engage the executive's reform effort. Several factors accounted for this executive-led process.

First, by limiting the number of actors in the health care reform process, and by drawing on policy actors from within the upper bureaucratic ranks, the KMT government ensured that the health policy network was small and exclusive. The CEPD task force and the DoH small group were relatively insulated.[5] Though efforts were made by the state to inform the general public of the reform process, these were largely for disseminating updates rather than for soliciting societal opinions. Second, the absence of societal and legislative inclusion early on in the health policy making process limited the ability of actors outside the executive arena to effectively carry on political debate during the later legislative stage. Indeed, the relative newness and complexity of the NHI reform bill demonstrated the dearth of policy expertise in the legislature and in civil society.

Third, potential opposition forces, including both the opposition DPP and activist groups within civil society, were too fragmented to voice any coherent challenges to the executive's reform. Party factionalism within the DPP (Arrigo 1994; Cheng and Hsu 1996) and divisions among social movement groups undermined efforts at 'bottom-up' participation in the decision making process (Chu 1992, Chapter 4). Moreover, the ability of the KMT to impose strict party discipline, a result of the institutionally derived authority that party leaders enjoyed in the electoral candidate nomination system, combined with the party's majority in the legislature, ensured that the bill would be passed.[6] There was little opportunity or incentive for KMT legislators to challenge the party leadership's dictates in health care reform (Lin 1997: 386). Finally, the proposed NHI reform was sure to be popular, and for the most part was well planned. Thus, it was difficult for vote-seeking politicians to challenge the government's claim for a more equitable and efficient medical insurance system.

Reform implications

The new NHI programme began operating in March 1995. The central BNHI, which was under the jurisdiction of the DoH, administered the medical insurance programme. Unlike the previous social insurance model, the NHI was an administratively and financially centralized programme. Financing for the NHI came from the individual enrolee, the employer and the government. Monthly premiums were calculated at a rate of 4.25 per cent of the employee's monthly income. The premium rate was standard across all wage groups, with the exception of low-income households and the unemployed, whose medical insurance premiums were publicly subsidized. Contribution proportions varied among different occupational categories. For instance, private sector employees paid 30 per cent of the monthly premium, while the government contributed 10 per cent and the employer paid the remaining 60 per cent.[7]

Medical care providers were supposed to be compensated through an annually negotiated global budget, though this prospective payment system was abandoned prior to the NHI's implementation. The system thus reverted back to the fee-for-service (FFS) scheme. As before, FFS schedules varied based on the size of the medical care facility. Patients were also subject to a point-of-delivery user fee. Co-pay levies were originally calculated as a percentage of the total cost of treatment. However, policymakers decided in the spring of 1995 that a much less onerous flat-rate user fee would be charged. Depending on the size of the medical care facility visited by the patient, she was required to pay an out-of-pocket user fee of between US $2 and US $7 for outpatient services.[8]

The most important consequence of the 1995 NHI programme was its universal reach. With the inclusion of workers' dependants, the aged and children, nearly 97 per cent of Taiwan's population benefited from medical insurance by 1998. Moreover, because the system was centrally administered, each citizen, irrespective of age, income or health risk, received the same benefits. Public opinion favouring the NHI programme, not surprisingly, hovered at around 70 per cent. In fact, it has continued to be the most celebrated social policy achievement in Taiwan. According to elite survey data from 1999 (comprising legislators and health policy bureaucrats), 70 per cent of respondents (n=111) agreed that the post-1995 NHI system was more equitable than earlier versions of social insurance in Taiwan.[9]

The empirical evidence verifies such claims. The centralized funding mechanism in the NHI maximized risk-pooling and financial redistribution. For instance, in terms of access to health care under the NHI, utilization frequency rates increased most rapidly among lower-income households. Chiang and Cheng (1997) found that after the NHI was implemented, the number of medical care visits from households of the highest income quartile increased marginally while the frequency of visits increased by 47 per cent and 31per cent among patients from middle-income groups and the lowest quartile, respectively (Chiang and Cheng 1997: 92). In terms of the NHI's impact on financial re-distribution across income groups, Chiang (2000) calculated that in 1998 the value of medical care benefits received by the top-quintile income group was less than the value of their financial contributions to the NHI fund (a ratio of 0.96). The ratio of benefits received to contributions paid among households in the poorest income quintile was 1.75, so that under the NHI system, 'the poor pay less but get more; the rich pay more but get less' (Chiang 2000: 143).

Political competition and agenda setting

The process of universalizing health care in Taiwan was led by the incumbent KMT regime. Despite the introduction of democratic reform, the KMT continued to hold power in both the executive and legislative branches, and therefore the ruling party continued to dominate the health care policy making process. In many ways, the process by which health care was universalized in Taiwan seem to deny our expectations of democratic politics and indeed, to undermine our democratization thesis. Whereas democratic breakthrough had little impact on the micro-politics of health care policy making , the introduction of democratic competition did have a significant effect on the social policy *agenda setting process*. This is where democratization mattered.

The institutionalization of political competition altered the rules of the political game in Taiwan. Above all else, competition created conditions of political uncertainty for the incumbent KMT government. Though the opposition DPP was still in its formative stages of development, the threat of future alternations in power forced the KMT to be more accountable and thus more responsive to societal demands. While the authoritarian regime in Taiwan was able to suppress dissent, the institutionalization of political competition required that contestants *win support*. Political actors in democratic Taiwan thus needed to be more politically entrepreneurial, which in turn recast social policy reform agendas during the late 1980s and early 1990s. As argued in the previous section, the KMT government originally eschewed initiatives toward universally inclusive social policy for both political and financial reasons. Piecemeal social policy reform could be sustained as the authoritarian KMT's hold on power was virtually uncontested. With the formation of the opposition DPP in 1986, the lifting of martial law in 1987 and the expansion of elections thereafter, the KMT's prospects of retaining political power became increasingly tenuous – if not in the short term, then certainly over the longer term. KMT policymakers understood this.

The logic of political competition specifically affected the politics of social policy agenda setting in two ways. First, the KMT government effectively coopted the opposition party's ideas into its own reform agenda to win electoral support, cutting into the populist base of the opposition DPP. The ruling party sought to ensure that the political credit gained from the NHI's success (and popularity) would strengthen the KMT's competitive position in future rounds of political (primarily electoral) competition: the NHI was simply a winning strategy. Second, the institutionalization of political competition and the universal extension of the franchise meant that the ruling party could no longer rely on select distributional coalitions of political support in order to remain in power. Because all citizens had the right to vote – a right of citizenship afforded equally – the scope of social policy reform needed to be extended to all citizens. Simply put, the logic of political competition ensured a politics of crisis and *universal compensation*.

Failed retrenchment: 1997–9

The new NHI was not problem-free. The universal extension of medical insurance and the relatively low out-of-pocket burdens on patients resulted in a significant increase in the frequency of outpatient visits during the first few years of the NHI's operation. The total expenditure for outpatient care in 1998 doubled the expenditures paid out for inpatient care, despite the fact that the average cost to the NHI for each outpatient visit was about sixty times less than the average expenditure per inpatient treatment (BNHI 2000). On the supply side, the reversion to the FFS provider payment system perpetuated incentives for medical care providers to 'over-doctor' patients by prescribing expensive medicines or repeated treatments. Doctors consequently spent less time with each patient while increasing the strain on the financial resources of the NHI (DoH 1997a: 130).[10] Efforts by the government to contain costs were resisted by both medical care providers and patients. Revenue-generating proposals, such as raising monthly premium (contribution) rates, were summarily dismissed as politically impossible. The KMT was unwilling to institute any unpopular policy measures at a time when its own hold on governmental power was waning. This was partly due to the growing perception that the universal health insurance system had been mismanaged by the state.

Both demand-side and supply-side pressures on the NHI, combined with the KMT government's unwillingness to impose cost-containment or revenue-generating reforms, resulted in a major financial crisis in the medical insurance system. Between 1995 and 1998, the NHI's annual surplus decreased exponentially. In 1998, the BNHI operated at a deficit. Meanwhile, the reserve fund began to dwindle immediately after the NHI was implemented and by 1999 had completely disappeared. The NHI was essentially in a debtor situation (BNHI 2000). The financial squeeze on the NHI represented an administrative crisis for the KMT government.

The financial health of the NHI during the late 1990s cast serious doubt on the ability of the state to manage the medical insurance system. Even more pressing was the political crisis for the KMT government, a crisis that was fuelled by media scrutiny of the financial precariousness of the NHI programme. In other words, what had been a winning policy a few years earlier had become a major political liability for the governing regime.

The multiple-carrier reform

In early 1997, the DoH solicited reform ideas from public health scholars in Taiwan and in the end nine different reform proposals were collected, ranging from those that advocated little structural reform to others that envisaged the complete privatization of medical insurance provision (Ku 1998). The DoH leadership at the time was resistant to the privatization idea (DoH 1997b: 21–2). However, after the cabinet was reshuffled in September 1997 and a new Minister of Health appointed, the DoH warmed to the idea of privatized and marketized health insurance. The KMT leadership also supported this reform trajectory. Many state leaders believed that a private sector approach to medical insurance provision would help resolve the NHI's financial crisis, and the DoH quickly drew up a new multiple-carrier reform proposal in late 1997.

The multiple-carrier system would allow private sector carriers (or insurers) to compete. The BNHI was to be one of several different carriers and no longer the sole option for medical insurance coverage. Enrolees would continue to pay monthly insurance premiums though a single pipe mechanism to the 'NHI Foundation'. Funds would then be distributed to each of the competing carriers on a risk-adjusted, *per capita* basis. These carriers would then compensate contracted provider networks (comprising all levels of care) based on a similar risk-adjusted capitation calculation. Carriers were required to provide coverage for a standardized bundle of services for all enrolees. In this respect, patients were guaranteed the same basic health care services irrespective of which carrier they joined. Carriers could, however, offer supplemental benefits and thus charge supplemental premiums. Prospective enrolees could choose which carrier options best suited their individual or household medical needs. Market competition was to take place outside of the government-mandated menu of basic services.

Proponents of the reform contended that consumer choice in carriers would encourage insurers, including the BNHI, to promote more efficient practices in their own administration – and, more importantly, to ensure that contracted medical care provider networks functioned cost-effectively without compromising health care quality. In other words, reformers anticipated that private sector carriers would be more efficient in the allocation and management of resources than politically captured governments. Moreover, the multiple-carrier system would relieve the government of the financial burden incurred by the NHI. Finally, the state would continue to play an important regulatory role, particularly in maintaining the equity effects of the preexisting NHI system. All enrolees would receive the same basic medical care services. Under the proposed system, the state mandated that carriers could not reject any potential enrolee, thus preventing risk-averse selection on the part of insurance carriers. In short, despite the marketization and privatization of medical insurance, the state could continue to enforce the same equity principles that underpinned the original NHI scheme.

The multiple-carrier proposal emerged on to the reform agenda at a seemingly politically fortuitous time. The NHI was in a state of financial crisis. The privatization and marketization reform was consonant with global reform patterns toward containing costs in health care provision. There also appeared to be consensus about the direction of health care reform among policy elites within both the executive branch and the larger policy community outside of the state apparatus.[11] Furthermore, the KMT continued to control a majority of the seats in the Legislative Yuan. The opposition DPP was split on the issue of health care reform, meaning that the KMT faced a weak and fragmented opposition in the ensuing legislative debates (Bulletin of the Legislative Yuan 1997).[12] And, perhaps most importantly, the original NHI Act stipulated that after the NHI's first two years of operation the DoH was to present a two-year progress report to the cabinet wherein the health care system was to be evaluated and proposals for reform to be considered. This stipulation offered a ready-made 'window' of opportunity for health care reformers (Kingdon 1995, Chapter 8). The cabinet approved the multiple-carrier reform in early 1998 and the reform bill was presented to the legislature that March. It was expected to pass.

Resisting reform

By the fall session of the 1999 legislature, fourteen different members' health care reform bills, in addition to the DoH's multiple-carrier proposal, had been introduced into the Legislative Yuan. Soon thereafter, the DoH bill was referred to the Health and Welfare Committee of the legislature. It was not reintroduced to the Legislative Yuan for its second reading. The bill was never defeated in the legislature as it was never put to a vote, however, by the end of the 1999 legislative session, the multiple-carrier reform bill had essentially died in committee. Enthusiasm for a marketized and privatized health care system disappeared very quickly. The KMT failed to assemble a legislative coalition – and a broader consensus more generally – in favour of the reform. How can we explain this rather remarkable turn of events?

First, the legislative decision making process in Taiwan had become extremely fragmented by the late 1990s. While the KMT leadership was able to impose its will on its rank-and-file during the late 1980s and even up to the early 1990s, the ruling party was unable to continue this 'top-down' practice by the time that the multiple-carrier reform arrived in the Legislative Yuan. Partly this was because of a general leadership crisis in the KMT. President Lee Teng-Hui and his perceived soft stance on the Taiwan independence issue exacerbated internal party factionalism in the KMT (Chao and Myers 1998: 156–7). The breakdown of party leadership in the KMT was also a consequence of certain institutional features of Taiwan's electoral system. The multi-member district system undermined party discipline, because each party needed to field multiple candidates within the same district, party platforms, party labels and ultimately party leadership became less meaningful for individual legislators. Party patronage was also increasingly less instrumental for politicians to win elections, thus weakening the KMT leadership's ability to coordinate and/or discipline its rank-and-file (Hsieh 1996, 2001; Lin, Higley and Huang 1998).

The fragmentation of parties, especially the ruling KMT, and the increasing individualization of legislative behaviour more generally, led to legislative deadlock in health care reform. The legislature was no longer the 'rubber-stamp' assembly of years past. Five KMT legislators introduced their own health care reform bills (Bulletin of the Legislative Yuan 1999). Several KMT members opposed the multiple-carrier reform bill, arguing that the proposed scheme would erode the equity enhancing mechanisms built into the NHI programme.[13] The party's Central Policy Committee (CPC), the site for party consensus-building within the KMT legislative caucus, did not endorse the multiple-carrier reform proposal: in the area of social policy, this defiance of the KMT party leadership was unprecedented.

Second, despite the appearance of overwhelming bureaucratic support for the multiple-carrier reform, there were significant pockets of resistance within both the DoH and the BNHI. Though the cabinet reshuffle of 1997 led to a new leadership within the DoH, several ranking health policy bureaucrats had been held over from the earlier period of health care reform. Many of the important policy decision makers in the DoH and BNHI had thus in fact worked on the single-carrier NHI system implemented in 1995. These policy makers, who advocated a more 'go-slow' approach to reform, continued to have great influence over health care policy.[14] 'Go-slow' bureaucrats contended that 'reform from within', and without any major structural change, could help to overcome the NHI's financial crisis.[15]

DoH and BNHI bureaucrats implemented a range of supply-side and demand-side cost-containment measures in 1998 and 1999, including adjustments on user fee rates, the implementation of a new expenditure monitoring system, and – most importantly – the gradual introduction of global budgets in provider compensation schemes.[16] These alternative reform solutions to the multiple-carrier proposal were quite successful in containing costs. Beginning in 1999, the growth rate of health care expenditures declined dramatically, from about 10 per cent per year between 1995 and 1998 to 5 per cent in 1999 and 3 per cent in 2000 (Chiang and Yaung 2001). The 'go-slow' bureaucrats essentially lessened the feeling of financial crisis in the NHI, undermining the sense of urgency from which the multiple-carrier reform proposal had first emerged. In addition, these bureaucrats provided health policy expertise and thus political ammunition for both legislators and new social movement coalitions. Indeed, the multiple-carrier reform confronted a groundswell of social movement opposition.

Shortly after the DoH submitted its reform bill to the legislature in 1998, a publication entitled 'Big Business Health Insurance, Citizens Without Insurance' was circulated to health policy bureaucrats in the DoH and the BNHI and to all legislators. The pamphlet, prepared by the newly formed 'NHI Coalition', was critical of the multiple-carrier reform, arguing that the proposed bill would create a multi-tiered, private sector health insurance system. It also proposed some alternative reform ideas in cost containment (NHI Coalition 1998). What was distinctive about the NHI Coalition was its broad-based support. In an unprecedented effort to consolidate Taiwan's burgeoning civil society, the NHI Coalition comprised over 200 different social movement groups, bringing together organizations representing labour, the elderly, women, children, native-born groups and professional medical associations. The NHI Coalition was a cross-cleavage, cross-class alliance of grasroot activists. Inter-group cooperation facilitated the exchange of ideas, proposals and expertise in the area of health care reform.

The Coalition attracted outside policy experts into its ranks, including academics and high-ranking policy officials.[17]

This coalition of expert–activists successfully penetrated the legislative process by demonstrating a show of political strength. Moreover, its policy expertise allowed the NHI Coalition to effectively engage policy debates in the legislature. Unlike in the past, when societal actors were excluded from the health care policy arena, the groups that made up the NHI Coalition were key policy actors during the late 1990s. According to elite survey data, 74 per cent of respondents ($n = 109$) perceived societal group influence to be on the rise while only 6 per cent felt it was declining, 77 per cent of legislator respondents claimed to meet with societal groups or group leaders at least once a month to discuss policy matters. Indeed, much of the opposition to the multiple-carrier reform in the legislature echoed the arguments made by the NHI Coalition.

Policy network change

The politics of resisting the KMT's marketization reform efforts during the late 1990s in Taiwan was facilitated by policy network change in the area of health care. No longer was the KMT able to dominate the politics of health care reform. The evidence from the late 1990s shows that the number of actors involved in the health policy decision making process increased. The range of actors grew to include more assertive bureaucrats and legislators, as well as actors from within civil society. The health care policy network became more porous as institutional opportunities for policy making participation expanded throughout the late 1990s. Health care policy making between 1997 and 1999 involved the contestation of different interests, which in turn made consensus around the multiple-carrier reform difficult to achieve.

While networks tend to be stable over the long run, Atkinson and Coleman remind us that policy networks can be very fluid, continually shaped and reshaped by the dynamics of political change (Atkinson and Coleman 1992). Democratic reform, therefore, can have a profound impact on the *shape and size* of policy networks, as well as on the *distribution of power and resources* within them. The legalization of associational life in civil society, the depoliticization of the bureaucracy and the empowerment of elected legislators increase the number of actors involved in a given policy network. Institutional reform endemic to democratic transition offers myriad opportunities for policy making participation. We should therefore expect – and the evidence from Taiwan confirms this – that democratic change will deliver larger, more inclusive and transparent policy networks.

What was interesting, however, was the *temporal lag* between the introduction of democracy in Taiwan and its effects on policy network change. For instance, we know that during the late 1980s the health care policy network under the democratizing KMT government remained small, insulated and overseen by incumbent party elites. In other words, health policy network change in Taiwan really emerged only in the late 1990s, or about ten years after the initiation of democratic transition. Several reasons account for this temporal lag.

First, democratic transformation in Taiwan involved a continuous process of change: *democratic crafting* was not a one-shot deal. Constitutional change and institutional reform in democratizing Taiwan took place over several national conventions spanning the early to mid-1990s. It was not until the late 1990s that the institutional context of Taiwan's new democracy had stabilized. Second, democratic transition demanded *political learning* over time. Actors were forced to adapt to new institutional contexts and to strategically exploit new institutional opportunities for participatory policy making. This process of strategic adaptation took time; civil society actors, particularly labour, adapted new mobilization strategies, such as cross-class coalition-building. Legislators learned over time to take advantage of Taiwan's electoral system to gain greater policy autonomy. Third, the temporal lag between the introduction of democratic reform and policy network change was a function of *policy learning* among relevant actors. Democratic institutions facilitated the dissemination of policy information and knowledge, though the cultivation of policy expertise took time – particularly in a policy area as complex as health care. In Taiwan, civil society actors gained important policy expertise and thus more effectively engaged the health care policy making process. Bureaucrats similarly explored different policy options and leveraged their expertise in challenging the KMT's multiple-carrier reform.

Conclusion: re-defining development

The design and purposes of health care policy in Taiwan underwent a major shift during the postwar era. Moreover, this social policy shift was shaped by distinct political logics, reflecting the different stages of political change in Taiwan. The authoritarian developmental state, for instance, provided selective and thus limited coverage in social insurance. The expansion of social protection under the authoritarian developmental state was dictated by a political logic of crisis and selective compensation. The introduction of democratic reform in Taiwan during the late 1980s, however, reoriented the social policy agenda, so that the universalization of health care was seen by the KMT government to be the most politically expedient policy choice. This phase of health care reform was shaped by a political logic of crisis and universal compensation (Table 2.2).

Finally, the KMT government was unable to legislate its multiple-carrier reform proposal during the late 1990s, despite compelling fiscal and political imperatives to do so. Efforts to claw back the NHI scheme and to retrench on the very principles of the NHI were resisted by myriad

Table 2.2 Three phases of health care reform, 1950s–1999

Agenda	Phase 1 1950s–1980s	Phase 2 1988–95	Phase 3 1997–9
Policy outcome	Selective coverage	Universal coverage	Resist retrenchment
Political logic	Crisis and selective compensation	Crisis and universal compensation	Policy network change

political forces, including legislators, bureaucrats and a rejuvenated civil society. In this phase 3 of health care reform, the health policy network had changed in Taiwan, facilitating greater policy contestation among a wider range of policy actors, many of whom opposed the KMT's reform initiatives.

Looking ahead, we should expect that this social policy trajectory towards greater inclusion and welfare state deepening will continue. While the authoritarian state was focused on rapid economic growth, so that social policy was understood by policy makers to be a necessarily subordinate policy priority, the democratic state has been forced to revisit the idea of development, and specifically to rethink the place of socioeconomic redistribution in development. In Taiwan, the role of the state is no longer solely for the purpose of promoting aggregate and rapid growth. The legitimacy of the democratic state in Taiwan has become increasingly dependent upon new social, economic and political priorities, including continual democratic reform and the promotion of socioeconomic equity and social inclusion more broadly. Ironically, in an era of globalization in which the state is supposedly receding, democratic reform in Taiwan seems to have initiated a *revaluation of the state* in terms of social welfare. Why?

For one, social policy issues have become a part of mainstream politics and policy debate, despite the historical absence of political cleavages in Taiwan. During the 1990s, public opinion data indicated social welfare reform to be among the highest policy priorities for the democratizing state (Academia Sinica 1994: 108; Ku 1997: 190–1; Wang 1997: 322). Elites have come to share the same view. According to elite survey data collected in 1999, 87 per cent of respondents ($n=111$) (Msamanga, Urasa and 1996) agreed that the 'public provision of social welfare is a fundamental characteristic of democracy'. For political entrepreneurs in Taiwan, social policy issues have proved to be winning political platforms: in short, welfare deepening is good politics.

Second, policy path dependency will ensure that the gains made in social policy reform will likely be sustained. The 'feedback' effect of preexisting social policies have ensured that the interest coalitions which have formed around certain social policies have locked in place the distributive consequences of these policies. Indeed, the policy legacies of the original NHI in Taiwan helped shape the eventual opposition forces to the retrenchment initiative of the late 1990s.

Furthermore, the NHI programme in Taiwan has entailed an important ideational legacy. The integrated medical insurance system created what Kingdon calls a 'new principle' in social policy expectations (Kingdon 1995: 191). The preservation of the structural integrity of the NHI during the late 1990s, for instance, fulfilled a normative expectation about social protection. As a principle, the universal scope and redistributive consequences of the NHI programme in Taiwan spilled over into other social policy areas, and consequently shaped peoples' normative expectations regarding future social welfare initiatives (Wong 2003). It has thus come as no surprise that over the course of the last half-decade, democratic governments in Taiwan, including both KMT and DPP administrations, have legislated or implemented a slew of new social policy initiatives in old-age security, gender equality, new labour provisions and other social policy programmes.

Notes

1. Other benefits included coverage for work-related injury, old age, disability, death and maternity.
2. During the 1970s, the KMT government introduced supplementary elections for the central Legislative Yuan, the National Assembly, the provincial legislature and in the municipalities. However, the actual number of contested seats was minimal so as to ensure the KMT's continued dominance in all legislative bodies.
3. Prior to the 1979 Labour Insurance Law revision, workers aged fifteen years or younger were ineligible for social insurance coverage.
4. Premier Kuo-Hwa Yu first announced the KMT's proposal for universal health care in early 1986, ten months before legislative elections. He announced that the government aimed to have the programme implemented by 2000. A short time later, in 1989, Premier Yu announced that the starting date for universal health care had been moved to 1995.
5. Interviews with Chi-Liang Yaung, CEPD task force member (24 November 1999), Tung-Liang Chiang, CEPD task force member (15 November 1999) and Kai-Hsun Wu, CEPD task force member (3 November 1999).
6. The KMT controlled 63 per cent of the seats in the Legislative Yuan between 1992 and 1995, the time during which the NHI bill was deliberated and subsequently passed.
7. Government employees paid 40 per cent of the monthly contribution while the government paid the remaining 60 per cent.
8. The co-pay levy, in New Taiwan dollars, ranged from $50 NT to $150 NT.
9. Bureaucrats from the DoH and the BNHI, as well as all legislators in Taiwan, were asked to complete a self-administered survey comprising over sixty different attitudinal and role-based questions. The total sample size for Taiwan was 112.
10. Between 1995 and 1997, 34 per cent of primary care physicians claimed to see over fifty patients per day.
11. In the autumn of 1999, I interviewed all of the members of the original CEPD task force. With the exception of Kai-Hsun Wu, all of the original members agreed that some form of marketization reform was necessary if the NHI was to remain financially solvent.

12. Six DPP reform bills were proposed to the Legislative Yuan, spanning the ideological spectrum. DPP proposals ranged from Lee Ying-Yuan's complete marketization reform to Shen Fu-Hsiung's partial health insurance scheme, to labour-backed Chien Shi-Chieh's proposal to finance health care provision solely through government funding.
13. Interviews with KMT legislators Lin Yaw-Hsing (1 December 1999), Shyu Jong-Shyong (2 December 1999) and Vice-Director of the KMT CPC and KMT legislator Huang Chao-Shun (11 November 1999).
14. Interview with Julie Ma, Research Associate, DoH Small Group, Department of Health (11 November 1999).
15. Interview with Wu Kai-Hsun, CEPD Task Force and Chairman of the Medical Care Cost Arbitration Committee, DoH (3 November 1999).
16. Interviews with Peter Wen-Hui Cheng, Director, Finance, BNHI (14 October 1999) and Lee Yu-Chune, DoH Small Group, Department of Health (2 October 2000).
17. One of the principal drafters of Big Business Health Insurance, Citizens Without Insurance' was (and still is) a high-ranking official in the DoH. This official asked to remain anonymous.

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3

The New Politics of the Welfare State in a Developmental Context: Explaining the 1990s Social Care Expansion in Japan

Ito Peng

Introduction

The welfare state policy expansion in Japan in the 1990s has been something of an oddity when one considers the significant economic pressures on the government to restrain fiscal spending, and the international trend of welfare retrenchment. This chapter examines the politics of welfare state expansion in Japan during the 1990s, and assesses the impacts of civil society engagement in public policy making in shaping social policy outcomes. The chapter consists of two main sections and a conclusion. The first section outlines the development of the Japanese welfare state policies in the light of political, economic and social factors that have affected the changes in state's social policies. I argue that, although compelling, the developmental state view can offer only a partial explanation of welfare state development in Japan. The evidence for the developmental state seems strongest for the period up to the early postwar years. After the 1960s, however, the developmental state perspective becomes increasingly challenged by inconsistencies in social policy development. With increasing evidence of civil society engagements in shaping social policies and of politicians' sensitivities to electoral trends at different times, I contend that it would be more fruitful to analyse the development of Japanese welfare state from the perspective of a gradual shift from a developmentalist to a more democratic and pluralistic political model.

The second section elaborates on the idea of the democratic political model of social policy development process. I argue that despite the government's retrenchment efforts in the 1980s and despite the new fiscal problems it faced in the 1990s, the Japanese welfare state has moved towards more rather than less inclusiveness in the recent years. This was achieved largely by expansion in the area of social care for the elderly and for families with dependent children. This can be explained by a combination of two factors. The first is the real and perceived *political and public crises*. Specifically, the crises involved, first, the political regime shift that began in 1993 with the end of the conservative Liberal Democratic Party's (LDP) nearly forty years of uninterrupted political dominance in Parliament. This political crisis, which led to a new political competition for electoral support, not only intensified need for policy innovations but also opened up opportunities for historically weak societal groups (such as women's groups) to engage with the government in the policy making process. The second crisis was more ideational, but equally powerful in terms of its impact on social policy development in the 1990s. The structural changes mediated by post-industrial factors, such as rapid demographic ageing, de-familialization and changes in gender relations, became more clearly articulated in terms of public crisis in the 1990s. The construction and utilization of what I call the *public crisis of the family* (the crises ranging from families collapsing under the burden of elderly and child care to the emergence of 'single parasites' – young, and not so young, single adults who continue to cohabit with and financially and emotionally depend on their ageing parents) has provided a climate for more progressive social care policy bills to pass Parliament and the bureaucracy.

The second factor contributing to a more inclusive welfare and democratic policy making process in the 1990s was the effect of *policy feedback*. In the early 1990s the LDP introduced a community welfare policy (*chi'iki fukushi*) in an attempt to activate societal groups to take on a greater social welfare role. As in the case of politics structuring social policy, and social policy structuring politics (Skocpol and Amenta 1986), the very success of this conservative policy in turn facilitated and strengthened social and political mobilizations, particularly grass root women's and elderly people's groups, to push for further welfare state expansion. I focus on the cases of the Long-term Care Insurance scheme for the elderly and family policy reform for families with small children – two areas that saw a huge expansion in the 1990s – to elucidate how real and perceived sense of crises and the policy feedback contributed to the new politics of welfare state restructuring in Japan.

An overview of welfare state development in Japan

Social welfare policy in Japan began to develop comparatively earlier than in most other countries in East Asia. During the early phases of its development the Japanese welfare state exhibited many features that could be called 'productivist' or 'developmental'. These included, 'a growth-oriented state and subordination of all aspects of state policy, including social policy, to economic/industrial objectives' (Holliday 2000: 709), and economic and industrial growth-oriented policy making carried out by elite policy makers who were relatively autonomous and insulated from the politics (Johnson 1982). In Japan, a remedial form of social security system had taken root by the early twentieth century, largely as a part of the country's military and industrial strategy to ensure healthy and productive workers. The first social insurance in Japan, the Workers' Health Insurance (*Kenko Hoken Ho*), was introduced in 1922 based on the model of German sickness insurance.[1] The insurance targeted the elite labour force – for example, the industrial workers in heavy metal industries – which were crucial for the country's industrial–military complex and economic development. The insurance was remarkably progressive: it was mandatory for all workers working in the sector; the insurance fee was equally shared between the employers and employees; it covered all illnesses resulting from work and outside-work causes; and the scheme was administered by both the state and the health insurance carrier (Hiroi and Yamazaki 2001).

During the subsequent two decades several other social insurance schemes were also introduced. These included Workers' Accident Insurance (1931), a Retirement Severance Allowance Scheme (1936), National Health Insurance (1938), Employee Health Insurance and Seamen's Health Insurance (1939) and a Workers' Pension Scheme (1941). By the beginning of the Second World War (1939), all the basic social insurances except for unemployment insurance (or employment insurance, if we use the direct Japanese translation) was in place. It is important to note here, however, that social insurance was not developed to extend people's citizenship rights to social welfare as we understand it today, nor could we even consider it as state paternalism aimed at promoting better health and welfare for citizens in general. Rather, these measures were put in place explicitly to meet the human resource needs of the military–industrial machine at the time. Indeed, as illustrated by the policies towards indigents, although poor relief (*Kyuhin Ho*) was instituted in 1929 much of the priority was given to assistance for, and protection of, the families of the military personnel. Assistance for indigent civilians was restricted to extreme cases of poverty due to ageing, orphanhood, and illness (Ikeda 1997). The role of social policy within the context of Japan's modernization process during this period is clear. The country's industrial and economic development agenda took precedence over other policies; however, ironically, that agenda also led to the introduction of a variety of social insurance and welfare programmes which aimed to protect those who were working within the military–industrial sectors that were important for the national economic development strategy.

With its defeat in the Second World War, however, Japan was demilitarized and democratized under the American-led Allied Occupational Force.[2] After the Korean War in 1953 and with the deepening of the Cold War, Japan also became an important political and economic ally of the USA in East Asia. The development of the postwar Japanese welfare state was therefore greatly shaped by the process of economic reconstruction and by the development of democratic institutions and processes. A quick overview of the postwar Japanese welfare state reveals four distinct developmental phases, with each suggesting a gradual maturing of the economy and a deepening of democracy: (1) 1945–mid-1950s – a focus on postwar economic reconstruction and poverty alleviation; (2) mid-1950s to the early 1970s – an era of rapid economic development and welfare state expansion; (3) mid-1970s to the end of the 1980s – the end of rapid economic expansion and the beginning of welfare state retrenchment; and (4) the end of the 1980s to today – an era of new political participation and a shift towards welfare state expansion. Over these successive phases of welfare state development, the economic growth agenda continued to dominate national policy making; however, industrial and economic policies – and, indeed, the policy making process itself – became increasingly more challenged and contested as a result of emerging interest groups and increasing politicization of the government's policy making process – in other words, the earlier developmental state approach to policy making became increasingly difficult to sustain as a result of the economic growth and the deepening of the democracy.

1945–mid-1950s: a focus on postwar economic reconstruction and poverty alleviation

During the first decade after the Second World War much of the government's welfare effort was focused on economic reconstruction and poverty alleviation. The influence of the early postwar American occupational power on the Japanese conceptualization of 'poverty' was significant. As Milly (1999) and Kume (1998) argue, the idea of poverty as an *economic structural problem* to be solved through private employment rather than public assistance had significant impacts on the Japanese bureaucrats' understanding of social policy, which in turn shaped welfare policies that clearly favoured labour market solutions rather than state provision. Much of the social welfare policy during this period was focused on labour and employment protections. The New National Constitution (enacted in 1946) gave citizens a constitutional right to basic livelihood, however the social policy articulation of that guarantee took the form of ensuring the individual right to work rather than the provision of social assistance. A Labour Union Law was enacted in 1945 to guarantee workers the right to unionize and to elevate workers' positions in the labour market. This was followed by a Labour Relations Adjustment Law in 1946, which created an institutional channel for mediating labour disputes, and a Basic Labour Standard Law in 1947 aimed at meeting the international standard for labour practices set by the International Labour Organization (ILO). The worker's compensation insurance and the unemployment insurance of 1947 also made it the employers' responsibility to protect workers.[3]

The basic theoretical framework of the early postwar Japanese responses to social welfare and poverty alleviation were thus based what might be called an 'active labour market' policy. Policies emphasized better employment conditions and labour protection rather than social welfare. This suggests an approach to poverty alleviation through employment rather than social assistance. While a Livelihood Protection Law (the revision of the *Kyuhin Ho* of 1929) was introduced in 1947 to extend social security assistance to individuals and families, the conditions of the assistance were so stringent that, in effect, only those who absolutely could not be accommodated by the labour market were given social assistance – for example, indigent elderly without families, disabled, single mothers with small children and war orphans. This early labour market-oriented approach to social welfare had an important institutional effect on later Japanese welfare state development. Once the basic framework of an active labour market solution to social welfare was established, it shaped the structural orientation of the Japanese welfare state and its policy design. Subsequent welfare policies sought to assist all able-bodied workers to participate in the labour market through effective labour–management mediation and greater job protection. The traditional family-based enterprise and paternalistic labour practice notwithstanding, the early framework of the labour market-oriented approach to social welfare in Japan further reinforced the pattern of familialistic corporatist labour market practices such as life-time employment and economic and industrial policies aimed at full employment for most male workers and subsidiary employment for retired men, women, single mothers and ethnic minorities.

Mid-1950s to the early 1970s: an era of rapid economic development and welfare state expansion

From the mid-1950s, however, Japan's economic and industrial policies began to encounter growing resistance from societal groups over the issue of social and economic redistribution. With broadening of participatory democratic process the Japanese government had to become more sensitive to societal pressures. As Calder (1988) points out, welfare policy patterns after 1949 showed the government's sensitivity to grass root pressures, especially once a critical threshold of public pressure had been achieved (Calder 1988: 350). For example, the uneven pattern of periodic welfare expansions corresponds closely with social and political crises, while the periods of retrenchment are often associated with relative political stability. Indeed, welfare expansion during this period did not happen gradually; rather, it occurred in two peaks, first from the end of the 1950s to the early 1960s and second from 1970 to 1974, both periods of significant political crises for the ruling LDP.

The rapid economic growth from the mid-1950s to the beginning of the 1970s was largely driven by the national economic objective to 'catch up and go beyond' (*oitsuke*, *oikose*) Western countries. Although the real economic growth brought about a substantial increase in the standard of living for Japanese people, the rise in personal incomes was not always uniform across the society: throughout the 1950s the gap in personal income widened rather than shrank. This intensified public pressures on the government for policy change. Public agitation over widening income inequality was soon translated into labour disputes and strikes as unions pressed for better wage settlements. Electoral politics also swung to the left – for example, the Socialists won more than a third of seats in the 1956 Upper House Election, making it a real political threat to the LDP. On the labour policy front, tension mounted over Prime Minister Kishi's confrontational stance towards the Left, and his decision to sign the contentious and unpopular revision of the US–Japan Security Treaty (1951) also fuelled public anger. The recession of 1958 and the political crisis over the Kishi administration's handling of the Security Treaty resulted in labour strikes and workshop rallies across the country. In the face of this deepening political crisis, the government passed a series of new welfare policy measures between 1958 and the early 1960s as compensation to disaffected labour (Calder 1988).

The most important achievement of this period was the implementation of, and further improvements on, the six key social security programmes. These were: (1) the Basic Social Welfare Law of 1951, which established a system of social work services across the country, mostly through local governments and the National Association of Social Welfare (*Zenkoku Shakai Fukushi Kyogikai*), a network of semi-autonomous social welfare organizations funded by the state; (2) National Health Insurance, which was reformed in 1958 and implemented in 1961 as a universal health insurance scheme; (3) a National Pension, established in 1959 and implemented in 1961; (4) the Welfare for the Disabled Law of 1960, which established a formal and separate system of public support and services for disabled people, including home services, job training programmes and health care support; (5) an Elderly Welfare Scheme (1963), which established a formal and separate system of public support and services for the elderly, including home services, institutional care and other social services; and (6) a Maternal and Child Welfare Scheme (reformed in 1964), with improvements to social assistance and institutional support for single-mother families, public day care, after-school programmes and public health programmes specifically targeted at mothers and children. In addition to these six social security programmes, improvements were also made to the existing programmes, including increases in the level of support for basic livelihood protection and employee pension schemes, and the introduction of a child allowance for single-mother families (1961).

The second peak in welfare expansion came at the beginning of the 1970s. This time, political competition from the local and prefectural governments was the main engine of social policy change at the national level. The late 1960s saw an emergence of grass root movements around the issues of pollution and social welfare. Public concerns for the environment was particularly intense in urban centres such as Tokyo, where issues of child care, traffic safety, air and noise pollution and other quality of life issues were thought to be compromised by the government's economic and industrial development policies. The lack of national response to grass root demands left social welfare politics to be played out at local and prefectural levels. A steady shift in voting patterns toward the Left in the cities was observed in the 1960s. Indeed, by the end of the decade a number of large cities had elected Socialist and Communist politicians to the local councils on social policy reform platforms and much of the policy innovation was taking place at the local government level in lieu of national government action. Dissemination of progressive social policies at the local government level was also obvious. For example, in 1967, Musashino City in the suburbs of Tokyo, under a Socialist mayor, introduced a child allowance programme funded at the local level – a first time for local government in Japan's history. The idea soon spread, and by 1969, 171 local governments had followed suit (Calder 1988: 170–1). In response to public demand local and prefectural governments also began to take steps towards subsidizing the medical care costs of the elderly. For example, the Metropolitan Tokyo government, under a Communist Mayor in 1969, introduced free medical care for residents over the age of seventy. At the same time the Japan Communist Party in parliament also outlined its policies towards for the elderly, including free medical care and a pension hike, while the Komei Party announced a policy proposal to raise the national basic pension to 20,000 yen a month. Political competition from the local and prefectural levels had by the end of 1969 percolated up to the national level and created a policy crisis for the ruling LDP. Under increasing competition from both local governments, which were gradually replacing LDP politicians with Socialists and Communist representatives, and other political parties within Parliament, the LDP government was forced to respond to growing public demand for social welfare. In 1971 the government set up special project teams within the Ministry of Health and Welfare to look at social policy reforms. The outcome of the policy review was Prime Minister Tanaka's announcement of the First Year of Welfare (*Fukushi Gan'nen*) policy in 1973. The First Year of Welfare policy set in motion a government attempt to expand the welfare state. Within the first year, total social security increased by 29 per cent. The welfare reform included: introduction of national child allowance for families with small children (1971), free medical care for people over seventy (1973); indexation of pensions and increases in employee and national pensions (1973); as well as an increase in national health insurance provisions (1973). Although still relatively low compared to most Western welfare states, Japan's social security spending level as a proportion of national income more than doubled, from 3.54 per cent in 1951 to 9.49 per cent in 1975. In terms of actual amount of expenditure, total social security expenditures rose at an annual rate of over 25 per cent between 1970 and 1975 (NIPSSR 1998).

These two periods of welfare expansion suggest the difficulties faced by the Japanese government in maintaining a straight course of industrial and economic strategy in the absence of social policy correctives. There are two possible explanations for this. First, as Allinson (1993) points out, Japan's economic growth since the 1960s broadened individual economic citizenship, and this fostered a structural transformation, including changes in patterns of political power. The structural transformation was reflected in the emergence of interest groups after 1960, most of them led by 'educated leaders with long experience, trained staff with political expertise, and expanding budgets' (Allinson 1993: 27). The expert-led interest groups challenged policy makers and lobbied politicians to support their causes. Second, the emergence of interest group politics also made policy making much more political. Bureaucrats were less able to make autonomous policy decisions in an increasingly politicized and contentious policy environment. Studies suggest a shift in the policy making process in Japan after the 1960s. Campbell (1992), for example, observes the powerful roles played by professional interest groups such as the Japan Medical Association and a new type of policy lobbying politicians (what Campbell calls *zoku* politicians) in shaping health care policies in the 1970s and 1980s. McKean (1993) also contends that even in industrial policy areas there was a shift in the government practice from 'orchestrating policy' to 'delegating policy design and policy implementation to interest groups and industrial associations' (McKean 1993: 100). This all points to a critical intersection in which earlier 'developmental' or 'productivist' strategies were countered by political pressures from interest groups arising from steady economic development and deepening democratization.

Mid-1970s to the end of the 1980s: the end of rapid economic expansion and the beginning of welfare state retrenchment

The oil crisis of 1974, however, put a break on Tanaka administration's welfare state expansion. In fact, over the second half of the 1970s the idea of the welfare state itself came under a neo-conservative backlash. Conservative politicians and critics picked up on the popular theme of 'welfare state crisis' in Western countries to criticize the 'excess and wasteful scattering of welfare money' (*fukushi baramaki*) at home. Calls for welfare reform resulted in a revision of social policies, and by 1981 welfare restructuring had become the government's top policy agenda. Pension and health care insurance contributions were raised, and at the same time user fees and co-payment schemes were introduced. Social assistance for poor families and families with children was cut, and the eligibility for child allowances was tightened. The welfare policy emphasis was returned to the family as the main institutional site of welfare production. Between 1980 and 1990, social security expenditure remained little changed (from 12.41 per cent–13.45 per cent of total national income), while the proportion of people over the age of sixty-five grew from 9.1 per cent to 12.0 per cent of the total population (NIPSSR 1998). The Gini coefficient (adjusted after tax and social security) also rose from 0.314 in 1981 to 0.364 in 1990 (Ministry of Health and Welfare 1999).

The apparent reversal of the welfare state expansion policy in the 1980s does not, however, imply a return to the earlier 'productivist/developmental' trajectory. The welfare state retrenchment during this period was highly ideological, and followed closely the neo-conservative economic strategies adopted by the UK and the USA. The LDP government's ability to keep a tight rein on welfare state retrenchment during the 1980s, against public protest, can be explained by the relative political stability afforded by stable economic growth. Although lower compared to the rapid growth period of 1955 to 1973, the economic growth rate remained steady at about 5 per cent per year throughout the 1980s and, unlike many other countries in the West, both the unemployment rate and inflation were low. Industrial labour relations during this period were also quite benign. The social contract between the state, employers and labour forged after the 1974 oil crisis not only enabled the LDP to expand its electoral base among workers, but also allowed the labour movement to expand its role in policy making and to achieve a strong employment maintenance programme (Garon and Mochizuki 1993).

Not all sectors of society were supportive to the LDP government's welfare retrenchment policies, however. Indeed, there was significant resistance to welfare state retrenchment at the grass root level, particularly from women (Peng 2002). Many women's organizations were created in protest at the state's conservative family policy. Groups such as the Women's Committee for the Improvement of an Ageing Society (WCIAS), formed in 1983 shortly after the government implemented its welfare retrenchment policies, quickly enlarged its support base and became a nationwide lobbying group. The 1980s also saw a significant increase in the number of community-based groups, particularly in large cities. Ueno and Denshin Network (1988) note an emergence of a new type of grass root activism led by women in the 1980s. According to a national survey, the total number of volunteer/grass root groups increased from 16,162 to 48,787 between 1980 and 1991, while the total number of people engaged in volunteer activities rose from 1.6 million to 4.1 million during the same period (Ministry of Health and Welfare 2001).

The end of the 1980s to today: an era of new participation and political a shift towards welfare state expansion

By the end of the 1980s, however, welfare expansion was once again back on the government's policy agenda. The needs for welfare expansion were felt particularly in two areas: elderly care and work–family harmonization. Demographic ageing implied a huge demand for elderly care services, notwithstanding Japan's long tradition, of familialistic welfare. With the sixty-five+ population reaching 12 per cent of the total in 1990, both real and perceived needs for public elderly care were great. Women's educational attainment also continued to rise and, at the same time, their employment patterns changed. Women were more likely to work and continue working after marriage and childbirth. More married women were also working outside of their homes. On the other hand, the welfare cuts of the 1980s had pushed much of the care burden back on the family, as the private sector role in care services in Japan remained extremely weak. Within the context of this demographic and gender transformation, women's groups found increasing public support for their mobilization effort and more opportunities to push for welfare expansion.

Some of the structural and ideational changes over the previous four decades had by the end of the 1980s become crucial factors for policy change in Japan. Despite the government policies to encourage 'three-generation' household arrangements, the proportion of elderly people living with their children declined steadily, from 71.9 per cent in 1975 to 58.5 per cent in 1990. Conversely, those living on their own or only with their spouses rose from 22.1 per cent to 35.0 per cent (Ministry of Health and Welfare 2000). The non-marriage rate amongst women and men in the twenties and thirties were increasing, contributing to the decline in total fertility rate (Ministry of Health and Welfare 1997). The notion of a 'male-breadwinner household' was also being replaced by 'dual-worker family' model, at least amongst those under the age of fifty. Public opinion surveys showed increasing support for social welfare and an increased state role in social welfare, elderly care and family support. The disjuncture between the welfare retrenchment policies of the 1980s and the changes in demographic and family structures made the elderly care issue particularly volatile politically.

As will be discussed in the next section, the combination of structural and ideational changes and the political crisis that followed the collapse of the 'bubble economy' in the 1990s created an opportune moment for policy change and set the stage for the new political dynamics of welfare state expansion. Between 1990 and 2000, total social security expenditure increased from 13.45 per cent to 20.53 per cent of the total government income, while that of social welfare doubled from 1.37 per cent to 2.87 per cent (NIPSSR 2002). The increase in social welfare expenditure was primarily accounted for by two major reforms: elderly care and support for families and children. Expenditures for elderly care alone rose from ¥0.57 trillion to ¥3.57 trillion between 1990 and 2000,[4] while expenditures for the support of families and children increased from ¥1.6 trillion to ¥2.74 trillion during the same period[5] (NIPSSR 2002).

Although the following sections will discuss in detail the politics of welfare expansion in the 1990s, it is worth pointing out here that Japan's welfare state development over the last half a century shows an increasing role of politics in social policy development. The increasingly political nature of social policy can be attributed to the increasing economic prosperity shared by citizens as a result of postwar economic growth, and the deepening of democracy, as expressed by greater political pluralism and increased political participation by people in forms of grass root and interest group political mobilization. This suggests a crucial roles for economic growth and democracy in shaping welfare state development.

From a selective to an inclusive welfare state

With the collapse of the economic 'bubble' at the end of 1991, the Japanese economy entered a recessionary phase and remained stagnant for the rest of the decade. The government reacted by imposing administrative reforms, much of which followed a neo-liberal approach to fiscal management. Yet, despite the retrenchment and a renewed commitment to neo-liberalism, social welfare moved in an entirely opposite direction. Social security expenditures grew faster than any other public expenditure in the 1990s, and there is a good indication that the Japanese welfare state shifted toward a more rather than less inclusive welfare system during this period. This is most evident in the case of social care reform for the elderly (the 'Gold Plan' and Long-Term Care Insurance: LTCI), and family–work harmonization policy reforms for families with dependent children (the 'Angel Plan'). I argue that social care expansion was possible in the 1990s because of the combination of: (1) real and perceived political and public crises and (2) the broadening of civil society, partly resulting from the policy feedback effect of the neo-conservative policy introduced in the early 1990s. However, before I move on to elaborate on these factors, a quick overview of reforms is in order.

Social care reform for the elderly

The social care reform for the elderly involved first the introduction in 1989 of a ten-year emergency plan for elderly care commonly referred to as the 'Gold Plan'. This involved a huge expansion of care services for the elderly, including the increase in the numbers of home helpers from 31,400 to 170,000, day services for the elderly from 4,300 to 17,000, beds in short-stay centres from 1,000 to 60,000 and in elderly health care institutions from 28,000 to 280,000 over the ten-year period from 1989 to 1999. The 'Gold Plan' was a positive step toward expanding social welfare, but it soon became a target of criticism as inadequate. By 1993, there were an estimated 2 million elderly in need of care and the number was projected to grow to 2.8 million before the end of the decade (Ministry of Health and Welfare

2000). Despite the 'Gold Plan' most of the elderly continued to be excluded from the public care system.[6]

The inadequacy of the 'Gold Plan' led to public debate over the ineffectiveness of the whole existing public care system in Japan. In 1995 when Germany introduced a Long-Term Care Insurance scheme, the Japanese debate shifted to the idea of a similar insurance scheme. After two years of intense public debate, the Long-term Care Insurance (LTCI) scheme was introduced in Japan. The LTCI consolidated the idea of social care for the elderly within the social insurance framework. As a universal mandatory social insurance, LTCI covers care services for people over sixty-five, and those between forty and sixty-four who need care as a result of premature ageing. Insurance contributions are compulsory for people over the age of forty. The insurance covers both domiciliary and institutional care, with the amount of coverage set according to the level of disability. The insurance is publicly funded, with 50 per cent of its funds deriving from insurance revenue and another 50 per cent from general taxation. Most importantly, the LTCI scheme shifts the principle of elderly care from a means-tested public welfare programme ('Gold Plan') to a rights-based social care system run on the principle of social insurance. All citizens over sixty-five needing care are now guaranteed care services through the LTCI. Japan's LTCI expenditure is about twice as large as that of Germany's, and differs from the German model, which is funded strictly by insurance premiums, and comes closer to being a universal social care programme, funded equally by the insurance premium and general taxation.

Social care reform for families with children

Policies for families with dependent children also benefited from an expansionary reform in the 1990s. The 'Angel Plan', a ten-year emergency plan for families with children, was introduced in 1994 with the aim of increasing social care and support for families with dependent children. The expansion of public child care was particularly important. Included in this were increases in: the number of child care places for children under two years of age (from 470,000 to 600,000 between 1995 and 1999), the number of multi-functional child care centres (from 200 to 1,500); the places for extended-hours child care (from 2,530 to 7,000), the temporary child care centres (from 600 to 3,000), the local child rearing support centres (from 354 to 3,000) and the after-school programmes (from 5,220 to 9,000). In concert with the expansion of public child care and family support, parental leave policy was introduced in 1994 within the Employment Act, allowing parents to take up to one year of child care leave. The policy was reinforced in 1998 by adding a 40 per cent income replacement for parents taking such leave. In addition to paid parental leave, flexible working hours, child allowances and other family support and assistance for young families have been introduced since 1996, with the specific objective of enabling women to harmonize family and work responsibilities.

The politics of social care reforms

The cases of elderly and child care reform in Japan raises an important question about how a large-scale and seemingly progressive social care expansion can happen at a time of fiscal restraint, and within the context of a developmentalist welfare state under conservative rule. It is tempting to argue that factors such as rapid ageing, declining fertility and changes in women's labour market participation made it logical for the state to introduce social care. However, this argument overestimates the state's objective and functionalistic policy making capacity, and underestimates the multiplicity of political actors that may be involved in the development and shaping of social policies. A strictly developmental state argument for welfare state expansion in the 1990s thus fails to provide a convincing explanation as to why these policies were instituted at this time. While demographic and gender shifts were clearly important, politics mediated by these changes were also crucial to the welfare state change. Moreover, as Skocpol and Amenta (1986: 152) remind us: '[b]oth states and their policies are made and remade in a never-ending flow of politics', so it is important to focus our attention on how social policies reshape politics as well as how politics shape social policies. The impact of the community welfare policy introduced by the LDP at the beginning of the 1990s had an unintended yet important consequence of creating a new institutional framework for the emergent grass root community groups to participate in and enlarge the scope of civil society engagement in social welfare. As many grass root organizations developed policy skills, they began to insert themselves in the government's social policy making process. I argue that the sense of social and political crises and the enlargement of civil society were two crucial factors behind the development of social care reform in the 1990s in Japan.

Real and perceived crises

Two kinds of real and perceived crises existed in the 1990s. The first, and the real, crisis involved a *political regime shift*. In 1993, the LDP lost its majority in Parliament for the first time in thirty-eight years and this ended nearly four decades of uninterrupted single-party political domination. A potted version of the events leading to the collapse of the LDP can be given. Japan's 'bubble economy' burst in 1991, this was followed by the stock market crash and then a sharp decline in GDP growth.[7] The economic crisis triggered public concerns and frustration with the government. A series of new and old political corruption scandals surfaced and resurfaced, further fuelling public anger towards and mistrust of politicians and bureaucrats. Younger LDP members began to defect from the party to form splinter groups. In the midst of this the Lower House election was called, and, not surprisingly, the LDP lost by a significant margin. This defeat was interpreted as a voter revolt against the LDP 'old guard' and the LDP–bureaucracy–business nexus that had formed the basis of the postwar Japanese political economy.

A series of coalition governments were put in place after the 1993 election, but none was stable enough to sustain power for long, particularly in the first few administrations.[8] The political crisis led to new competition for electoral support among politicians and parties. This hastened policy innovation and at the same time opened up opportunities for some of the historically weak societal groups, such as women's groups, to gain entry into public policy making. The competition for electoral support involved redefining policy issues, redrawing political cleavages and forging new alliances. To set themselves apart from the earlier conservative LDP regime, the first coalition government sought to develop more friendly policy alternatives. The coalition consisted of nine parties, two of which – the Social Democratic Party of Japan (SDPJ) and *Komeito* (the Clean Government Party) – were long-time opponents of the LDP and five others were new splinter groups.[9] The SDPJ and *Komeito* had traditionally identified themselves as the people's parties and champions in the area of social welfare. Social welfare reform appealed to them because it was a clear rejection of the LDP's social policy, and would redefine the new government's pro-social welfare stance. Public opinion polls also showed increasing support for and concern over health and welfare issues related to the ageing society.[10] Women and the elderly were now identifiably as emerging constituency groups, and social welfare an important policy agenda. It was therefore not a great surprise when Prime Minister Hosokawa raised the idea of the LTCI scheme shortly after the first coalition government was formed in 1994. Once the LTCI was proposed, both the government bureaucracy and citizens groups moved quickly to push it forward.

The LTCI was important for the coalition government to renew and strengthen support from women, and at the same time, capture support from a new and growing constituency, the elderly. Both the SDPJ and *Komeito* had been courting women voters since the mid-1980s by endorsing female candidates in local and national elections.[11] The changes in the electoral system from a single district multi-seat system to a combination of single district single-seat and proportional representation system also affected political parties' election strategies. For new political parties such as *Sakigake* and the Japan New Party, it was crucial to build closer ties with identifiable and organized groups that could mobilize votes effectively. They targeted emergent voluntary sector groups to forge political links.[12] Women's groups had become increasingly politically active at the local level from the 1980s, largely in reaction to the LDP's family policies, and the grass root groups representing the elderly had also become more organized and politicized after the introduction of the community welfare policy. The competition for electoral support thus stimulated a long-term care policy for the elderly to increase its political profile and, at the same time, underscored gender and demography as new lines of political cleavages.

The second form of crisis experienced by Japanese policy makers and the public had to do with demographic and gender shifts. The *public crisis of the family* was both real and perceived; however, its ideational impacts on social policy development in the 1990s were nonetheless as powerful as the political impacts of the regime shift. In the 1990s the Japanese public and policy makers began to pay greater attention to structural changes mediated by postindustrial factors, such as rapid demographic ageing, de-familialization and changes in gender relations. The change was reflected in the increase in the numbers of journal and newspaper articles, government white papers and committee reports as well as academic research on topics related to ageing and a low-fertility society, family change and gender issues. The idea of public crisis of the family ranged from the notion of the Japanese family as a 'caring hell' promoted by women's groups (Higuchi 1997; Koreika Shakai wo Yokusuru Josei no Kai 1998; Nihon Fujin Dantai Rengokai (NFDR, Association of Women's Organization of Japan) 1997, 2001), to the short- to long-term social, cultural and economic consequences of the demographic ageing and fertility decline promoted by the government and affiliated research institutes (Ministry of Health and Welfare 1997, 1999). Still some family sociologists and media focused on the emergence of the so-called 'parasite singles' – young, and not so young, single adults who continue to cohabit with and financially and emotionally depend on their ageing parents – as a sign of the Japanese family in crisis (Yamada 1999; Iwakami 2000; Miyamoto 2000). Regardless of the orientation, they all share in common a view that the Japanese society and Japanese families were in crisis because of its inability to keep up with broader societal changes.

There is some empirical evidence to support the public crisis of the family, while other claims (such as the long-term social and psychological impacts of low fertility on families, for example, see Ministry of Health and Welfare 1997) appear more hypothetical. For example, evidence shows that demographic ageing and women's employment patterns are contributing to the family's increased care burden. Although the married women's employment rate in Japan has increased only moderately, from 45.2 per cent in 1975 to 51.6 per cent in 1999 (Ministry of Home Affairs 1999), the site of their work changed significantly. Between 1975 and 2000, the proportion of women who were self-employed or working for the family business declined from 39.0 per cent to 18.4 per cent, while those working outside of the home rose from 59.8 per cent to 81.4 per cent, (NFDR 2001). Although the employment rate of women in their childbearing years (twenty-five to thirty-five) continue to fall below 40 per cent, that of women between the ages of forty and fifty-five (for whom the responsibilities for elderly care was also very high) had reached 70 per cent by the 1990s. Moreover, while most of the women in this age group were non-standard workers, their total hours of work did not differ much from those in full-time standard jobs. According to the government's labour survey in 1996, the average total weekly hours of work done by part-time, contract and temporary workers were 30.8, 38.8 and 40.3 hours, respectively, as compared to 41.4 hours for full-time standard work (Ministry of Labour 1998). One implication of this was the reduced availability of family care by traditional family carers – married women in their forties and fifties – which in turn implied a significant work–family tension. The 1997 *Fujin Shonen Kyokai's National Survey on Work and Care Harmonization* found that 60.3 per cent of respondents were experiencing significant stress and psychological burden as a result of having to care for their elderly members while working, while 46.2 per cent felt they had no time for themselves. Another 44.3 per cent also claimed that they were unable to provide adequate care because of their work responsibilities (Ministry of Labour 1998).

Other evidences for the public crisis of the family were illustrated by the changes in public attitudes towards gender roles, and the pattern of late marriage among people in their twenties and thirties. Public opinion polls showed a steady decline in support for the idea of male-breadwinner household arrangements, and an increase in the support for women's life-time employment (Ministry of Home Affairs 2001). Studies found that women in their twenties and thirties were less willing to accept the traditional division of labour in marriage and more willing to consider divorce as an option in a bad marriage. For example, Rutherford, Ogawa and Matsukura (2002) found that although young Japanese women were still more likely to endorse traditional male-breadwinner female housewife-type gender relations within marriage as compared to women in Western countries, the proportion of those who supported such a view had declined significantly between 1982 and 1997. Other studies (Rutherford, Ogawa and Sakamoto 2001) also linked the decline in marriage rate among women in their twenties and thirties to shifts in ideas about marriage and family among young people in Japan. Studies seem to suggest that young people's ideas about marriage and gender relations were no longer in keeping with reality, and that in lieu of a better option young people, particularly women, were postponing marriage. Policy concerns over the decline in marriage and the fertility rate were also raised by the Ministry of Health and Welfare when it lamented that:

> Throughout the second half of the twentieth century, Japan continued to push forward to achieve a better living. Especially, during the last ten years, we worked hard to realize *a society where people could live in security in old age*, and by the end of the twentieth century we are about to start the Long-Term Care Insurance. But in the meantime the fertility rate continued to decline. Before we know it, Japan may have become a society

> in which people could no longer have a *dream* of getting married and having children.
>
> (Ministry of Health and Welfare 1997: 4)

This sense of a real and perceived crisis of the family was an important factor behind family policy reform in the 1990s. Starting with 'the 1.57 shock' of 1989, referring to be low fertility rate, much was made of the declining fertility rate and its impacts on the demographic ageing and national economy.[13] In 1990, the Ministry of Health and Welfare established a research project team (*Katei-Jinko Monday Sogo Chosa Kenkyukai*) to look at the policy implications of the issue (Nippon Aiiku Research Institute for Maternal-Child Health and Welfare 1991).[14] The project team proposed a list of family support policy recommendations, including expansion of public child care, introduction of parental leave and flexible working arrangements for families with care responsibilities and new child protection legislation. Despite the urgency felt by the bureaucrats and politicians, the LDP government failed to move immediately. The economic crisis of 1992 and the eruption of political scandals in the same year grabbed the media and policy attention. The proposals were put aside until 1994 when the coalition government announced the 'Angel Plan' that formed the blueprint of the family policy reform. Most of the research team's policy recommendations were incorporated in the content of this plan. Following the 'Angel Plan', parental leave legislation was introduced in 1994, child welfare reform was initiated in 1996, followed by a series of family support legislation, including changes in labour legislation to expand the scope of non-standard work, the introduction of a flexible-hour system and the expansion of public child care, after-school programmes and other family support measures. The 'Angel Plan' was given a further boost in 1997, when the proportion of people over the age of sixty-five (16.7 per cent) surpassed that under the age of fifteen (15 per cent). These demographic findings renewed the sense of crisis that had already spread among the public (Ministry of Health and Welfare 1997). The fear of economic slowdown resulting from demographic ageing, declining labour productivity and the eventual depopulation of the country all contributed to the government's efforts to strengthen family policies.[15]

Expanding civil society and positive policy feedback

While real and perceived crises may have created the climate of political competition and policy change, the civil society also had an equally significant role to play in the development of a more inclusive welfare and democratic policy making process in the 1990s. As mentioned in the previous section, grass root organizations and voluntary sector groups grew steadily during the 1980s. The growth of these civil society activities was given a further boost in the early 1990s when the LDP government introduced a community welfare policy (*chi'iki fukushi*). The initial motivation for this policy was conservative: the LDP government sought to build community and voluntary sector capacity in social welfare and to transfer the delivery of social services from the public to the private and the voluntary/non-governmental organization (NGO) sectors. Following the report of the Three Central Advisory Committees on Welfare-Related Matters (*Chuo Fukushi Shingikai to Fukushi Kankei San-Shingikai*), *The Future of Social Welfare* (*Kongo no Shakaifukushi no Arikata ni Tsuite*) (1989, reported in Ministry of Health and Welfare 1993), the government endorsed the Committee's proposed policy of participatory welfare (*sankagata fukushi*). The volunteer development programme (*Borantia Jigyo*), which had been in existence since 1985 but remained relatively marginal, was given a fresh injection of funds, and by the end of the fiscal year 1989, 174 local governments had established the programme to support community-based voluntary welfare efforts. By 1992 some 100 more communities had been given funds to develop community projects under a new project called the Community Development Project (*Fureai Machizukuri*); at the same time, volunteer activities were also made a part of the public schools' curriculum in over 4,600 schools (Ministry of Health and Welfare 1992). By the time the government had formally announced its community welfare policy in 1993, a significant expansion in community-based volunteer programmes had already began.

However, in addition to expanding the scope of the voluntary/NGO sector role in provision of social welfare services, the community welfare policy also helped to build the social and political mobilization capacities of its main target groups (women and the elderly) to push for further welfare state expansion. The LTCI is a case in point. The policy targeted the growing number of healthy retired people and working and non-working housewives who formed the bulk of volunteers in Japan. The policy not only provided local governments with grants to provide material support, places, media and communication tools and training for such people to form volunteer groups but it also facilitated existing NGOs' work with local governments to expand their service networks and train volunteers in social welfare services. Between 1993 and 2000, the Sawayaka Welfare Association (*Sawayaka Fukushi Zardan*), which provided community-based care services to the elderly and disabled people, trained approximately 6,000 local leaders across the country through its leadership training programme. At the same time, the Association also began to create a network for NGOs providing home care services to the elderly by mobilizing the new local home care service groups it had helped establish through leadership training. By 2000, 1,206 local groups had registered in the Association's network, which had more than quadrupled its membership size since 1993 (Sawayaka Fukushi Zaidan 2001).

The community welfare policy proved extremely successful in generating community-based citizens' groups. The increase in the number of formal and informal community organizations and NGOs offering social welfare services reveals the effectiveness of this policy. The number of local citizens' participatory mutual support groups providing domiciliary care services increased from a several dozen in the early 1980s to over 1,000 by 1998 (Adachi 1998). The introduction of the Not-for-Profit Organization (NPO) Law in 1998, which enabled an easier and speedier process by which volunteer and NPO groups could attain legal status, further facilitated the development of NPO organizations.[16] Between 1989 and 1999, the number of registered NPOs increased by nearly tenfold. In 1999, there were over 500,000 registered NPOs, including approximately 85,000 citizens' voluntary organizations (most working in area of social welfare and care services), 26,000 public charity organizations (*koeki hojin*), 12,000 registered non-profit social welfare organizations (*Shakai fukushi hojin*), 70,000 trade unions, 73,000 political associations and some 184,000 religious organizations (Takao 2001: 293–4)

A government survey also estimated that there were 6.96 million people engaged in volunteer activities in 1999, a significant increase compared to 3.6 million in 1989. Nearly 80 per cent of the volunteers in 1999 were women, and approximately three-quarter of them were over the age of fifty (25.2 per cent in their fifties, 35.1 per cent in their sixties, 14.5 per cent over the age of seventy) (Ministry of Health and Welfare 2000).

Although some critics maintain that the pattern of NPO growth in Japan simply reflects globalization and state retrenchment (Takao 1999) – and, indeed, many of the citizens' groups have come to fill the void in social welfare services with the aid of community welfare policy – this was not the only outcome of the policy. Many citizens' groups have also transformed themselves into nation-wide lobby networks and have taken on an increasingly coherent policy advocacy role. In addition to serving the initial purpose of generating public participation in the welfare delivery effort, the community welfare policy, quite unexpectedly, also created openings and an institutional framework for the elite volunteers to form what might be called the 'expert-led' NPO lobby groups, and to formalize their increasingly political lobbying activities. Groups such as the Women's Committee for the Improvement of the Aged Society (*Koreishakai wo Yokusuru Josei no Kai*, WCIAS), which became an umbrella group for over 1,500 local groups working on the issue in the 1990s, the Sawayaka Welfare Association and the Aged Society NGO Association (*Korei Shakai NGO Rengo Kyogikai*) all expanded during the 1990s and formed extensive networks across the country and with each other. These organizations were largely led by professionals – academics, lawyers and policy experts who saw their advocacy role expand as their organizations and issues began to take on greater political importance. For example, the head of the WCIAS is a woman university professor and the national board of the WCIAS continues to be dominated by professional women such as university professors, media executives and lawyers. Both the Sawayaka Welfare Association and the Aged Society NGO Association were led by retired lawyers and other policy experts. In addition to their professional approach to social welfare issues, these organizations also developed an in-house policy research capacity, and frequently carried out independent surveys and research on issues related to elderly care.[17] By the mid-1990s they had became vocal and critical participants in social policy making.

Particularly in the case of LTCI, the WCIAS worked closely with the Ministry of Health and Welfare as a member of the policy advisory body (the Research Committee for the LTCI, *Koteki Kaigohoken Shingikai*) throughout the policy making process, and pushed for issues such as ensuring LTCI as a citizenship right, and fighting against the option of cash provisions for carers under the insurance scheme.[18] Later in 1996, when the draft bill for the LTCI law faced strong resistance from the conservative members of the LDP policy group under the LDP-led coalition government, the Sawayaka Welfare Association and WCIAS collaborated in a nation-wide political campaign called 'Ten thousand citizens committee in support of Long-term Care Insurance' to push for a speedy passage of the law. The campaign involved lobbying politicians, government bureaucrats and businesses, and undertaking extensive media and public promotion of the draft bill. The campaign took both the public and politicians by surprise, unable to gain enough support from the LDP politicians, the committee then forged an alliance with the newly formed opposition Democratic Party to hasten the passage of the bill (for more detailed discussion on this see Eto (2000) and Peng (2002).

The policy making process involved in the case of the LTCI thus provides a concrete example of a new type of social policy making process in Japan: it illustrates a shift from the bureaucratic to a more pluralistic and political policy making process, and also one in which civil society groups such as organized women's groups, elderly groups and other NPOs played an important role. It has been argued that the development of civil society in Japan has been ongoing throughout the postwar era, with the gradual deepening of the democracy; however, the pace of civil society development arguably accelerated in the 1990s, first with the introduction of the community welfare policy and then with the reform of the NPO law in 1998. Although the community welfare policy was initially formulated within the context of a conservative welfare politics – an attempt to shift social welfare from the state to the community, and from the public sector to the private and NGO sectors – once instituted, it also began to reshape the politics of social policy. Quite unexpectedly, the community welfare policy helped the emergent constituency groups – women and elderly people – to develop networks and build institutional capacity to mobilize for welfare state expansion.

Conclusion and implications

One of the central tenets of welfare state restructuring in Japan in the 1990s was the extension of social care and the deepening of civil society engagement in social policy making. Unlike many Western welfare states, which experienced ongoing retrenchment, the 1990s can be regarded as a decade of welfare expansion in Japan. True, the social care extensions need to be understood in terms of specific demographic groups (the elderly and families with dependent children) targeted, and in terms of their explicit aims. True, also, the expansion was cautious and selective, and the increased civil society engagement in the policy making may have been simply an unexpected consequence of the conservative welfare policies. However, we cannot underestimate their impacts in terms of achieving a more inclusive welfare state, and in terms of creating a new opening for increased civil society engagement in social policy making.

The examination of social welfare reforms in Japan in 1990s also reveals that such an outcome is not immediately self-evident; rather it may even be counter-intuitive. Indeed, the extension of social care in the 1990s as illustrated by the LTCI and support for the family and children was a highly political process, and involved a conflation of several different factors. Demographic ageing and the changes in family structures and gender relations created pressures from the bottom up. At the same time, these changes also mediated ideational shifts that informed the policy makers that certain reforms were necessary. The lack of state responses to the needs of elderly care and the tension between work and the family responsibilities became an important basis for grass root women's organizations and elderly people's groups to mobilize around the issue of social care. The community welfare policy ironically also helped create an institutional framework for these organizations to widen their network and build policy capacity. However, the ideational shifts and mobilization efforts may not have been enough to bring about all the policy changes witnessed in the 1990s. The experience of women's social and political mobilizations in the 1980s suggests that they remained marginal to the government policy making under the LDP regime. The LDP also continued to put up road blocks against the idea of LTCI throughout the policy development process in the 1990s. The political regime shift after 1993, and the transfer to coalition government, and its impact in the destabilizing of the LDP and the intensification of political competition for electoral support, are therefore other important factors for change. The political crisis resulted in intense political competition for electoral support, policy innovation and policy implementation. The social welfare expansion of the 1990s was therefore a product of social and political negotiations closely informed by structural changes, ideational shifts and deepening democracy.

Notes

1. The actual implementation of the scheme began in 1927.
2. The Allied Occupational Force oversaw Japan's transitional government between 1947 and 1954, during which time important legal and institutional processes such as the writing of the New Constitution and the implementation of social welfare system took place.
3. The Unemployment Insurance Law (*Shitsugyo Hoken Ho*) was reformed into employment insurance (*Koyo Hoken Ho*) in 1974.
4. This figure excludes other expenditures related to the elderly, such as pensions, health care and employment support.
5. Much of this money is allocated to public child care programmes.
6. A study found that approximately 90,000 women had left the workforce to care of their elderly relatives in 1995, while many others were attempting to manage care for their ageing parents and elderly relatives while continuing to work (Ministry of Labour 1998). Other surveys also found that despite the 'Gold Plan', 85 per cent of elderly people were still being cared for by their female relatives at home in 1996 (Ministry of Health and Welfare 1998).
7. Annual GDP growth fell from 5.3 per cent in 1990 to 0.5 per cent in 1992.
8. During the eight-year period between 1993 and 2001, five sets of coalitions governments attempted to rule the state, with seven different Prime Ministers heading the various coalitions.
9. The coalition consisted of Social Democratic Party of Japan (SDPJ), *Komeito* (the Clean Government Party), the Japan New Party (JNP), *Sakigake*, the Japan Renewal Party (JRP), the Democratic Party of Japan (DPJ), the Upper House *Rengo*/DRP and *Shamiren*.
10. Public opinion polls show that next to economic recovery, social welfare – particularly welfare for the aged – was the top concern for people over the age of twenty. The same surveys also show that public distrust in politicians, bureaucrats and their governments soared to over 80 per cent in 1992 and remained there for most of the 1990s (Mainichi Shimbun National Opinion Surveys, 1992–2000). The Prime Minister's Office (PMO) own public opinion survey conducted in May 1994 also found that social welfare and elderly care issues outweighed all other issues, including the economy. For example, in the multiple-answer question asking respondents where they wished the government to put its effort, 61 per cent stated improved health care, social welfare and pension systems, 47 per cent care for the elderly and disabled, 44.7 per cent a better tax system, and 37.6 per cent better economic policies (PMO 1994).
11. In fact, SDPJ became the first political party to have a woman leader, Doi Takako, in 1986. Other parties also attempted to capitalize on the proportional representation system by fielding more women candidates promoting social welfare and women's issues in order to increase their electoral chances. This strategy seems to have worked well as the 1996 election saw a significant increase in female candidates, and the 2001 election resulted in a big increase in the number of women elected to the Diets (Ogai 2001).
12. This was clearly an important political factor in the development of the NPO law in 1998. See Pekkanen (2000) for a further discussion.
13. The figure of 1.57 was also critical because it marked a historical low. Previously, the fertility rate had dipped to 1.58 in 1968 because that year (symbolized by the fire-breathing horse according to the Chinese astrological calendar) was considered a particularly ominous year for childbirth.

14. I participated in this research project team as a foreign research consultant from 1 April to 27 July 1991. During this time, I observed the team process and held regular interviews with Amino Takehiro (Team Leader of the Family Functioning Investigation Team), Takahashi Shigehiro (Professor of Social Welfare, Komazawa University and a member of the investigation team) and Kashiwame Reiho (Consultant, Ministry of Health and Welfare, Maternal-Child Welfare Bureau). The team consisted of more than twenty researchers and policy experts from universities, government research institutions and Ministry of Health and Welfare with a wide range of research skills.
15. The population projection estimates that the Japanese population will reach its peak at about 130 million in 2007, and decline thereafter. Even with the most conservative estimates, the Japanese population will decline to half the 2007 level by 2080 (Ministry of Health and Welfare 1998). For more full discussion on this topic, see Peng (2002).
16. In Japan, most of the NGOs are known as NPOs, or non-profit sector organizations.
17. Interviews with Takenaka Emiko and Yamada Keiko (President and Vice President of the Koreishakai wo Yokusuru Josei no Kai) Osaka, 11 November 2001, and Discussions at the Symposium on *How to Live in an Aged Society*, sponsored by the Ministry of Municipal Affairs, Mitsui-Sumitomo Kaijo Fukushi Zaidan and Japan Ageing Sogo Kenkyu Centre, in Tokyo, and conversation with Hotta Tsutomu (President, Sawayaka Fukushi Zaidan), 6 October 2001. Hotta Tustomu is himself a retired lawyer.
18. WCIAS feared that cash provision for carers would reinforce women's formal care role and institutionalize women's domestic care duty. Interviews with Takenaka Emiko and Yamada Keiko (11 November 2001) and with Masuda Masanobu (Ministry of Health and Welfare Consultant in charge of the Long-term Care Insurance Policy development from 1994 to 1997, and currently the Bureau Chief of the Ministry of Health, Welfare and Labour's Statistics and Information Bureau) (27 November, 2001).

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4

Welfare Developmentalism in Singapore and Malaysia

Chua Beng Huat

Introduction

Singapore and the then Malaya shared a similar history as British colonies from the nineteenth century until after the Second World War. Malaya gaining political independence in 1957 and Singapore in 1965. Independence of Singapore was enabled through a brief period of membership in Malaysia (1963–5). The extractive colonial economy of British Malaya and the entrepôt economy of Singapore left the two territories at the point of political independence without any significant industrialization. Malaya was dependent on declining fortunes of rubber and tin exports, while Singapore remained a 'trading post' increasingly unable to utilize adequately the rapidly increasing local-born population. Industrialization, which was synonymous with social and economic development and both with nation-building, was thus the overwhelming preoccupation of the two independent governments. To the extent that then Malaya and subsequently Malaysia had a resource extraction economy and a sizable population which provided a domestic consumption sector, pressure for industrialization was less immediate than in Singapore. Furthermore, Malaya could follow the popular economic wisdom of the 1960s of an 'import substitution' industrialization development strategy. Indeed, as a member of Malaysia, Singapore looked toward the larger domestic market as the immediate destination of the products of its nascent industries. It was only after political separation that Singapore changed course to export-oriented industrialization, following the by then well-trodden path taken by South Korea, Taiwan and Hong Kong, and before then by Japan.

Since then, the developmental trajectory of the two countries have often mirrored each other through cross-border borrowings of ideas and practices (although both governments are loth to admit this publicly), and occasional radical divergence of policies as well. The similarities and differences can be brought into relief through a comparative analysis of the social welfare policies, which constitute part of the developmental and nation-building processes in the two nations since the 1960s. Central to the social policies of both countries has been the institutionalization of the provident fund scheme – an individualized compulsory savings scheme as a social security fund in lieu of a collectivized national pension scheme – as the cornerstone of social security delivery (Asher 1994). As for divergences, these are crucially dependent on the management of the politics of race in the two nations – formal racial equality in Singapore and Malay dominance in Malaysia, both within a multi-racial population of Malays, Chinese and Indians.[1]

This chapter will restrict itself to the analysis of some social policies and their developmental effects in Singapore, noting similarities with Malaysia when appropriate, and examine the New Economic Policy (NEP) of Malaysia as the key element in the differences between the two nations. The groundwork for understanding difference can be demonstrated in the configurations of the respective political spheres in the lead-up to political independence and the entrenchment of these configurations in the new nations.

Emergence of two single-party dominant states

Colonization, and its attendant economic opportunities, stimulated large flows of immigrants from China, South Asia and the neighbouring islands of Southeast Asia. In the case of Singapore, where there were scant permanent residential settlement when the Anglo East India Company set up a trading port in 1819, an overwhelming Chinese majority quickly emerged. In Malaysia, immigrant Chinese flocked to the tin mining districts of Selangor and other urban areas where employment opportunities, including petty trading, were available. From the very outset, Singapore, although geographically contiguous with peninsular Malaya, was governed as a separate entity by the British administration. The result, in both territories, was a population that was constituted by three visible Asian 'races' and a White administrative and commercial class, engaging in economic transaction but otherwise culturally quite apart; giving rise to the classical concept of a 'plural society', with visible division and stratification of labour along racial lines.[2]

UMNO in Malaysia

When political independence became imminent after 1945, issues of the character and structure of government and citizenship came to the fore. The initial British proposal, (under the Malayan Union scheme) to make citizenship available to every resident who was eligible was categorically rejected by the Malays in Malaya, for fear of losing political control of their own homeland. This stimulated Malay nationalism which led to the formation the United Malays National Organization (UMNO), which in turn gave rise to other political parties organized along racial lines. The British administration encouraged the formation of the Malayan Chinese Association (MCA), as an alternative to the politically proscribed, Chinese-dominant Malayan Communist Party, which was built on the base of the anti-Japanese resistance groups established during the war. The Indians formed the Malayan Indian Congress (MIC). After a ten-year 'emergency' war of communist insurgency, the eventual outcome ensured that the indigenous status of Malays was constitutionally enshrined through 'special rights' such as Malay dominance in public service, Islam as the state religion, preservation of the Malay sultans and Malay as the sole national language; all immigrants with ten-year residency in Malaya were entitled to citizenship (Milne and Mauzy 1978: 38–41). From the very first general election for the federal government, UMNO, MCA and MIC, nominally called the Alliance, contested as a coalition and emerged victorious. The political dominance of this coalition has never been displaced since, although the balance of power radically altered after 1969.

In the 1969 general election, potential problems with regard to voting along racial lines manifested themselves. The Alliance lost its two-thirds parliamentary majority, the Malay votes were split between UMNO and the Parti Islam Se-Malaysia (PAS) and the Chinese votes shifted away from MCA to other minor political parties such as the Democratic Action Party (DAP). The night the electoral results were known, racial riots broke out, causing the government to impose an emergency. The racial conflict was arguably the consequence of unhappiness with the prevailing division of leadership and power brokered within the Alliance in the 1950s; Malay dominance in politics and Chinese in economy. By 1969, this 'arrangement' was seen as increasingly problematic by the local-born younger population. The younger Chinese population was dissatisfied with being kept out of politics and tertiary education and employment opportunities in the civil service, while their Malay counterparts were increasingly unhappy with their economic lot. One of the causes of the riots was the anxiety among Malays that the election result reflected an apparent threat to Malay political dominance in their own homeland.[3] Ostensibly to avoid similar incidents in the future, both the political and the economic spheres were reconfigured.

Economically, a new policy was instituted in 1970, the New Economic Policy (NEP). According to Jesudason (Jesudason 2000: 79–81), the Malaysian government's ability, indeed determination, to 'bring the Malays into the economic mainstream' was being questioned by the Malay community; in 1970, 'Malays held only 1.6 per cent of the share capital of limited companies, compared with 63.3 per cent held by foreigners and 34.3 per cent held by the Chinese', at a time when the Malay community constituted 55.5 per cent of the population compared to the Chinese 34 per cent. Furthermore, 'as many as 65 per cent of the Malay population was classified as poor in 1970, as against 26 per cent of the Chinese population'. The NEP was aimed primarily at ameliorating this racial distribution of the economic pie, it was to raise Malay ownership of share-capital and other areas of economic activity to 30 per cent over a twenty-year period (1970–90). As the 30 per cent level had not been achieved by 1990, the policy was extended under the National Development Policy (1990–2000). The developmental effects of the NEP will be discussed later in the chapter.

Politically, a new 'super' coalition was organized under the aegis of UMNO, incorporating smaller political parties into the original three-party Alliance to constitute a National Front (*Barisan Nasional*, BN), leaving out only two other significant political parties, the Chinese-dominated DAP and PAS, the latter being the staunch contestant to UMNO for the Malay–Muslim votes.[4] This 'super' coalition dominated federal government and most state legislatures. The only exceptions were the northeastern states of peninsular Malaya (Trengganu, which has consistently voted for PAS), Kelantan (which swings between UMNO and PAS) and the island state of Penang (where its predominant Chinese population constitutes a strong provincial base for the DAP). The overall political effect of this new configuration was the entrenchment of UMNO as the dominant party in government, a dominance unlikely to be displaced as long as parliamentary politics is organized along racial lines.

PAP in Singapore

The political trajectory of the single-party dominant state in Singapore is more straightforward than in the UMNO-dominated Malaysia. From the very outset, political parties in Singapore were multi-racial parties, with the exception of the local branch of the early Malayan UMNO.[5] The dominant party, the People's Action Party (PAP), founded in 1954, had been in power since 1959, when it won the general election in the first fully elected parliament of a self-governing Singapore. Its rapid ascendancy was built on the popular anti-colonial mobilization organized largely by left-wing political leaders who had widespread popular support. Once in power, the 'moderate' English-educated leadership in the Party instituted repressive legislation that clipped the power of independent trade unions and radical student and community organizations. Within the Party, this English-educated group out manoeuvred its left-wing counterpart, which broke away to form a new political party, the *Barisan Sosialis* in 1961. Significantly, even with many of its leaders in detention without trial, the Barisan Socialis still managed to capture more than 30 per cent of the popular vote in the 1963 general election. However, its political leadership made a strategic mistake of boycotting parliament, neglecting its duty as the party in opposition. Then, in 1968, it boycotted the general election altogether, leaving the PAP to win all constituencies without any opposition in parliament, for the first time. The absolute political and parliamentary dominance of the PAP has held until today and is unlikely to change in the medium term.[6]

At the time of political independence in 1965, Singapore declared itself constitutionally a multi-racial nation, where racial equality ruled, partly because of geo-political necessity. First, the overwhelming Chinese demographic majority were descendents of migrants with no proprietory claim to the island. Secondly, being a nation carved out of the 'Malay' world of archipelagic Southeast Asia, their neighbours would not accept a 'Chinese' nation in their midst with equanimity. Thus within this multi-racial nation, Malays were constitutionally recognized as the indigenous population and given some 'special' rights, although nowhere as extensive as those in Malaysia. Four 'official' languages – English, Mandarin, Malay and Tamil – were adopted, with Malay designated the 'national' language. English was adopted as the language of government, public administration and commerce and, in 1974, as the primary language of instruction in all education institutions. In the selection for education, civil service and other public sector activities, meritocracy ruled. This multi-racialism as official policy had wide social, economic, cultural and political effects in the management of the country. The need to maintain 'racial harmony' evolved into a framework not only for rationalizing government policies but also for policing the population: that is, 'racial harmony' is not only used for developmental purposes but also for repressive ones.

Political legitimacy

Within the globally hegemonic discourse of liberal democracy, the two single-party dominant states of Malaysia and Singapore are obviously less than democratic; consequently, they have been called 'authoritarian states' (Mauzy and Milne 2002: 128–42), 'semi-democratic states' (Case 1992) and 'illiberal states' (Bell 1995). Indeed, the histories and current practices of politics in both countries of both countries are strewn with instances of authoritarianism, especially in the early years of PAP ascendancy. The ideological preference in Singapore is some version of 'communitarianism'[7] and in Malaysia, contestations around the idea of 'Islam', the national religion, consume much ideological debating space. In both, democratic procedures, such as periodic elections and due parliamentary processes in passing of laws, the general elections take place on uneven playing fields that favour the ruling party. Furthermore, these democratic processes exist side by side with highly anti-democratic laws that restrain civil society activities; the Internal Security Act (ISA), for example, permits repeated terms of two-year detention without trial on suspicion of activities 'detrimental' to the security of the nation. Little wonder that the ruling regimes do not contest criticisms of authoritarianism: both are critical of liberalism and each sees itself as marching to a different tune from that of the liberal 'West'.

Absolute control of parliament gives the respective regimes a free hand in passing legislation, managing national budgets, wielding instruments of coercion and formulating public policies without any effective political opposition. Opposition political parties are seen as mere 'inconveniences' and a 'hindrance' to the proper functioning of laws and policies that are formulated in the interest of the 'greater good' of all. The highly centralized political power structure of the single-party dominant state has been moulded by the ruling regimes into an instrument of economic development. The claim to represent – indeed be the embodiment of the common good in the case of the PAP and be guardian of the larger good of the Malay community or the *Bumiputra* (sons of the soil) in the case of UMNO – acts as an ideological centre for a corporatist strategy to incorporate identifiable non-state interests groups and civil society organizations. As these non-state organizations are often dependent on public resources that are in the hands of the state, resistance to incorporation is difficult to sustain.[8]

The ability to act ostensibly for the economic common good has given both ruling regimes a surplus of political legitimacy among their respective electorates. This legitimacy is derived, in both instances, from some four decades of rapid economic growth (from 1960 until 1997), with palpable improvements in the material life of the entire population. Economic success provided each single-party dominant state with a political dividend not only to cushion itself against local criticisms but also to gain grudging appreciation among foreign critics (Case 1995; Khong 1995; Mauzy and Milne 2002). Economic growth also engendered a significant ideological consensus between each ruling regime and its electorate, which can be gleaned from the wide public resonance and support, and thus political legitimacy, among citizens for the anti-liberalism of both regimes.

Significantly, the economic development strategies adopted by both nations are broadly similar, with a very significant dependence on foreign capital and state enterprises as the engines of growth. However, Malaysia places greater restrictions on foreign ownership of enterprises and, with the NEP, greater emphasis on racial distribution of ownership of domestic capital. As mentioned earlier, a major similarity in social policy is the institutionalization of a provident fund, funded by compulsory savings of wage earners, as part of the capital formation and source of loans for government development expenditure. However, again, differences in the management of race relations have engendered different practices in social developmental activities and in the rationalization and delivery of public policies of the two nations.

Singapore: housing policy as an anchor developmental policy

It is significant that at the point of domestic 'self-government' – finance, defence and foreign affairs were still in the hands of British colonial office – the first fully elected PAP government in 1960 instituted two new statutory boards; the Economic Development Board (EDB) and the Housing

Development Board (HDB), with a clear mandate of responsibilities. The nascent government invested what little capital it had to fund both institutions in anticipation of economic and political returns. The EDB immediately undertook to develop a large tract of industrial estate on land recovered from swamp and proceeded to 'sell' it to foreign, multinational corporations (Schein 1996). Early scepticism turned into admiration and accolades of success as new 'pioneer' industries began to pour into the once-empty space. The success of the industrialization programme may been summarized as: 'sound infrastructure, [a] compliant work force, generous tax incentives, allowance of 100 per cent ownership in most sectors of the economy, negligible restrictions on the repatriation of capital, duty-free importation of machinery and equipment and a reputation for offering one of the highest returns on manufacturing investment in the region' (Rahim 1998: 208).

Historically, these domestic policies dovetailed with the demands of multinational industries in developed economies for cheap production platforms as a means of escaping the high labour costs at home, a process now designated as the 'new industrial division' of labour. It also benefited greatly from the fact the very large pools of labour in the People's Republic of China (PRC), Indonesia and other parts of mainland Southeast Asia were, for ideological reasons, locked away from foreign capitalist investments. Without these two historically consequential conditions, the success of Singapore's industrialization would have been much less spectacular – witness the increasingly difficulties that Singapore now faces in terms of competitiveness of labour costs. The timing of Singapore's industrialization process was therefore crucial; had Singapore entered export-oriented industrialization after the economic opening of the PRC to foreign capital in 1978, it would have faced an uphill task, as witnessed by other Southeast Asian nations. By the early 1990s, the *per capita* income of Singaporeans was already at 'developed' country level and second only to Japan in Asia. Economic success was indubitable, and indeed, 'success' had become part of the constellation of elements that constituted the elusive Singaporean 'identity'.

The HDB's immediate task was to provide housing for a growing population that had been relatively neglected by the British colonial administration.[9] Beginning modestly with one-room rental flats, where residents had to share common kitchen and toilet facilities, it quickly moved to constructing three-room flats for 'sale' (the purchase by tenants is for a ninety-nine-year leasehold on the flat) only three years after its building programme began. Initially sluggish sales were given a tremendous boost in 1968, when households were permitted to use their Central Provident Fund (CPF) savings to finance a monthly mortgage on public housing flats. The CPF provides an effective financial mechanism that facilitates expansion of home ownership: the HDB acts as both the vendor and mortgage lender to a household that is eligible to purchase a flat; household members – individually or collectively –

can utilize their compulsory monthly CPF savings to pay the monthly mortgage, payments being conducted administratively between the CPF and the HDB. The entire process constitutes a closed circuit of transactions, involving no conventional banking and financial instruments. With this facility, the ratio of applicants to purchase leases rose steadily. By the early 1990s, more than 85 per cent of the resident population lived in HDB flats and an equal percentage of these owned them. Details of the public housing system are in Wong and Yeh (1985), Chua (1997), and Castells, Goh and Kwok (1990). What is important here is to show the centrality of the national housing programme in the economic and political development of Singapore.

Improvement of housing conditions accomplishes several of objectives simultaneously. At the national economic level, the planned, high-rise housing estates constitute part of national capital formation, literally the concrete monuments of progressively accumulating national wealth. Home ownership disciplines the workforce because monthly mortgage payments can be met only through regular employment in the formal sector of the economy, and this encourages active employment. It contributes to the transformation of the population – whose attitudes towards labour had been hitherto formed by unemployment and underemployment – into regular wage labour. Improved housing conditions provide permanent shelter; improved sanitation improves public health and individual well-being; improved health reduces absenteeism at work and increases productivity of labour. Housing can thus be regarded as 'human capital' investment rather than simply welfare expenditure, and home ownership thus contributes to the 'proletarianization' of the population into the workforce essential to capitalist development (Tremewan 1994: 47–53).

In addition, resale policies for public housing flats encouraged households to upgrade their accommodation, mainly because sitting tenants are allowed to keep all capital gains in the sale without tax. The upgrading activities renders housing an area of inflated consumption and a major contributor to the expansion of the domestic economy. Economists at the National University of Singapore noted that the ease with which the buying and selling of public housing flats could be conducted with CPF money led to a general overconsumption of housing in Singapore (Central Provident Study Group 1986). The government, for political reasons, continued to encourage upgrading of housing consumption among the population until after the 1997 Asian Financial Crisis, when it acted to restrain consumption by limiting the amount of CPF that could be drawn on for housing purposes.[10]

It should be noted that the opportunity to purchase public housing flats in Singapore is a privilege of citizenship rather than a welfare entitlement. The sales is between a willing buyer and a willing vendor. This enabled the government to use the sale of flats as the vehicle to carry other social policies, the most obvious being the slew of pro-family policies. Until the mid-1990s, only households could purchase a flat, single people were excluded; single people were later allowed to buy three-room resale flats as families began to upgrade to bigger and newer properties. Young families who opted to live close to their parents were giving priority on the waiting list; when demand for flats was at its highest in the mid-1980s, this priority allocation could reduce waiting time by almost two years (from five to three years). Young families who bought flats in close proximity to their parents were given a much larger cash subsidy towards the purchase of the flat than those who elected to live away from other family members. These pro-family policies were motivated by the government's desire to make the family the first line of assistance in all matters of care, in order to reduce dependency on public institutions.[11]

Another less tangible and often overlooked area of achievement is how public housing contributes to the social disciplining of the Singaporeans concerning what may be called 'good citizenship'. High-rise living requires a very high level of civic consciousness in order to maintain harmonious relations among neighbours. Over a period of two decades (1960–80), the entire population was resettled from their previous residences, often in either predominantly Chinese or predominantly Malay communities, into a high-rise, high-density planned residential environment where racial distributions were maintained by quota of allocation, removing the possibility of territorial exclusivity for minority races, in other words, racial enclaves. Housing estates are so planned that, apart from employment, all the necessities of everyday life of the residents can be obtained within the estate. The daily life of the 85 per cent of the population which lives in public housing estates is therefore relatively 'homogeneous', significantly palliating social and economic inequalities among the residents. This has led the government to declare that Singapore is a middle-class society; the 15 per cent of private housing, whether in high-rise condominiums or housing on the ground, has emerged as the primary marker of class distinctions and relative 'success', a move up from the public housing masses.

Living in high-rise buildings, a whole new set of social behaviours have to be learned: throwing things outdoors, for example, a casual act when one was living in a house on the ground, becomes a dangerous act with potentially dire consequences to others when one lives literally in mid-air and has led to the criminalization of such acts as 'killer litter'.[12] Also, given the multi-religious character of the population, tolerance of different religious practices among neighbours is essential. Muslims have to bear with the incense-burning ways of their Indian neighbours who are Hindus and Chinese neighbours who are Taoist/Buddhists, who in addition to burning daily incense, also burn paper money on ritual occasions. High-rise living therefore provides opportunities to educate and facilitate better inter-racial and inter-religious relations; these opportunities have been seized upon by the PAP government as the basis for para-governmental, residents'-based organizations, such as Resident Committees (RC), which have among their duties the resolution of disputes among neighbours. These committees extend the state's penetration into the community by helping local elected MPs with less formal aspects of governance. All these necessary good neighbourly behaviours and conflict resolutions are, of course, simultaneously good citizenship behaviours. However, in the quest for harmony among multi-racial residents, many rituals and festivals have either been disallowed by law or reduced and simplified in their performance; the Chinese religious practice of chanting during the night at the wake for the dead for example, has been severely curtailed in order not to disturb the rest of the rest of the neighbourhood.

The contribution of the public housing programme to economic and social development is without precedent anywhere in the world, where failures of national housing policies are more often the norm. The manner in which other social policies and social benefits have been 'piggy-backed' on the successful housing programme is also quite remarkable; it is, however, also disturbing, because around housing provision a kind of 'total' society is being built.

While improved housing conditions undoubtedly improves citizens' material life, the state, as provider of the housing, also extracts substantial costs, especially political costs. This became apparent during the 1997 general election. In the 1984 general election the other political parties had agreed on two broad tactics of contestation. First, believing that the electorate broadly wanted the PAP to govern because of its impressive economic and social development track record, the other political parties agreed to contest less than 50 per cent of the constituencies. The electorate would be assured of a PAP government and, hopefully, those voters who were critical of the PAP would then be more ready to vote for candidates from the other parties. Second, the other parties agreed broadly not to engage in three-corner contests so as to avoid splitting anti-PAP votes. In that election, primarily because of cumulative dissatisfaction with a series of unpopular policies, four non-PAP candidates were elected, in contrast to the usual one or two. Since then, the other political parties have stuck to this tactic.

In the 1997 general election, however, the PAP realized that they faced unusually keen competition in many contested constituencies. As a single-party dominant state, the PAP sees general election as a periodic 'referendum' on its legitimacy to rule, and is therefore unwilling to lose any popular ground. Sensing the likelihood of such losses, it threatened that constituencies in public housing estates that voted against the PAP would not have their housing upgraded. (Since early 1990s, the government had been upgrading older housing estates, on a cost-share basis with residents, to bring them closer to the standards of the newer and better-serviced housing estates, so as to maintain the property values of the older estates.) Clearly, the PAP was using public funds to its own advantage. Under such circumstances, any public housing resident who voted against the PAP contestant in a constituency would be tantamount to voting against her own material self-interest. Thus, unless she was absolutely convinced of the desirability of democracy at all cost, the rational choice would be to vote PAP. The consequence was, obviously, that the PAP regained electoral ground. However, a larger principle is at stake here: the population's dependence on the state to provide housing as a basic necessity has transformed them into clients of the state, without the ability fully to exercise their electoral power (Chua 2000); the stranglehold of the PAP on state power is reinforced, if not in fact institutionalized.

Post-1997 Asian Financial Crisis

The relatively smooth unfolding of economic and social development programmes in Singapore suffered its first major disruption during the 1997 Asian Financial Crisis. Although the shock to the economy was largely the result of contagion from neighbouring economies, sustained recovery proved difficult because of a subsequent series of events. The Financial Crisis was followed by sustained global downturn, then the negative economic effects of the Iraqi War and the Severe Acute Respiratory Syndrome (SARS) epidemic and, finally, the emergence of structural unemployment resulting from the migration of low-end industrial and mid-level management jobs to the lower-wage locations in the region, particularly China and India. The emergence of sustained structural unemployment may be said to mark the end of the developmental phase of the Singapore economy, when full employment and labour shortage were the order of the day and 'retrenchment' meant a financial windfall because a worker could easily obtain another job after collecting his retrenchment benefit.

Faced with sustained unemployment, the PAP government did what many governments in capitalist economies has done: expand welfare provision. The government expanded its job-training provisions, which provide not only training costs but also payroll subsidies during the training period. Under another scheme, it paid half monthly salary for up to six months when a retrenched worker was re-employed. The most radical welfare programme was the Home Ownership Plus Education (HOPE) programme, introduced in September 2003. Here, the government provided the young and families who had poor economic prospects worth up to 100,000 dollars of benefits, aimed at helping the family out of a potentially long-term poverty trop. The scheme provided up to \$50,000 grants for home ownership, \$10,000 for skills training (to be shared equally by husband and wife) and assistance for children from pre-school to tertiary education level. At its introduction it was estimated that 3,000 households would benefit from the scheme (*Straits Times* 21 August 2003). The government understandably tried to put a bold face on the expansion of welfare by giving the assistance an ideological positive spin, calling the schemes 'employment' instead of 'unemployment' assistance.

The depressed economic condition also had a constellation of negative effects on the public housing programme. First, it led to a sharp decline in property values, down 40 per cent in 1999 from the 1997 values. There was a small recovery in the 2000, but by mid-2003, still prices hovered at 20–25 per cent below their peak values. Hitherto, purchasing public housing had been a guaranteed financial gain since the HDB started selling its flats in 1964; after 1997, this certainty was over. Investment in public housing now faces the same market uncertainty as any other investment. A decline in property values was also sustained by private sector housing. The decline in property value has secondly changed attitudes to housing consumption. Singaporeans turned sober in their housing options: many put off, or at least delayed, plans to upgrade into newer and bigger public housing flats or to lower-end private condominiums; some even took themselves out of the queue to purchase new flats; smaller flats returned to favour and private condominiums sold at snail pace (*Sunday Times* 26 October 2003). The result was over-supply of housing in both sectors. At mid-2003, the HDB had a stock of about 10,000 unsold housing units, which would constitute a crisis for any private developer or mortgage holding company.

Economic recession and structural unemployment exposed a central concern of the public housing programme. Success was dependent on citizens' ability to finance long-term mortgage loans, is in turn dependent on sustained employment. Home ownership can quickly turn into a millstone for owners who cannot count on continuing employment – or, worse, become unemployed. Up to about 100,000 households who bought their public housing flats at peak prices in the years 1995–7 found themselves holding negative equity. The HDB had to provide assistance to help families who were unemployed and unable to meet their monthly mortgage payments, including suspending collection of payments until the members of the household secured re-employment. As mortgage payments were tied to CPF contributions, the falling values of public housing flats had severe financial consequences for retirees who were planning to sell their flats with capital gains to finance their retirement. For many, retirement has to be delayed as the existing housing market is likely to show negative until at least 2010. Finally, as public housing home ownership was so aggressively promoted by the PAP government, it faces the need to solve these problems by preventing further falls in property value and not go the way of Hong Kong, where property prices fell by an average of 60 per cent between 1997 and 2003, with no sign of recovery. The government's ability to help public housing values' recovery will have a significant effect on its continuing legitimacy to rule.

Malaysia: the New Economic Policy

The NEP, which aimed to raise the Malays' share of domestic capital to 30 per cent within twenty years, was in place by 1971. This economic redistribution was seen as necessary to maintain long-term racial peace. Contextual justifications aside, such 'affirmative action' policies were by definition discriminatory against non-Malay individuals and were thus intrinsically conflict-ridden and potentially explosive. Fortunately, for Malaysia, the political structural arrangement between the races, and fortuitous historical conditions during the period of policy implementation, enabled the country to avoid any social disruption at the collective level.

The achievement of the primary aim of the NEP is well documented by Crouch (2001: 231–84). To overcome the lack of entrepreneurial skills among the Malays, the government acting 'on behalf of the Malays', 'expanded its commercial and industrial operations as a way of creating openings for Malay business' (Crouch 2001: 232). State enterprises often brought in Malay-owned firms as business partners and as suppliers or sub-contractors of services. State-level economic corporations were also set up with a similar aim of generating business opportunities for the Malays (Crouch 2001: 233). A state owned corporation (the National Corporation) was created as a vehicle for establishing new businesses and 'to buy into established British and other foreign companies in the mining and plantations sector via the stock market rather than through nationalization' (Crouch 2001: 232). In the 1970s, Malay share-ownership rose from 2.4 per cent to 12.5 per cent, of which less than half was in private Malay hands, the remaining being held on behalf of the Malays by state enterprises. A National Equity Corporation was then established, to which many of the most profitable assets of the National Corporation and the state corporations were transferred. Individual Malays were allowed to purchase its unit trusts and thus 'acquire indirect stakes' in the National Corporation's assets. This raised Malay ownership in share capital to 20.3 per cent by 1990, of which 14 per cent was in the hands of private Malays.

Other strategies for increasing Malay share owning included 'coercing' enterprises of [a] certain size to '"restructure" its share ownership in accordance with national goals' (Crouch 2001: 234), namely 30 per cent Malay ownership. Chinese businesses had difficulties obtaining licences, financial loans and government contracts unless they took on Malay 'partners'.[13] The government also provided incentives, including training courses, 'easy loans with little or no collateral', and 'subsidized premises' for Malays to establish their own businesses, which were in turn given preferential access to government contracts and licences and other business opportunities generated by the state. Obviously, such 'hot-housing' of share ownership and enterprise building had its problems. Often, the foreign or Chinese owners of the 'restructured' or new enterprises had to take on Malay partners who 'brought no financing to the business, in order to gain access to the necessary licenses, contracts, concessions, and credit' (Crouch 2001: 234). In some instances of publicly listed companies, the Malay partners who were given the shares for free turned around and sold them for immediate profit. The NEP undoubtedly created massive opportunities for corruption and political patronage, with the majority of benefits going to those 'Malays with good connections with the dominant party, UMNO' (Crouch 2001: 235). Criticisms were often directed at UMNO:

> Starting up shell companies and 'two-dollar' firms, inflating them with state contracts and license[s], and rotating capital under holding companies and investment arms, UMNO penetrated deeply during the 1970s into financial services, property development, light manufacturing, and media ownership [leading consequently to] fusing government and business in Malaysia's distinct brand of money politics. (Case 1995: 95)

Opinions remain divided on whether all these process did in fact generate able Malay businessmen for the long term, when many private Malay enterprises either collapsed or had to be baled out by the government during the 1997 Asian Financial Crisis.

Concurrently with the changes in business ownership there were strategies, particularly through education opportunities, to improve Malay participation in all professions to grow a Malay middle class. In all but the primary schools, where the Mandarin and Tamil schools with Malay language as a compulsory subject were permitted, the language of instruction for the education system was changed gradually from English or Mandarin to Malay. At the same time, the government expanded tertiary education rapidly, with new universities and technical colleges. It also provided overseas scholarships, especially to UK and US universities. These tertiary education opportunities went predominantly to Malay students by quota, resulting in a rapid expansion of Malay university students, from about 40 per cent in 1970 to 67 per cent in 1980. Malay employment in middle-class professional occupations had reached 48 per cent at the end of the two decades of NEP, in 1990 (Crouch 2001: 237–8).

Such massive 'redistribution' of share ownership and education opportunities inevitably caused resentment among non-Malays. At the individual level, one could readily find individuals who resented being 'robbed' of education and economic advancement. Many Chinese Malaysians migrated and made good in the 'meritocratic' system in Singapore, and are quick to tell such personal stories of discrimination and exclusion.[14] However, at the societal level, Crouch points out that 'the NEP was implemented during a period of extraordinarily rapid growth, enabling it to transfer resources to the affirmative action programme without imposing unbearable burdens on the non-Malay communities' (Crouch 2001: 239).[15] The share-transfer schemes affected primarily existing foreign owned companies, although some negative effects on Chinese enterprises were inevitable. In Crouch's opinion, 'the NEP did not exclude the Chinese community from business opportunities; it simply made it more expensive to conduct business' (Crouch 2001: 239). These difficulties and increased business costs were ameliorated by buoyant economic expansion, so that Chinese share holding expanded from 34.3 to 44.9 per cent between 1970 and 1990; the share capital owned by foreigners, mainly British, fell from 63.3 to 25.1 per cent in the same two decades (Crouch 2001: 240).

In education, as a result of a sevenfold increase in student places, the absolute number of non-Malay students also increased, in spite of the quota. However, when the proportion of non-Malay students dropped to around 25 per cent, they protested; during the 1978 national election, 'many Chinese voters turned against the government' (Crouch 2001: 242). The result was that the government agreed to reduce the quota gradually in subsequent years. By 2002, however, many places reserved for Malays had not been taken, while qualified Chinese were excluded. Such places are now given to qualified non-Malay students rather being than left vacant and in 2003 moves were apparently afoot to base entrance entirely on academic merit rather than race.

The overall result of twenty years of NEP has been dramatic: a Malay entrepreneurial class has emerged that is close to UMNO, the single-dominant party in government. A Malay middle class across the spectrum of professions is now in place. Occupational opportunities for the Malay working class have improved, with rising incomes. Although economically these developments were partly funded by the revenues derived from the discovery of oil in the 1970s, the relatively open market that invited foreign investment in industrial sectors and the replacement of colonial British share capital in resource industries, the redistributive effect in favour of the Malays would not have happened if it had not been for the NEP's facilitation of affirmative action. Politically, it was critical that the NEP was carried out with the political coalition of *Barisan Nasional* intact, thus preserving political participation of the non-Malay communities. In its 'incorporation' of minority groups, particularly the Chinese, the UMNO-led state was able to demonstrate that it was responsive to the demands of the majority, namely the Malays, through the NEP, while at the same time being mindful of the interests of the minorities. The overall economic redistribution was to have its effects on this political arrangement.

According to Jesudason (2000), the emergence of a Malay entrepreneurial group was welcomed by the Chinese, as its emergence changed Malay perceptions of economic inequality and poverty: 'Many Chinese businesspersons see the emergence of the new Malay tycoons (*orang korporat*) as a positive development: the growth of this class will favor destatization, talented Chinese will be recruited into their organizations, and in bad economic or political conditions the Malay capitalist class is more likely to be targeted than the Chinese' (Jesudason 2000: 90). This effect could be seen in political developments after the 1997 Asian Crisis, when there was massive unemployment and spectacular failures of Malay businesses. Jesudason noted that there was no racist-styled Malay criticism of Chinese business interests. He concludes, '[it] showed that Malays had developed a new understanding of the dynamics of the capitalist economy and saw that the inequality and poverty were not the simple outcome of one ethnic group's stealing from another' (Jesudason 2000: 90).

The political perceptions and orientation of the Chinese were also changed during the Financial Crisis. Differences between the Prime Minister, Mahathir Mohamed, and his deputy, Anwar Ibrahim, which led to the jailing of the latter on sodomy charges, split the Malay community. The political fallout provided opportunities for a coalition of different oppositional forces, including opposition parties and civil society groups, to create a '*Reformasi*' movement (Weiss 2003), which confronted the police in violent street demonstrations. In the run up-to the 1999 general elections, the emergent opposition political forces coalesced to form a new political party, the *Parti Keadilan Nasional* (National Justice Party), which entered into coalition with the other two major opposition parties, the PAS and DAP, to form a *Barisan Alternatif* (Alternative Front) to contest the election (Case 2003). Disgruntled with UMNO and its economic cronyism the Malay vote split into two approximately equal halves, leaving the Chinese electorate to determine the election outcome. Fearing the expressed interest of PAS to establish an Islamic state in Malaysia, a majority of the Chinese voted for the UMNO-led *Barisan Nasional*. The result was that *Barisan Nasional* retained its two-thirds parliamentary majority; UMNO lost twenty-two seats and two states, while PAS for the first time formed the formal opposition in Parliament (Funston 2000).

Finally, it should be noted that the election results also signified changes in the relationship between race, economy and politics in Malaysia; the class structure is now increasingly indistinguishable by race; resentment against economic manipulations are directed as much at Malay entrepreneurs, particularly those who are deemed to have benefited from affiliations with UMNO, as to Chinese capitalists; civil society is increasingly multi-racial in composition and the electorate appears to be shifting from voting along racial lines to being issue-oriented. Perhaps in recognition of these shifts, Mahathir Mohamed has raised the possibility of a 'Malaysian Malaysia' in his conception of '*Bangsa Malaysia*' (the Malaysian race). All these portend well for further democratization of the political sphere, although it is too early for optimism.

Conclusion

Singapore and Malaysia are two exemplary cases of how social policies and economic development are inextricably intertwined. In both, the rapid transformation of the economy from relative backwardness at the point of decolonization to developed nation status took place under single-party dominant regimes which were less than democratic – governments which combined democratic procedures and institutions with authoritarian constraints. The curtailment of certain democratic rights is generally seen as being compensated by improved financial conditions and expansion of material life of the entire population – what may be called 'performance legitimacy'. Furthermore, in both instances, the regimes were sufficiently responsive to the needs of the majority of the population, often before the majority made explicit demands. In the case of Malaysia after 1969, the demands of the Malay majority were privileged over those of non-Malays. In Singapore, the entire national housing programme, which was the centerpiece of both social policy and political legitimacy of the PAP government, would not have been possible if the property rights of individual land owners had not been violated by the government's draconian land-acquisition activities. Regardless of their anti-democratic, authoritarian practices, therefore, the legitimacy of these single-party dominant regimes among their respective electorates is not in doubt.

Arrival at developed status nevertheless changes the political equation between the electorate and the single-party dominant regime. There are continuing desires among the majority of the electorates for greater democratization. Small population segments continue actively to struggle for greater liberalization in specific spheres of social life. Since the 1990s, civil society activities in both countries have expanded, as the 1999 general elections showed, the Malaysian groups are politically more effective in articulating their need for political structural changes. Singaporean groups are more engaged in the liberalization of specific issues and arena of practices, such as gender equality, environmental protection and artistic freedoms. In each of these issues the regime has made some liberalization without conceding any ground in the formal political sphere: there has been 'liberalization' without democratization (Chua 2003). The political trajectories of the two countries appear to be set for the medium term.

Notes

1. The term 'race', instead of the more politically correct term 'ethnicity', will be used in this chapter because 'race' is the political term used in both countries by their respective leaders, citizens and in everyday conversation.
2. The concept of a 'plural society' was coined by J. S. Furnivall (1939), a British civil servant to characterize the racial and economic configurations in the Dutch and British colonies in Southeast Asia.
3. For the most recent national history of Malaysia, see Cheah (2002).
4. Indeed, the politics of Malaysia has increasingly shifted to intra-party contestation within UMNO and intra-Muslim community contestation between UMNO and PAS (see Case 1995). For a discussion of the roots of politics of Islam and its effects on race relations and development in Malaysia, see Muzaffar (1988).

5. The multi-racial composition of the political parties was probably the consequence of the fact that the overwhelming majority Chinese population was not indigenous to the island, while the 'indigenous' Malays formed a minority population unable to gain-political majority.
6. As a result of this entrenched hegemony, many PAP leaders are wont to believe that the history of independent Singapore is synonymous with the history of the PAP party and leadership; for example, the two-volume autobiography of Lee Kuan Yew (1998, 2000), who was Prime Minister for the first thirty-one years, is entitled, *The Singapore Story*. For more critical political analysis of the ascendancy and hegemony of the PAP, see Rodan (1989), Chua (1995) and Tremewan (1994).
7. The ideological foundation of Singapore is 'pragmatism', however, to the extent that the effects of pragmatism includes possible extreme self-interest in exclusively materialist terms, it is insufficient as the 'moral' basis of society, hence, over the past two decades, the PAP government has been experimenting with different 'national' ideologies, including the present preference for 'communitarianism'; for details of this ideological trajectory, see Chua (1995).
8. Khong (1995) has noted the PAP government's incorporation of the various non-state sectors into its ideological embrace through the idea of the 'collective' good, thereby enhancing the government's political legitimacy to rule.
9. 'Relatively' because the colonial administration in Singapore, through the Public Works Department and the Singapore Improvement Trust had built more housing and infrastructure compared to other British colonial territories elsewhere in the world.
10. The CPF has progressively become a primary instrument of social policy beyond housing. It is now used to finance part of the household's medical care, education needs and, ultimately, retirement. The literature on CPF is extensive, for a sample see, Asher (1994) and Low and Aw (1997).
11. Pro-family social policies are extensive in Singapore, including very substantial tax breaks for children (especially the third and fourth child), children bearing the costs of hospitalization of their parents through the use of the children's CPF Medisave funds and, finally, the law that allows parents to sue children for old-age maintenance.
12. Other criminal activities are also policed through public housing tenancy. For example, if any member of the family was caught conducting illegal activities, such as gambling or prostitution, in the flat, the entire family could face eviction.
13. Such Chinese–Malay partnerships are known colloquially as 'Ali Baba' companies, 'Ali' (the Malay) gets the licence and 'Baba' (a term for local-born Chinese) provides the capital and know-how to run the business.
14. In 1998 the Malay community constituted 62.3 per cent and the Chinese 27 per cent of the total population, compared to 55.5 per cent and 34 per cent, respectively in 1970.
15. The most negatively affected were the small minority of the Indian population, which saw a decline in its average income, relative to the Chinese, from 77.6 to 74 per cent (Jesudason 2000: 90).

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5
The Politics of Welfare Developmentalism in Hong Kong

Eliza W. Y. Lee

Introduction

As an Asian late industrializer, Hong Kong has shared many common characteristics with its counterparts in their welfare system, such as low government spending on welfare, emphasis on self-reliance and the family as informal carers, ideological rejection of welfare as a matter of social right and the primacy given to economic development. The inadequacy of the Asian welfare model was obscured by sustained economic growth, which provided for full employment and rising real wages. In recent years, Asian welfare regimes have confronted a similar set of pressures arising from demographic changes and rising social expectations, with the Asian Financial Crisis representing an unprecedented challenge to their adequacy. In this chapter, I shall examine the development of Hong Kong's welfare regime after the Asian Financial Crisis, in the light of how the historical path of development, economic globalization and the state of political development have combined to structure the response of the state toward the pressure on its welfare regime.

Compared with their Asian counterparts, Hong Kong's welfare regime stands out for the important role played by the state as the financer and provider of services, rather than just the regulator. On top of its heavy involvement in financing and provision, it is also probably the state that most promotes the idea of small government. An examination of this trend since the 1970s shows that public expenditure has been low relative to Western welfare states, and even neighbouring Asian developed economies (Table 5.1).

Another characteristic of the Hong Kong welfare regime is its heavy reliance on the voluntary sector in the provision of services, especially in the areas of education and social services. Non-profit organizations, especially church organizations, played an important role in the provision of education through the grant-in-aid system instituted from the late nineteenth century, and their role was greatly expanded in the 1970s. Since the 1970s, 80 per cent

Table 5.1 Public expenditure: GDP ratio (%), Hong Kong, 1967–2003 (fiscal years)

Year	Public expenditure: GDP ratio (%)	Year	Public expenditure: GDP ratio (%)
1967/68	12.0	1985/86	16.0
1968/69	11.7	1986/87	15.3
1969/70	10.9	1987/88	14.0
1970/71	10.9	1988/89	14.2
1971/72	11.2	1989/90	15.6
1972/73	13.7	1990/91	16.3
1973/74	13.1	1991/92	16.2
1974/75	14.3	1992/93	15.8
1975/76	13.4	1993/94	17.3
1976/77	11.7	1994/95	16.4
1977/78	12.6	1995/96	17.6
1978/79	14.2	1996/97	18.2
1979/80	14.0	1997/98	18.4
1980/81	15.6	1998/99	18.5
1981/82	17.2	1999/2000	21.7
1982/83	18.5	2000/01	21.9
1983/84	18.2	2001/02	21.1
1984/85	15.6	2002/03	21.5

Note: Figures adopted from Census and Statistics Department, *Estimates of Gross Domestic Product 1961 to 1996* (Hong Kong: Government Printer, 1997); *Hong Kong Yearbook* (Hong Kong: Government Printer, various years).

of the social services have been provided by non-profit organizations under state funding. This paradoxical combination of a colonial state of limited capacity and a relatively heavy state role in financing and providing collective consumption is the result of the confluence of a number of factors related to the colonial condition – colonial domination and the particular configuration of economic and financial policies that resulted. These colonial conditions largely shaped the historical path of development of the welfare regime, if not the response of the post-colonial state to the challenge of the Asian Financial Crisis.

Colonialism and welfare development

Hong Kong was a British colony from 1842 to 1997 before it reunified with China to become a special administrative region (the Hong Kong Special Administrative Region, or HKSAR) under Chinese sovereignty. For most of its colonial rule, roughly from the 1840s to the 1950s, the state's welfare provision was minimal in general and even non-existent in certain areas. Where social provision was made, it was aimed at satisfying the interest of colonial domination, the University of Hong Kong, for instance, was founded in 1911 to graduate professionals to serve the needs of the colonial government. Free vaccination was provided to prevent the spread of epidemics (which might eventually harm the expatriate population). To the colonial administration, the high population mobility of an essentially migrant society also added to their reluctance to develop any form of welfare system lest it attract swarms of poor people from the Guangdong region (Jones 1990).

Tang (1998) argued that there was a policy shift in the 1950s. The government began to provide low-cost public housing with primitive facilities, public spending on primary education was increased in the early 1960s together with the founding of a second university; expenditure on health care was also on the rise; a couple of White Papers were issued concerning long-term social and medical services. Tang attributes this policy shift to the change in geopolitical environment after the Second World War, in which Hong Kong was regarded in Britain's defence policy as a major 'fortress colony' against communism (Tang 1998: 51–8). The current residual welfare state was founded in the early 1970s after the occurrence of two major social riots, when the colonial state realized that its legitimacy was tied to its ability to respond to a rising social need for welfare provision. This 'big bang' phase in social policy, as Tang (1998) characterizes it, witnessed a major increase in social provision. This included the introduction of benefits in cash for the first time as a form of social assistance to the poor, elderly and disabled; the financing of voluntary agencies to provide a range of social services for youth, family counselling, rehabilitation, the elderly and community development; the provision of free and compulsory education to students up to fifteen years old; the announcement of a Ten-Year Housing Programme that evolved into one of the largest public housing projects in the world; and the expansion of public health care to provide 80 per cent of outpatient services for the population. Paraphrasing Leman (1977), Tang (1998) cited two general patterns of welfare development – continuous versus episodic development of welfare. Hong Kong's pattern of development in the 1970s clearly fell into the latter pattern.

This episodic development of welfare brought about a qualitative and quantitative improvement in social provision but did not fundamentally change in the official attitude to welfare as nothing more than a final safety net that people can fall back on. It can be argued that this episodic pattern of development at least partly explains why the government had to rely on the voluntary agencies as major service providers and why the state has been the major source of funding. The absence of essential institutional capacity prompted the state to turn to voluntary agencies, while the lack of established societal sources of funding also made the state a major funder of welfare.

Economic and financial policies

Hong Kong's economic policy was crystallized in its celebrated doctrine of economic non-interventionism, whereby the government made no proactive economic policy but relied on the market as the primary engine of economic activities. While the government officially took this doctrine as the hallmark of the city's 'economic miracle', scholarly studies have challenged its authenticity. Castells (1992), for example, point out that the colonial state was not actually as non-interventionist as it appeared but played an active role in providing infrastructural support to industries and business, and assumed substantial responsibility in the provision of collective consumption, and hence a viable social environment, for economic development. Others contend that Hong Kong succeeded economically not because of this policy of laissez-faire of the colonial government, but despite the lack of state support. Scholars in this camp explicitly or implicitly compare Hong Kong unfavourably with the proactive policies of other Asian developmental states in nurturing industrial development. Chiu (1994) attributes this policy difference to the dominance of the British commercial elites in the governing machinery. They favoured a low tax rate and minimal state interference in the economy, and under their influence the government repeatedly refused to comply with the demand of local industrialists for more government support for industrial development. These studies show that the colonial state was not as non-interventionist as often claimed but had not developed the capacity to actively and strategically guide economic development. In other words, the colonial state was not a strong developmental state.

Ideologically, the doctrine served as the guiding philosophy of the state if not shaping its institutional practice. Various colonial governors and financial secretaries explicitly endorsed laissez-faire capitalism and regarded it as the cornerstone of the colony's economic success. For instance, Sir John Cowperthwaite, the financial secretary from 1960 to 1971, is representative of those strongly opposed to any form of developmental policy (Hong Kong Government 1962: 133, 1968: 212). The well-known term 'positive non-interventionism' was invented in the 1970s by the then financial secretary, Sir Philip Hadden-Cave, to describe the government's deference to the market for the generation of economic activities and the provision of goods (Hong Kong Government 1977: 827–30). The major consequence of this doctrine was the absence of macroeconomic planning and an industrial policy in Hong Kong's economic development. The major engine of industrial development in the 1960s and 1970s was small and medium-sized firms (SMFs) that adopted the strategy of flexible production and minimization of cost through unskilled labour.

Complementary to this doctrine of non-interventionism is the conservative financial policy of a low tax rate, a simple tax system and low public expenditure, practices traceable to the early days of colonial rule. Chiu's (1994) study shows that there were both political and administrative origins for such a policy. The early commitment of the colonial government to economic non-interventionism and financial conservatism was the result of its close alliance with the British commercial capitalists, who favoured a low tax rate and minimal government interference in commercial operations. The Financial Procedures in the Colonial Regulations required that colonies avoid any deficit that would impose a financial burden on Britain. Under these guidelines, the colonial government tried to avoid a deficit budget and maintain a satisfactory level of fiscal reserves. As Tang (1994) states, successive financial secretaries emphasized that the annual budget should ensure that Hong Kong was not in danger of 'living beyond [its] means': such fiscal policy is thus procyclical rather than anticyclical. The government also prided itself for having a simple tax system with a low income redistribution effect. Tang shows that the overall redistributive effect of the whole tax system amount to reducing the Gini coefficient by 5 per cent. In the early 1980s, this governance ideology crystallized into explicit government guidelines that public expenditure should be kept below 20 per cent of GDP, that the rate of growth of public expenditure should not exceed the rate of economic growth and that a balanced revenue budget should be maintained as far as possible.

Welfare developmentalism in a colonial state was thus configured through a residual welfare state that was structured by financial conservatism and economic non-interventionism. Financial conservatism led to the residual nature of the colonial welfare state, in which the level of social spending was tied to economic growth and the financial situation of the government. Under a taxation system with minimal income redistribution, a social wage provided through collective consumption became the major form of income transfer. In contrast to the cases of Korea and Taiwan, where strategic industries were under the control of a strong authoritarian state that had the authority to mandate the provision of insurance programmes for industrial workers, neither the industrial nor the commercial bourgeoisie in Hong Kong would have favoured the burden of any social insurance programmes. The state financing of social programmes was thus the result of the lack of state discipline over business and industries.

Colonial interest, financial conservatism and economic non-interventionism thus largely explain the characteristics of the welfare regime in Hong Kong. The episodic pattern of welfare development led to a high level of state reliance on the voluntary sector as service provider through corporatist arrangements. The policy of economic non-interventionism implied that the colonial state was historically not as autonomous as other Asian developmental states, and instead of mandating industries to provide insurance to their workers had to assume the role of provider and financer of welfare. The residual nature of the welfare state was the direct result of financial conservatism, the social wage provided by the state assumed a particularly important role in providing for industrial peace and supporting a flexible production regime.

The formation of the social pact

As economic non-interventionism and the residual welfare state became institutionalized practices, they constituted the two essential components of the social pact in the late colonial period. The cultural endorsement of economic non-interventionism was fortified under a period of prolonged economic growth from the 1960s to 1980s that had provided some of the 'trickle down' effect for a general improvement in people's livelihood.[1] The 'economic miracle' produced the legend that everyone had the chance to succeed, or at least improve their livelihood, through talent and hard work. This is evident in numerous studies conducted in the 1970s and 1980s in which people consistently believed that Hong Kong was a land of opportunities, and that with ability and effort everyone had the chance to improve her social and economic status (Tsang 1994b). Some studies show that the subjective perception of the existence of channels for upward mobility is not substantiated by objective data. Tsang (1994a), for instance, shows that there were definite 'closures of mobility opportunities within the social structure of Hong Kong' (1994a: 62). Nonetheless, the subjective perception of social openness was deeply ingrained in the collective experience of a generation of Hong Kong people. As Lau and Kuan (1991) state:

> In short, the capitalist system of Hong Kong is founded upon solid normative orientations . . . The expectation of equality of opportunities and the perception of Hong Kong as a land of abundant opportunities seem to have been vindicated in the mind of the Hong Kong Chinese. (Lau and Kuan 1991: 58)

On the other hand, studies in the mid-1980s also found that Hong Kong people were supportive of the social interventionist role played by the government. The survey findings of Lau and Kuan (1991) show that the Confucian ideal of social egalitarianism was a significant ethos of the Hong Kong Chinese in the sense that most people did not want to see a huge gap between the rich and the poor.[2] The expectation toward the government as the major provider of public services was firmly established among the population by the 1980s, after more than a decade of expansion in public services and social programmes.[3]

In sum, the social pact that was formed in the 1970s comprised the dual values of economic individualism and social interventionism in welfare provision, constituting the bases for the perception of 'equal opportunities' among the population. A former financial secretary, Hamish Macleod, used the term 'consensus capitalism' to describe the collective consensus on the need to maintain economic freedom and an adequate safety net. This peculiar combination of the market and the welfare ethos was a direct result of the colonial government's approach to economic non-interventionism and the residual welfare state.

Changes in the late transition period

The condition for the sustenance of a residual welfare regime was a period of high economic growth, which led to a continuous increase in government revenue to fund the expanding demand for social provisions and also a situation of full employment and real wage increase that minimized the public demand for welfare provision. These optimal conditions started to change in the 1980s, as socioeconomic development, economic restructuring, the rise of structural poverty, an ageing population and rising expectations all gave rise to increasing demand on social programmes. In the 1990s, a declining economic growth rate was met with continuing increase in public and social expenditure (Table 5.2).

Table 5.2 Economic growth in GDP and growth in social services expenditure, Hong Kong, 1967–2003

Year	Growth in GDP (%)[a]	Social services expenditure/Total public expenditure (%)[b]	Year	Growth in GDP (%)	Social services expenditure/Total public expenditure (%)
1967/68	1.7	39.2	1985/86	0.4	44.5
1968/69	3.3	39.9	1986/87	10.8	43.9
1969/70	11.3	40.3	1987/88	13.0	44.8
1970/71	9.2	40.3	1988/89	8.0	47.2
1971/72	7.1	40.0	1989/90	2.6	45.0
1972/73	10.3	32.6	1990/91	3.4	45.8
1973/74	12.4	36.4	1991/92	5.1	45.7
1974/75	2.3	39.5	1992/93	6.3	45.4
1975/76	0.3	43.4	1993/94	6.1	44.9
1976/77	16.2	41.3	1994/95	5.4	47.5
1977/78	11.7	41.5	1995/96	3.6	47.6
1978/79	8.5	42.5	1996/97	4.5	49.9
1979/80	11.5	43.3	1997/98	5.0	53.1
1980/81	10.1	43.7	1998/99	–5.1	51.6
1981/82	9.2	39.0	1999/2000	2.9	54.5
1982/83	2.7	40.3	2000/01	10.2	56.5
1983/84	5.7	42.1	2001/02	0.5	54.6
1984/85	10.0	44.6	2002/03	2.3	55.1

Notes:
[a] GDP is calculated on a calendar year basis. The figures are adopted from Census and Statistics Department, *Estimates of Gross Domestic Product 1961 to 1996* (Hong Kong: Government Printer, 1997); and http://www.info.gov.hk/censtatd/eng/hkstat/fas/nat_account/gdp/gdp1_index.html.
[b] Social services expenditure here refers to expenditure on health, education, housing and social welfare. Both social services expenditure and public expenditure are based on the consolidated accounts, and the figures are obtained from *Estimates of Revenue and Expenditure*, various years; *Hong Kong Yearbook* (Hong Kong: Government Printer, various years).

This potential problem of the long-term sustainability of the residual welfare state was partly obscured in the late 1980s – early 1990s by the 'economic bubble' generated by the real estate market. As the largest landowner of the Territory, the colonial government relied on the sales of land as a major source of revenue.[4] During the transitional period, it was mandated by the Sino-British Joint Declaration (1984) to restrict land sales to 50 ha per year.[5] The lack of land was met with an increase in the demand for residential and commercial properties as a result of the economic boom in the 1980s bought about by China's 'open door' policy. Land prices soared, leading to huge increase in government revenues and an overheated real estate market that invited speculative activities. The accumulation of huge revenues coupled with the political transition caused the government generously to increase spending on social provision. In the late transition period, the legislature was partially democratized. Especially, under the last governor, Chris Patten, a change in the electoral system resulted in a legislature with a substantial percentage of members from the democratic camp. It was in this setting that the Mandatory Provident Fund was set up, providing for the first time a social insurance scheme for the retired population (Chow 1998). Chris Patten was also apparently content with increasing expenditure on areas such as social welfare. Owing to the serious problem of the 'brain drain' and the restructuring of the economy to concentrate on service industry, the government was compelled drastically to expand higher education by increasing the number of public universities from two to eight between 1991 and 1996. In sum, democratization, political transition and the 'economic bubble' led to a period of substantial expansion in social expenditure.

The momentum to continuously increase social spending was carried on by the first chief executive of the HKSAR, Tung Chee-Hwa. As the new political leader who symbolized the end of years of colonial domination and the beginning of a new era where the Hong Kong people finally attained self-rule, Tung felt the need to demonstrate strong leadership and give people the vision of a better future. His idea of social provision, which I term the 'Confucian welfare state', was definitely intertwined with an effort to reconstruct the basis of a new political community. Tung Chee-Hwa's attempt to build a Confucian welfare state was first announced in his 'campaign platform' as he ran for the post of the First Chief Executive, selected by a committee of 400 electors.[6] At the time Tung's idea was conceived, he was still expressly optimistic about Hong Kong's economic prospect. An open admirer of Lee Kuan-Yew, Tung (1996) attempted to frame a new national identity by appealing to Hong Kong people to rediscover Confucian ethics as guiding social values, which he defined as emphasis on the values of consensus, modesty, harmony, obligation, familialism and collectivism rather than confrontation, rights and individualism. Tung's effort can be seen as an attempt to reconstruct the cultural basis of the social pact in

Hong Kong. Under this pact, citizenship was defined in terms of a cultural call to duty rather than the pursuit of individual interests. In exchange, it was the obligation of a benevolent ruler to promote economic development and to provide adequate care for the population. This paternalistic approach toward governance prompted Tung to make generous promises on social programmes, including the improvement of welfare for the elderly and the provision of adequate housing in order to build a 'compassionate and caring society'. Tung also foresaw the need for a more interventionist approach to economic policy and more investment in education in order to switch the economic base to higher value-added goods and sustain Hong Kong's long-term economic viability.

Tung's appropriation of the Confucian ideology to foster a sense of 'Chineseness' and his promise for more policy output can be seen as strategies for enhancing the legitimacy of the new HKSAR government as well as repairing the social cleavages caused by the political turmoil between China and Britain that had bitterly divided the society in the last few years of transition. The paternalistic overtones of the Confucian discourse never aroused much enthusiasm among the population, given that civil liberties, pluralistic interests and civil society had already developed in the latter years of colonial rule. The generous promise of more substantial programmes, however, did raise public expectations for better services.

The Asian Financial Crisis and its impact on the residual welfare state

The Confucian contract's underlying message of strong political leadership, social unity and a caring government was officially dealt a deathblow by the Asian Financial Crisis, which led to economic downturn and destroyed the preconditions that had underlain the old social pact. After decades of high economic growth and full employment, an economic recession of unprecedented magnitude brought GDP growth to –5.3 per cent in 1998, while the unemployment rate rose to a record high of 7.4 per cent in the second quarter of 2002. A revenue budget had been almost the norm since the 1970s, but the financial year of 2001–2 recorded an unprecedented deficit of 65 billion Hong Kong dollars (equivalent to 5.2 per cent of GDP). The real estate price dropped by 60 per cent from 1997, and the stock market fell by almost 40 per cent in the same period, causing drastic asset price deflation. The perennial record of enjoying revenue budgets and keeping public expenditure below 20 per cent of the GDP was broken. Both the middle and lower classes were hard hit by unemployment, wage decline and asset deflation. Many social comments have pointed out that the recession was not cyclical but structural, and the result of past negligence in economic policy. The crisis led to the bursting of an 'economic bubble' that had been built upon an overheated real estate market and short-term speculation. It exposed structural problems in the economy, including overreliance on service industry, high business costs, low productivity and poor-quality human resources. This internal crisis of the structure of the economy was coupled with an external threat, as China's accession to the WTO was expected to bring keener regional and global competitive pressures on Hong Kong. The economic recession and the record high unemployment rate also exposed the under-development of the social safety net, as there was no insurance programme for unemployment pensions, for example, to alleviate the social impact.

The Asian Fiscal Crisis and the retrenchment of the residual welfare state

In the first few years after the outbreak of the Asian Financial Crisis, the dominant approach was to adopt mildly counter-cyclical measures. The budget deficit was deemed to be cyclical rather than structural, and would be eliminated as the economy rebounded. Apart from tax concessions, social expenditures increased in real terms, especially on social welfare and education, the result of the rigidity of prices, the rise in demand and the need for economic restructuring. The government was confronted with tremendous political resistance from civil servants when it attempted to reduce their salaries. The rise in the unemployment rate imposed a heavy burden on the social assistance system, as it was the only source of income support that the unemployed and low-income families could fall back on. Restructuring Hong Kong's economy to a knowledge-based one also implied the need to substantially to upgrade the quality of human resources by investing more in education.

Five years from the Asian Financial Crisis, the economy has still not recovered and the budget deficit has snowballed, as we have seen to a record high of 65 billion dollars (5.2 per cent of GDP). In 2002, the new financial secretary, Antony Leung, announced in his first budget speech that the deficit should be eliminated as soon as possible, he considered that the public sector had overexpanded, and that public expenditure should be reduced from 22 per cent to 20 per cent of GDP by 2006–7.[7] This determination to eliminate the deficit and other measures carried out since 1997 constituted what I regard as the retrenchment of the residual welfare state. Many of the measures taken are quite similar to those that facilitated the restructuring of Western welfare states. Pierson (2001) identifies three dimensions of welfare state restructuring – recommodification, cost containment and recalibration. I argue that recommodification and cost containment measures have been used by the Hong Kong government to reduce spending on social provision.

In health care, the budget deficit of the Hospital Authority (the public body that heads and funds all public hospitals and clinics) skyrocketed to 500 million dollars in 2002–3 due to spiralling staff costs and rising public demand for services (*Ming Pao Daily*, 16 September 2002). Under the policy of cost containment, the Hospital Authority was expected to balance its own budget through measures such as lowering staff salaries and reducing the number of staff. Recommodification of health care is evident in changes in charging policy. In August 2002, a new measure was implemented that withdrew the subsidy for expensive medication, forcing patients to assume the entire cost themselves. In November 2002, charges were imposed on emergency services. The Hospital Authority is currently also considering various measures to generate more revenue, including user charges and charges based on means-testing.

Confronted with the oversubscription of the service and the ever-increasing cost of provision, the government in 1999 commissioned a team of experts from Harvard University to undertake a study of the health care system. Their report noted that the 'long-term financial sustainability of the present health care system is highly questionable', and recommended the setting up of a mandatory contributory health security scheme with a redistributory effect (Harvard Team 1999: 5). In 2001, the Health and Welfare Bureau published its own consultative document, which partially rejected the recommendations of the Harvard Report, and instead recommended a mandatory contributory scheme with no redistributive or cost-sharing effect (Health and Welfare Bureau 2001). While the proposal has not yet been adopted, it shows the government's long-term intention to recommodify health care by withdrawing its financing and letting the public shoulder most of the cost.

In education, after the Asian Financial Crisis, the government recognized, as we have seen that upgrading human resources was important to facilitate the transition of Hong Kong to a knowledge-based economy. The latest large-scale review of the Education Commission proposed comprehensive reform of the existing elitist and examination-oriented education system to train people for life-long learning, creativity and analytical ability (Education Commission 2000). This implies the need to increase the percentage of the population at a tertiary education standard and to improve the quality of primary and secondary education. To cope with the need for more expenditure on education under existing financial constraints, various measures of recommodification have been adopted. In the name of giving parents greater choice, more private schools were encouraged (Hong Kong Government 1999). Subvented schools were encouraged to switch to a Direct Subsidy Scheme (DSS), which entails less funding but more autonomy in curriculum, management, staff salary and fee charging. Both private and DSS schools meant drastic increases in school fees and charges on parents. Also, rather in conflict with its intent to upgrade the quality of human resources, the government is withdrawing all its subsidies on associate degrees and taught masters degree programmes. As to cost containment, the policy objective of quality education is again compromised by the government's refusal to take advantage of the decline in the birth rate to switch to smaller class sizes in primary and secondary schools. Universities are also expected to suffer deep budget cuts of up to 25 per cent in 2003–7. In sum, recommodification will increase the resource gap among schools and will result in higher levels of class inequality in education in the long run, while cost containment goes directly against the policy objective of restructuring Hong Kong into a knowledge-based economy.

In social welfare, no comprehensive social security system has been developed to deal with unemployment, a retirement scheme was developed in the early 1990s when the partially democratized legislature compelled the government to bring the issue onto the agenda. Under pressure from the business camp and the Beijing government, a non-redistributory Mandatory Provident Fund (MPF) scheme, which required every employee and her employer to contribute 5 per cent of the employee's monthly salary to her individual account, was adopted in preference to an alternative proposal of a more redistributory character. The latter proposal was supported by pro-welfare legislators. It would have mandated employees and employers to each contribute 3 per cent of the wage, with all permanent residents aged sixty-five and over receiving a flat monthly rate ($2,300 in 1994). The MPF scheme officially adopted in 2000 will take many years to mature, while the only means of livelihood for a large portion of the elderly population is currently the means-tested social assistance scheme (Comprehensive Social Security Assistance Scheme, CSSA). Added to the increasing number of CSSA recipients are single parents and the unemployed who, under the current social security system (or the lack of it), have no alternative social safety net to fall back on. Faced with an increase in the number of claimants, measures were taken to cut down on expenditure. A report with the theme 'Support for Self-Reliance' was released, which proposed a cut in the monthly allowance, especially to able-bodied recipients and large households, a more stringent asset limit and a programme 'encouraging' them to return to the job market (Social Welfare Department 1998). Even though social activists and scholars criticized the amount of the CSSA allowance as being below that needed for a decent standard of living, an 11.1 per cent reduction in the amount of the allowance was imposed. In June 2003, the government decided to impose a stringent seven-year residency requirement on applicants for the CSSA, disability and old-age allowance.

Cost containment measures were also extended to social services. In October 1999 the government put forward the use of a lump-sum grant as a mode of funding non-governmental organizations (NGOs). The lump-sum grant provides for a flexible funding model based on a one-line vote, in which agencies have the flexibility to decide on staffing structure, salary levels and other items of expenditure. Agencies can carry over unused funds to the next financial year (Social Welfare Department 2000). On the other hand, a quasi-market for social service provision has been developed as the government opens up service contracts for competitive bidding not only among social service agencies but also between the private and non-profit sector. Critics of the new funding model are particularly concerned that the one-line vote will become the mechanism for the government to impose a ceiling on social service expenditure, and to turn NGOs into agents for cutback management, as they are compelled to cut down on staff and other cost in order to balance the stringent budget. The opening up of service contracts to competitive bidding will further force NGOs to pursue value-for-money, rather than service quality, as the primary objective when delivering social services (Lee 2002).

In public housing, the policy took a drastic turn toward recommodification during Tung Chee-Hwa's term of office. In his 1997 policy address, Tung first set a target of building 85,000 units each year, with 70 per cent of the population having their own purchased homes in ten years (Hong Kong Government 1997). The subsequent economic downturn and the real estate market slump (market prices dropped by 60 per cent after 1997) brought about a dramatic change in government policy. The latest tendency of the government is toward the gradual withdrawal from public housing provision altogether, in November 2002, the government announced that it would stop building and selling Home Ownership Scheme (HOS) flats permanently and also terminated the Tenants Purchase Scheme (TPS). The HOS, instituted since 1976 and consisting of large-scale housing projects built by the government, had enabled lower-middle-class families to purchase apartments at 25 per cent–40 per cent below market value, while the TPS introduced in the 1990s allowed public housing tenants to buy the flat they rented at a low price (Housing Planning and Lands Bureau 2002). The total public housing supply is to be substantially reduced and citizens will be able to purchase apartments only from the market. Critics regard this policy turn as a government concession to the pressure of real estate developers who see subsidized public housing as a threat to the private housing market, especially after the market slump. On the other hand, it can also be seen as a step in the government's move to withdraw completely from housing provision.

The policy of retrenchment is a far cry from the Confucian welfare state proposed by Tung. It shows how financial conservatism can override other political ideas in prescribing the parameters of the welfare programmes in the case of the residual welfare state.

Economic restructuring and its implications for social development

Accompanying the retrenchment of the residual welfare state has been an increasing role played by the government in economic development. In response to the structural problem of the economy, the major policy innovation of Tung's administration included the development of a knowledge-based economy, long-term economic strategies and government initiatives in business. On the recommendation of the Chief Executive's Commission on Innovation and Technology (Chief Executive's Commission on Innovation and Technology 1999), the Innovation and Technology Commission (ITC) was set up. Apart from promoting applied research and development (R&D), it also identifies strategic technology areas such as biotechnology, Chinese medicine and information technology (IT). Investment in R&D is made through the Innovation and Technology Fund that was set up in 1999 with an allocation of HK$5 billion to fund universities and industries conducting research. The ITC also intends to actively identify other key technology areas for priority development in the future. The Cyberport and the Hong Kong Science and Technology Parks Corporation are the two major infrastructural projects for developing IT industry and fostering technological entrepreneurship, respectively. In an unprecedented move to boost Hong Kong's tourist industry, the government entered into joint venture with The Walt Disney Company to build the Hong Kong Disneyland, which involves a commitment of over $22.45 billion in infrastructure, land and loans, in the hope that it will bring in 35,800 new jobs in the next twenty years and eventually a financial gain of as much as $16.8 billion per year by 2024. Other initiatives to create business opportunities include fostering business participation in the development of China's western region and a further economic integration between Hong Kong and the Guangdong region. As to the development of long-term economic strategies, the Commission on Strategic Development outlined an aspiration to turn Hong Kong into Asia's World City through constructing a world-class service infrastructure that would develop Hong Kong into a major international financial, business and cultural centre. Some scholars such as Liu (1998) regard that these new initiatives as amounting to a third 'economic restructuring' in Hong Kong. In the transition to a knowledge-based economy, a large number of low-skilled workers are being gradually left out of the labour market, and inevitably become part of the 'welfare-class'. Some attempts have been made to get them back into the labour market, such as through the provision of retraining programmes and initiatives to revive a community economy. So far, the effectiveness of these measures has been rather limited in redressing the imbalance of labour force composition. In the second quarter of 2002, 21 per cent of the unemployed had primary-level or below education (Census and Statistics Department 2002: 25). It is estimated that by 2005 there will be a surplus of 136,700 manpower (11.4 per cent of the total manpower supply) with lower secondary education and below (Education and Manpower Bureau 2000: i).

The significance of these policy reforms lies in the way they have deviated from the old doctrine of positive non-interventionism, at least in principle. Financial Secretary Antony Leung (Hong Kong Government 2002) used the term 'proactive market enabler' to describe the new role of the government in economic development, meaning that it should pursue an active strategy to develop the economy instead of letting the 'invisible hand' decide the path of development. It is still too early to tell whether these policy changes will enhance economic competitiveness, since their success depends on financial input, human capital, institutional setup and policy implementation. Nonetheless, the tone is definitely set for a government-led economic restructuring project, and the abandonment of the non-interventionist policy means that state legitimacy is now to be judged by its ability to manage the market.

The transition to a knowledge-based economy will have the effect of polarizing the 'haves' and the 'have-nots'. It essentially means that certain sectors of the managerial and professional class will benefit while more and more low-skilled labourers will either be left out of the job market or suffer from a further decline in wage and living standards, producing what Sassen (1998) calls the 'overvalorized' and the 'undervalorized' classes. The retrenchment of the residual welfare state, on the other hand, means the withdrawal of redistributive programmes and less state effort to redress class polarization. For the state, this poses the challenge of how to mobilize the workforce, silence discontents and manage the underprivileged. The restructuring of the economy involves a painful process of adjustment for certain sectors of the population, including unemployment and the downgrading of work conditions, the new economy requires a highly flexible workforce that can constantly adapt to the new skill requirements of the production process. The new work ethos of flexibility has been actively promoted by officials, people are urged to upgrade their knowledge and skills to meet the need of the economy, to accept lower-paid jobs, or to relocate to Mainland China where jobs are available. The state has also tried to discourage people from applying for social assistance through programmes requiring them to rejoin the job market, imposing stricter conditions for applying for assistance and stigmatizing the claimants as burden on society.

In sum, after the Asian Financial Crisis, the reconfiguration of welfare developmentalism has manifested itself as a developmentalist turn in economic policy and a neo-liberal turn in social policy. This reform trend in Hong Kong goes against that of some Asian developmental states such as Korea and Taiwan, where scholars have observed a definite trend of liberalization in economic policy (Minns 2001; Tsai 2001). At the same time, democratization in these countries has brought about changes in their traditional Asian welfare model (Goodman, White and Kwon 1998), as electoral politics brought the ideas of social and economic rights onto the public agenda. In South Korea, the democratization process that started in the mid-1980s compelled the government to adopt welfare reforms, notably in the extension of the National Health Insurance (NHI) scheme to include all citizens in 1988, and the introduction of the Employment Insurance Programme (EIP) in 1995. After the Asian Financial Crisis, the government under President Kim Dae-jung adopted the Minimum Living Standard Guarantee (MLSG) that guaranteed a living standard equal to the relative poverty line (Kwon 2002). In Taiwan, in the 1990s, the opposition party Democratic Progressive Party (DPP) announced a platform based on, among other things, democratization and social welfare, which eventually compelled the government party to reform its social security system and brought about the establishment of a universal National Health Insurance programme in 1995.

The postcolonial authoritarian state, consisting of a strong unelected executive and a weak partially elected legislature, has been largely free from the pressure of electoral politics to increase its welfare commitment. Rather, the state was able to resort to social authoritarianism and impose its own discourse on economic and social development. That Hong Kong had no choice but to adapt to the logic of the globalized economy, revive the past good practice of prudent financial management and the former ethos of diligence and self-reliance.

Civil society and social policy development

The withdrawal of the state from redistributive social programmes means that it will do less to redress the polarization between the 'haves' and 'have-nots'. This state withdrawal in welfare has happened at a time when the general public, especially the middle and lower classes, were faced with the problems of asset deflation, unemployment and decline in real wages. While hard hit by real financial difficulties, a substantial decline in living standards and a lack of social safety net that could shield them from such economic fluctuations, they are expected to be more 'self-reliant' and to depend on fewer social services.

Indeed, the shortcomings and social injustice of the present system has been criticized by various social groups. Opposition voices come from political parties, welfare and advocacy-based NGOs, labour unions and professional associations. Political parties have only a short history in Hong Kong, it was not until the early 1990s when they began to proliferate with the inception of direct elections in the Legislative Council. Most political parties are of limited capacity, with a small number of members and limited budgets, and thus few resources devoted to policy research. The current political system is also not conducive to the development of party politics: the Basic Law, the mini-constitution of Hong Kong, provides for an unelected chief executive and a partially elected legislature. Political parties can perform the role of opposition parties only in a weak legislature whose power to legislate is seriously curbed by the constitution. Before 1997, the divisive issue between political parties was their attitude toward China. After 1997, with the economic downturn brought about by the Asian Financial Crisis, economic and livelihood issues began to emerge as major concerns in elections. Issues such as unemployment, labour rights, poverty and social policies (in short, matters of social and economic rights) emerged as some of the major sources of cleavage among voters. On the other hand, a political party of substantial mass support that is able to advance a coherent social democratic platform linking the relationship between social policy, economic and financial policy and the fundamental political values that are implicated in such relationship has yet to emerge. Ma's (2002) study shows that the largest political party in the pro-democracy camp, the Democratic Party, is moving gradually to a more middle-class position. There were a few candidates from pro-democracy pro-grass root groups (a couple of whom are labour activists) that received strong electoral support. By and large, elected legislators with a strong social democratic stance constitute only a minority group within the pro-democracy camp.

For decades after the Second World War, labour union activism was at a low level in Hong Kong. Private labour unions have always been marginalized, if not powerless, under the current labour regime, in which there is no legal right to collective bargaining or to strike. The industrial structure, first dominated by light manufacturing industry that utilized the flexible labour strategy in the 1970s and then the service industry in the 1980s, was not conducive to the formation of strong class consciousness and solidarity. Neither were there corporatist arrangements of any kind where by labour could exert influence on policies affecting their welfare and livelihood. In the mid-1990s, only about 10 per cent of the employees in the private sector were unionized (Chiu and Levin 2000: 97). Historically, many labour unions were affiliated with two major federations, the Hong Kong Federation of Trade Unions (FTU) and the Hong Kong and Kowloon Trades Union Council (TUC), whose goals were to mobilize their members in support of the PRC and Taiwan, respectively. Chiu and Levin's (2000) analysis shows that new independent unions and federations proliferated in the 1980s. The Hong Kong Confederation of Trade Unions (CTU), for instance, emerged as the largest independent federation (with around 78,500 members) with a social-democratic orientation. An increasing level of labour union activism could be detected in actions such as forging strategic alliances with political parties; coalition formation among unions of difference ideological stances in pushing for labour rights; and temporary alliances with community groups in protest movements. In elections, the unions have been a major source of support for pro-grass root candidates with a social-democratic stance. Chiu and Levin (2000) argue that all these 'signal the emergence of [the] "social movement unionism" found in some developing countries' (Chiu and Levin 2000: 120). On the other hand, Chiu and Levin perceive that, unlike other places such as Brazil and South Africa where unions have allied with community-based protest groups in campaigns against the state and employers, local unions 'have been at best marginally involved in community mobilization' (Chiu and Levin 2000: 120).

Since the 1970s, there has been a proliferation of welfare and advocacy-based NGOs that advocate for the cause of minority groups. These NGOs consist of voluntary agencies, progressive church-related organizations and new social movement groups focusing on issues of gender, sexual orientation, the environment, race, ethnicity, human rights, etc. While these NGOs do not have a unified stance, they are broadly concerned about social justice. Particularly in recent years, women's organizations have brought issues of social development onto the public agenda through drafting their coalition platforms on gender mainstreaming of public policies. These platforms embody the idea of democratic citizenship as the essential basis of a just polity and involve a direct confrontation with the unjust nature of existing economic and political institutions (Lee 2003). However, by and large, these NGOs have formed strategic coalitions only on an issue basis. A more large-scale civil rights movement that focuses on social development has yet to emerge.

Professional associations are a heterogeneous mix of both progressive and conservative elements. So (1999) argues that the middle class in Hong Kong can be seen as consisting in at least two groups according to their occupations – the service professionals and corporate professionals. Corporate professionals (such as accountants and corporate managers) have a close relationship with big business and tend to support the government's policy of economic non-interventionism and financial conservatism. Service professionals include social workers, teachers and journalists whose work involves interacting with the grass root population and embodying values of social justice. Since the 1970s, many public service professionals – lawyers, social workers, teachers and journalists – have been the central pillar of the democratic movement and the advocate of welfare capitalism. In recent years, the retrenchment of the residual welfare state has had a tremendous impact on many public service professionals, notably in education, health care and the social services, as they are confronted with salary cuts, worsening work conditions and compromises on their professional values, while being victimized by the government's policy failures, which further arouses the criticism of such professionals toward present government policies. Some groups, such as the medical profession, were traditionally pro-establishment forces. The financial and institutional problems of the public health care system has prompted the younger generation of the group to take collective action to defend the interests of the profession, and in the process they raise the question of the implications for health policy on distributive justice and the welfare of their clients. These professional groups are politicized and have engaged in collective action in protest against government policies.

While there are numerous associations that are concerned in one way or another about social policies in Hong Kong, and there have been alliances on individual policy issues, strong strategic coalitions with a more unified agenda have yet to emerge. The various pro-democracy organizations are currently concentrating their efforts on the democratic movement that is underway, in the hope that Beijing will allow major political reform in the upcoming constitutional review to determine the method of selection of the Chief Executive and the members of the legislature in 2007 and thereafter.[8] The review process is expected further to mobilize various social groups and, if it results in a democratized system, will turn the chief executive elections into a possible forum for galvanizing a new social policy agenda, in which the coalition politics of the various social and political groups will be pivotal.

Conclusion

Historically, the inception of welfare developmentalism occurred with the founding of the residual welfare state in the early 1970s, when rapid industrialization, socioeconomic development and legitimacy crises generated the need for more social provision. The colonial state was, however, careful to subsume the political need for better welfare provision under the general parameter of its inherent policy of economic non-interventionism and financial conservatism, which entailed low public expenditure, a low tax rate and a public sector of limited size. The expansion of welfare programmes from the 1970s to the 1990s was thus made possible only in a situation of continuous economic growth. Welfare developmentalism in Hong Kong was thus characterized by the primacy of capitalist interests and public financial security.

The economic and social policy reforms after the Asian Financial Crisis signified the end of the old social pact that had been based on societal consensus on economic individualism and a residual welfare state under conditions of continuous economic growth. These conditions have been replaced by an active state management of the economy oriented toward surviving in a globalized world. The strategy of survival consists in providing an 'investor-friendly' environment through maintaining a financial policy of a low tax rate, while pursuing a more interventionist approach in economic development through attempting to upgrade the transformative capacity of the state. As the state actively engages itself in the management of the economy, the image of the market as an impersonal and objective force has been shattered, and the state's policy action or inaction has become a political matter with implication for questions of distribution, class interest and social justice. In order to maintain its low-tax regime under a situation of financial austerity, social policy reforms have been carried out that will reduce the redistributive effect of social programmes, entitlement claims and the government's role in direct provision and financing. In sum, there has been a developmentalist turn in economic policy and a neo-liberal turn in social policy, leading to a stronger state role in economic regulation and the retrenchment of the residual welfare state. Welfare developmentalism, for the post-colonial authoritarian state, thus now entails the subsumption of its social, economic and public financial policy in the logic of economic globalization – that is, to create conditions that are attractive to international capital through keeping taxation low and maintaining financial prudence.

The dissolution of the old social pact has shattered the old myth that there is 'equal opportunity' for individual effort to pay off and may signify the end of the 'Hong Kong dream' as certain groups are now bound to be excluded from the fruits of economic development. In this regard, it is doubtful that the state's new approach in economic and social policy can command legitimacy. On the other hand, the prospect for more progressive social policy change lies in the construction of alternative discourses. Indeed, various social groups, including political parties, labour unions, NGOs and professional organizations have been quite critical of the current trend of development. A stronger societal consensus on what the new social pact should be like has yet to emerge. Much of the generation of this consensus, and its realization, will depend on the prospect of further constitutional reform. In sum, in Asian states such as Hong Kong, social policy reform is inevitably connected with democratization.

Notes

1. According to Chau's (1994) analysis, based on the real wage index and income share, 1960–73 was a period of rising income and falling inequality, largely attributed to the booming manufacturing industry. In the 1970s, with the development of the tertiary sector and the relative decline of the manufacturing sector, the trend toward equity levelled off and reversed itself. The economic restructuring in the 1980s led to massive relocation of the labour force from manufacturing to the service sector, giving rise to higher income disparity.
2. In the survey, 55.3 per cent of respondents agreed or strongly agreed that a 'good society' was one where there was not much difference in incomes; 63.6 per cent thought that the gap between the rich and the poor in Hong Kong should not be that large. (Lau and Kim 1991: 58).
3. In a survey, 89.2 per cent of respondents believed that the government had the primary responsibility for solving social problems.
4. In 1996–7, the sales of land constituted 13 per cent of the government's revenue.
5. The purpose of the clause was to prevent the British administration from selling an excessive amount of land, thus leaving too little for the post-1997 government.
6. For details of the method of selection, see the *Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China*, Annex I.
7. His successor, Henry Tang, decided to postpone the target date for the 10 per cent reduction to 2008.
8. According to Articles 45 and 68 of the Basic Law, the Chief Executive and all members of the Legislative Council are to elected through universal suffrage eventually. Annex I and II of the Basic Law allows for the present method of selection of the Chief Executive and legislators to be reviewed after 2007.

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Part II

The Institutional Dynamics of Welfare Developmentalism

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6
Development Strategies and Unemployment Policies in Korea

Ilcheong Yi and Byung-hee Lee

Introduction

The Asian Financial Crisis of 1997–8 made a significant impact on Korean society. As the Korean economy recorded negative growth, mass unemployment (which reached an unprecedented high point of 8.8 per cent in February 1999) became a major social problem. The newly elected Kim Dae-jung government (1998–2003) responded to the mass unemployment with a strong social policy initiative. The swift expansion of the Employment Insurance Programme (EIP) and the establishment of the Minimum Living Standard Guarantee (MLSG), in particular, were part of this initiative, reflecting a new direction in the development of social welfare, in terms of both income compensation and social right (Kuhnle 2002).

The development of these welfare programmes coincided with a change in the goal of the government's macroeconomic management from a growth-oriented to a competitiveness-oriented economy. A series of laws and regulations were introduced to reform the corporate governance structure of big conglomerates (*chaebols*), the engines of economic growth over the past several decades, and to enhance the transparency and independence of financial institutions. One of the most significant measures along these lines was the labour market reform, which was set to increase flexibility in the labour market, allowing employers to hire and fire their employees on much less rigid terms.

Once the worst part of the Financial Crisis had passed, many questions were raised regarding the social welfare programmes that had been introduced in response. A significant number of people in poverty, for example, were excluded from the MLSG, and many of the non-regular workers, who had dramatically increased in number during the crisis, could not receive benefits from social insurance programmes such as the EIP.

With respect to the future of the welfare state, however, the more pertinent question concerns the relationship between economic competitiveness and social protection; is it possible to maintain a competitive economy while protecting the vulnerable people of the society? In other words, is the new direction of the Korean social welfare state pointing toward a social policy that is economically developmental in a sense that it contributes to the competitiveness of the economy while protecting social rights to which everyone in the society is entitled?

We analyse unemployment policy in Korea to answer these questions. Unemployment policy is one of the major social programmes, encompassing a broad range of separated but related initiatives influencing the pattern of management of the macroeconomy and the labour market (Weir 1992: 188). With regard to social policy development within a developmental context, the issue of unemployment is even more significant since the developmental path of unemployment policy reflects the way in which the government combines social issues with the goal of economic growth.

Until the Asian Financial Crisis, Korea had maintained a good track record in terms of unemployment rate, and the unemployment rate during the crisis, recorded at 8.8 per cent in February 1999, was considered unusual. However, unemployment, underemployment and consequential poverty have been perennial problems of the developing countries, and this was also the case with Korea.

This chapter will examine the way in which different governments in Korea have responded to unemployment and attempted to fit their unemployment policy into the overarching paradigm of economic development. What was the nature of the unemployment policy during the period of rapid economic development and how did it affect the welfare reform related to the unemployment problem? Did the dramatic expansion of the unemployment benefit programme in the EIP and the establishment of the MLSG after the Asian Financial Crisis of 1997 mean a significant change in the direction of unemployment policy in Korea? If so, what is the rationale of the newly established welfare system?

This chapter, in addressing these questions, comprises three sections. In the first, we will elaborate our explanatory framework, the recipient-based approach, by which we can encompass all the possible policies affecting employment and unemployment in the society. In the second, we will explain the governments' policies related to employment and unemployment during the industrialization process from the early 1960s to the Financial Crisis from a recipient-based view point. We will focus on institutional features, such as the rules and regulations of the specific programmes shaping the nature of unemployment policies. The third section will address unemployment policy development after the Financial Crisis. We will explain the effect of the crisis on the overall economic policy – in particular labour market policy and unemployment policy. We will also attempt to evaluate to what extent the new thrust of unemployment policy has been effective, although such an attempt is inevitably preliminary owing to the short period of implementation.

Conceptualization of the recipient-based approach in the analysis of unemployment policies

The concepts of an active labour market policy and workfare are used to explain the government's intervention to counteract unemployment through both economic and social programmes.

Despite their descriptive advantages, these concepts have some limitations in the analysis of unemployment. First, workfare is not so clearly conceptualized, and it is difficult to ascertain important distinctions related to varying degrees of work obligation and their impacts on recipients (Kildal 2001). Along with this criticism, Grover and Stewart (1999) argue for the need to elaborate the concept of workfare in order to discern the differences in the role of the state between governmental job creation and the depression of wages to induce the market to create jobs. In fact, both programmes are quite different from those policies of vocational training which equip the unemployed with necessary skills and knowledge for new jobs. This criticism can also be applied to the concept of an active labour market policy. An active labour market policy is an umbrella concept, indicating a wide range of policy measures except traditional benefit provision– that is, a passive labour market policy – and makes it hard to educate the different implications of a variety of programmes.

Secondly, the concept of workfare has presupposed the presence of public assistance benefits programmes for the unemployed. Benefit as a reward for work is a prerequisite for workfare programmes, but this assumption cannot be sustained in the cases of those countries with no specific public assistance or unemployment benefit programme for the unemployed. Given the fact that in East Asia there are only a small number of countries which have those programmes, the concept has limited applicability.

Instead of using those concepts, we take a *recipient-based approach* to unemployment and labour market policies (Yi 2003: 8–11). This approach will examine unemployment policy from a recipient's point of view in order to analyse the social risks related to unemployment, and examine the impact on unemployment on the quality of living of individuals. It will enable us to see which risks for individuals are addressed by which policy. It begins with an in-depth assessment of unemployment risks.

Having a job means an opportunity for developing one's human capital as well as earning income. While working on a job, one can acquire an income, increase human capital through work experience and training and maintain a broader social network. In other words, when one loses the job, these various dimensions of life are threatened. This is why the primary protection against unemployment risk has been maintaining jobs, which we may call the 'protection of job security'.

In the late 1970s and the early 1980s when the Swedish economy went through an industrial restructuring stage, Swedish workers made strong demands for the protection of their jobs at the existing place of work in the face of the collapse of their industries. They wanted to retain their jobs instead of going to other trades (Henning 1984: 207–8). Eventually the government decided to protect their jobs temporarily and gave subsidies to companies regardless of their current performance. This policy of protecting the job security of these workers helped them to preserve and utilise the human capital which had been developed in those industries.

The protection of job security may be a formidable task when the economy is in recession for a long time, which leaves little room to either employers or the government for manoeuvre. In this situation, job security in certain sectors of industry could not be guaranteed by either employers or the government. A government may then deliberately create jobs in some industries and in order to provide job opportunities. From the recipient's point of view, a policy to increase job opportunities is quite a significant one which crucially affects the job prospectus, for example, of first job seekers and those who want to change their trade. We call this the 'job opportunity dimension' in unemployment policy.

The third-order protection against unemployment risks is job capability. Even in a growing economy, some sectors face redundancy while others have a shortage of labour with certain skills. The job capability of workers in declining sectors becomes obsolete and that of workers in growing sectors is highly valued. An unemployed worker from the declining sector then faces multiple losses of security. First, she loses her job. Secondly, she loses her income. Lastly, she also loses the opportunity of using her human capital in a productive way. These three losses are closely interlinked, but not always compensated at the same time by unemployment policies. For instance, British miners in the late 1970s lost not only their jobs but also their specific human capital since they could not use it when they got jobs in trades other than the mining industry. Even though those who managed to find jobs in other trades might have secured the level of income they used to have, they could not fully use the skills, knowledge and experience accumulated in their previous jobs. The jobs created by the government in other trades could not compensate for their loss of human capital in their own trades. We may call this dimension *job capability* or the dimension of opportunity to use specific human capital.

The single mother's unemployment case most vividly shows another dimension of the protection against unemployment risks: *income compensation*. The unemployment of single mothers on welfare was a hotly debated issue in the USA in the 1990s. The work (or education) requirement or workfare condition of the Aid to Families with Dependent Children Programme (AFDC) was established in 1988 upon the premise that single mothers on welfare benefits could get jobs and that those jobs could provide them with adequate earnings to support families. The study shows that both assumptions are groundless (McCrate and Smith 1998). The availability of jobs for single mothers was extremely limited and the single mother's employment did not provide them with adequate earnings – that is, earnings to pay for basic necessities and make them much better off with jobs than on welfare – to support their families. To single mothers on welfare, providing jobs was not a long-term solution. For them, *income security* sufficient to keep them out of poverty was needed in addition to jobs themselves[1] (Gray 2001: 200).

From the examples above, we can identify three different dimensions of the unemployment policy, addressing different kinds of risks of the unemployed: (1) Simply creating jobs does not guarantee the opportunity to use the unemployed's accumulated human capital. (2) Enhancing job capability can be effective in reducing unemployment when there are job opportunities. (3) More job opportunities cannot protect single mothers with inadequate income from the poverty resulting from unemployment. Ideally, unemployment policies to protect people adequately against such risks should address all these risks at the same time. In reality, however, it is not easy to find a policy to addresses them. That is why we need a *recipient-based approach* which provides us with the following analytical advantages. First, it enables us to understand and explain the nature of unemployment programmes in protecting the recipient against various risks related to unemployment. Secondly, this approach enables us to incorporate the policy areas which are not often covered by social policy analysis, such as industrial policy, as we have seen in the Swedish case above. Then, thirdly, this wider focus on the policies enables us to analyse the countries which do not have a specific public benefits programme for the unemployed but have other substitutes to address certain kinds of risks of unemployment (such as in of Korea during the period prior to 1995 as well the countries with specific unemployment programmes developed from a social policy perspective).

Economic development and unemployment policy, 1960–1997: from job opportunities to accumulated human capital

In this section we examine the nature of unemployment policy during the period 1960–97. The main focus will be placed upon such programmes as public works projects, public assistance programmes and vocational training schemes. We will also pay attention to other policy areas such as social insurance schemes, industrial policies and labour policies, which have a significant influence on shaping the nature of the governments' unemployment strategies.

1960–92

Increase of job opportunity and job capability through public works projects and public assistance programmes

It was the Chang government (August 1960–May 1961) that launched the first initiative in a massive scale public works project in November 1960

(Reeve 1963: 146). The public works project as an unemployment policy was, however, hampered by the government's inability to implement policy effectively (Yi 2002: 98–101). Although this programme contributed to calming demonstrations in universities and stabilising social disorder to a certain degree, it could not quieten the people's discontent with the existing government and was not successful in reducing unemployment and poverty. The public works project of the Chang government was never completed, owing to the *coup d'état* by General Park in 1961.

Due to the urgent political need to justify their unconstitutional takeover of power, the Park government (1963–1979)[2] also put priority on a policy to address the widespread poverty and increasing unemployment in urban areas.[3] On 18 July 1961, just two months after the *coup d'état*, the Supreme Council for National Reconstruction announced the Economic Policy for the Emergency, which promulgated that the government would continue the public works project to reduce unemployment, followed in December 1961 by the establishment of the Livelihood Protection Programme (LPP) to alleviate poverty.

The LPP, however, covered only a small segment of the poor. Initially the Park government excluded the poor with working capacity from LPP coverage.[4] The absence of an explicit official poverty line, or income and asset criteria, also contributed to narrowing the coverage. The Ministry of Public Health and Social Welfare's effort to expand coverage was rejected by the Economic Planning Board (Chon 1992: 77). This reflected President Park's concern for the lack of government resources and emphasis on the principle of work. The government was initially more concerned with job creation for the poor than with passive income support. The unemployed, who were left out of this programme, suffered from a lack of basic food and clothing, in order to respond to these problems the Park government expanded LPP coverage to the able-bodied poor (aged 15 to 64) categorized as 'People living in poverty (*Yongsemin*)' in 1962. However the principle of work was again emphasized and the government assigned the unemployed to public works projects under a re-launched National Construction Project and the Irrigation and Land Reclamation Project which had begun in 1964 (Government of Korea 1967: 465).

The criteria for recipients of LPP were not detailed in the law, and in practice the Economic Planning Board made decisions for detailed criteria with consideration for macroeconomic management. This resulted in a situation in which only a very small segment of people could get benefit. The characteristics of the LPP, such as the exclusion of the poor with working capacity and the emphasis on the work principle, were largely preserved during the 1960s–1970s, when Korea achieved rapid economic growth and maintained a low unemployment rate (see Table 6.1).

In the early 1980s, when the Korean economy fell into recession, the Chun government (1981–8), which had taken power through the *coup d'état* in 1980, launched several initiatives for welfare programmes, which were also used as

Table 6.1 Unemployment rate, Korea, 1970–96 (%)

	1970	1972	1974	1976	1978	1980	1982	1984	1986	1988	1990	1992	1994	1996
Unemployment rate	4.5	4.5	4.1	3.9	3.2	5.2	4.4	3.8	3.8	2.5	2.4	2.4	2.4	2.0

Source: Economic Planning Board (since 1991, the National Statistical Office Board 1971, 1995, 1997).

a tool to strengthen their legitimacy. The 1982 revision of the LPP was part of the government's attempt to legitimize its power. The revision brought about change in two dimensions. First, the government included a programme for education for LPP recipients' offspring; while this certainly contributed to increasing the recipients' disposable income by exempting their offspring from tuition fees, the main emphasis of the government's reform was placed on the enhancement of human capital by developing the basic numerical skills and literacy of young dependants. Secondly, the government reduced the budget for the LPP programme, despite its claim to a 'welfare society' (Yi 2002: 187). Instead of addressing the income security of the poor, the government put the emphasis on the work principle by reducing the LPP budget.

LPP implementation was transferred to local government in 1992. Local government's tight budget obstructed the development of the programme as a public assistance programme protecting income security for the unemployed. The government's consistent emphasis on the work principle and the underdevelopment of benefit programmes (such as the absence of clear criteria for cash benefits) resulted in the exclusion of the unemployed poor from the programme. The LPP, which was a public assistance programme for the poor incapable of working, in fact intended to force the working poor to enter the labour market or to provide children from poor families with skills and knowledge for employment. The fact that 80 per cent of the recipients of the LPP were the disabled, the elderly and children who were incapable of working shows its nature (Ministry of Government Administration 1997: 111). By developing public works projects and the LPP, the government forced the unemployed to resolve their problems in a market which continuously demanded low-paid workers and focused on an increase in job opportunity by creating jobs and the enhancement of job capability through the education of the children of poor families.

Increase of job opportunity and job capability through vocational training schemes

In contrast with the reluctant efforts for the unemployed poor, the government's policy efforts for workers' welfare and skill development were very vigorous from 1961 until the Asian Financial Crisis. While suppressing trade union activities and labour movements, the Park government and its successors established a wide range of policies to increase and facilitate the welfare and skill development of workers.[5]

The economic development plans, first launched in 1962 and renewed every five years thereafter, played a crucial role in shaping the nature of vocational training. At the initial stage, mindful of the country's limited natural resources and small domestic market, the Park government adopted an export-oriented industrialization strategy. In the 1960s, the essence of this strategy was the promotion of labour-intensive manufacturing industries producing such goods as textiles, plywood and shoes. There were certain requisites for the success of these industries: a cheap but well-trained labour force and financial resources for investment in this industry. Social and labour policy programmes met these demands by focusing on vocational training while delaying social welfare programmes which might require financial resources.

A set of policies to promote vocational training was implemented in 1964. The government allocated a huge amount of public expenditure to secondary-school-level vocational schools for the purchase of laboratory and testing equipment and to the increase of opportunities for on-the-job training facilities. Vocational training institutes were established at thirteen companies with suitable facilities for on-the-job training and experiments, in March 1964, 749 certified technicians graduated, with thirty-seven classes and 956 trainees enroled. In 1967 the government established the Vocational Training Act, by which a Central Vocational Training Centre was established (1968). Together with the emphasis on general education to reduce illiteracy and innumeracy through formal education, the government intended to enhance the skills of operatives and craftsmen. In this initial period, the government assumed both financial and administrative responsibility for vocational training. Given the government's strong role as regulator rather than provider in other social welfare programmes during this period, the government's assumption of both regulator and provider roles in vocational training field is significant. Private industry did not show much interest in investing in skills development, and the government even subsidised in-house training in private companies between 1967 and 1970 (Bai and Cho 1994: 49–50; Korea Research Institute for Vocational Education and Training 1998). The main goal of the government's vocational training programme, however, was to enhance the basic skills of secondary-school graduates (first-time job seekers), so they could easily absorb company-specific skills when they were employed. Vocational training policy during this period thus emphasized an increase in job opportunity for first-time job seekers rather than for those who already had jobs.

As the Korean government shifted the emphasis to the heavy and chemical industries as a vehicle of industrialization after 1972, the demand for skilled manpower drastically increased, but the public vocational training institutions could not meet these demands (Bai and Cho 1994: 50–2). The government tried to transfer the responsibility for vocational education and training to industry by establishing the Special Measure Act for Vocational Training in 1974. However, the government then had to postpone the implementation of this law, which would have placed a financial burdens on firms, to overcome the difficulties caused by the first oil crisis, which hit Korea hard in October 1973.

In 1976 the government resumed its policy by establishing the Basic Law for Vocational Training. Under the Basic Law, firms which did not operate in-plant training were fined, and such income was to be used for public vocational training schemes. In recognizing the need for human capital in heavy and chemical industries, the government shifted its focus from the increase of job opportunities for first-time job seekers to the enhancement of job capability of workers in heavy and chemical industries. Combined with the government's frequent market intervention to bail out ailing companies, which consequently protected the job security of workers, enhanced job capability made workers less vulnerable to the unemployment risks involved in job changes.

For firms, retraining and upgrading the skills of their own employees was more efficient and cost-effective than contributing to public vocational training institutions over which firms had no control. Until 1982 when the heavy and chemical industries began to suffer from overcapacity due to the international recession, the number of craftsman trainees from in-plant training schemes was much higher than those from public institutions and authorized (both quasi-public and private) institutions (see Figure 6.1).

After a brief period of decline in the number of trainees of in-plant vocational training in the early 1980s, growth recommenced from the late 1980s when the Korean economy regained its strength, the government's enforcement of

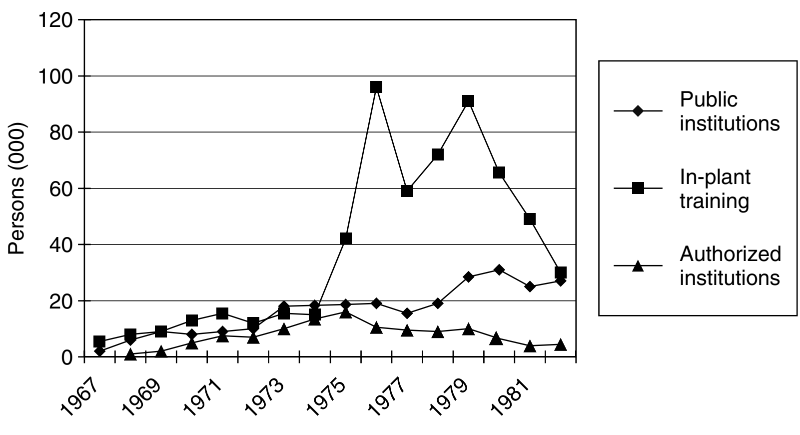

Figure 6.1 The number of craftsman trainees, by training institute, 1967–81
Source: Economic Planning Board (1970, 1974, 1978, 1982) cited in Bai and Cho (1994).

compulsory in-plant vocational training for private companies was enlarged as the coverage of the Law expanded, in 1992 extending to firms with more than 150 employees.

Until the early 1990s Korean governments thus consistently emphasized job opportunity and job capability through vocational training. Both first-time job seekers and workers should have a better chance to get or hold down a job, which would subsequently reduce the unemployment rate.

1992–7: the first labour market reform and the introduction of the Employment Insurance Programme

Through the era of industrialization, Korean employers tended to retain their workers even in periods of recession, and this was particularly the case with the big businesses. Job security taken seriously even at the times of poor economic activity. Although the rapid economic growth in almost every sector was the main reason, government subsidies to firms in financial difficulty due to business fluctuation also played a significant role. Although merger and acquisition (M&A) occurred frequently, mass lay-off was not common. The government considered employment to be the most important way to enhance individual welfare, and both employers and employees expected that the government would help companies to avoid lay-offs. Life-long employment was a widespread expectation, and the social insurance programmes and occupational welfare provision, both based on employment contracts, strengthened this belief. The downside of this job security was the lack of labour rights and low levels of income.

This employment pattern began to be blamed for the factering economy after the early 1990s. In 1992 the Korean economy showed a decline in terms of GDP growth from 8.4 per cent to 4.8 per cent, while the Consumer Price Index (CPI) increased to 6.2 per cent. Soaring wages with rigid regulations on hiring and firing employees, resulting in high production costs, reduced companies' competitiveness in the international market.

The Kim Young-sam government (1993–8), taking office in 1993, drew up a new economic strategy called the New Economic Plan. This aimed to reinvigorate the declining economy in the face of increasing competition and a new international market environment by increasing national competitiveness. This admirable if vague goal was translated into policies encouraging high-value products and enhancement of productivity by reducing labour costs through mechanization and development of new fields of business where companies could produce high-value products. This was a statement of the shift of economic policy from a growth-oriented economy with life-long employment and low wages to a competitiveness-oriented economy with a more flexible labour market and high wages (Economic Planning Board 1993b: 23–9).

The two major policies in this national competitiveness-oriented economic strategy for both social and labour policy fields were the introduction of the

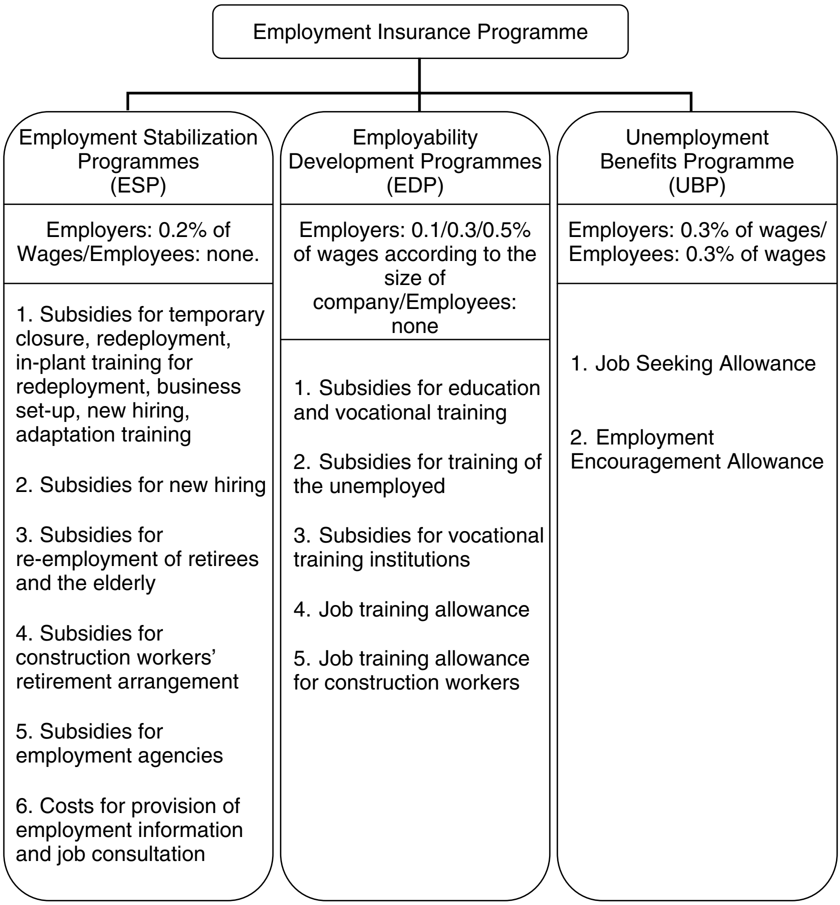

Figure 6.2 Composition of the Employment Insurance Programme, 1995

Employment Insurance Programme (EIP) and the flexibilization of the labour market. The EIP was legislated in December 1993 and implemented from 1995 with 3.94 million members, 32.5 per cent of the total workforce. The EIP comprised three components – the Employment Stabilization Programme (ESP), the Employability Development Programme (EDP) and the Unemployment Benefits Programme (UBP) (see Figure 6.2). The ESP and the EDP aimed to protect job security, enhance job capability and increase job opportunity, while the UBP provided income support.

The ESP and the EDP were to be financed by employers only, while the UBP was financed by both employers and employees (see Figure 6.2). Although there were programme components to provide-income support to laid-off workers, the main focus was placed upon smoothing out the social impacts caused by mass lay-offs (UBP) and developing the job capability of the unemployed by preserving and developing the human capital of the laid-off workers (ESP and EDP).

The EIP was understood as a complementary element to the labour market policies, intended to make the labour market flexible while increasing the job capability of the unemployed rather than providing cash to them (Ministry of Labour 2001: 16–19).

The inclusion of several elements to encourage recipients to participate in the labour market reflected this policy orientation. According to the law, a claimant was required to register as a job seeker at a public employment office to receive unemployment benefit, for example, and payment of benefits would be suspended for a few weeks if the claimant refused the job placement services or vocational training recommended by the public employment office, unless there were justifiable causes for the refusal. The enforcement of work on recipients, however, was not as strong as the workfare approach (Lødemel and Dahl 2001). The rules on the suspension of benefits in the case of refusal of employment or vocational training were not widely implemented, and the government focused on job-matching services to provide information on jobs rather than on punitive rules and regulations to link benefit eligibility to work.

The EIP was followed by a fundamental change in the government's labour market policy. The government appreciated that a flexible labour market was a prerequisite to enhance economic competitiveness, and one of the major points in the labour market reform was to make it easier for employers to lay off employees (Choi, Yoo and Kim 1999: 135). In order to reform the labour market the government established the Labour Law Revision Committee (LLRC), composed of the representatives from government, employers and trade unions, in May 1996. The establishment of the LLRC indicated a notable change in the government's attitude towards the labour movement, since it included representatives from the Korean Confederation of Trade Unions (KCTU), the national-level trade union which was highly influential in the labour movement but not legally recognised. The recognition of KCTU influence in an official institution showed the government's willingness to reach broader consensus on labour market reform as well as the democratic nature of the Kim government.

Even after six-months of discussion at the LLRC, however, a consensus could not be reached on labour market reform. The government and ruling party decided to break the impasse by passing their Bill through Parliament in a secret night session, which sparked a storm of protest from trade unions and opposition parties (Kim 1998). Both national-level trade unions, the Federation of Korean Trade Unions (FKTU) and the KCTU waged general strikes from 26 December to 28 February 1997; facing such strong resistance, the government made a new proposal for a labour law in consultation with the opposition parties, and the Bill was passed in March 1997. Several restrictions on lay-offs for managerial reasons were added to the new law, and its implementation was postponed to 2000, although some elements of flexibilization were introduced, the job security of workers was still guaranteed. One of the most visible consequences was the strengthened bargaining power of the trade unions which emerged as a legitimate social partner of the government.

The establishment of the EIP and the attempt to introduce labour market flexibilization marked an important shift in terms of the government's policy response to unemployment. First, the establishment of the EIP showed that the Kim government had begun to pay attention to such risks of unemployment as loss of income. Secondly, the labour market reform process showed that under an economic competitiveness regime job security might no longer be guaranteed, it was not the government's market intervention but the specific unemployment programme that played the significant role in protecting job security, as we shall explain in the next section.

Economic crisis and the second labour market reform

This section examines the Korean government's policy responses to soaring unemployment after the Asian Financial Crisis of 1997–8. We shall examine government unemployment policies from the perspective of the recipient–based approach and evaluate to what extent the new thrust of unemployment policy was effective, with the reservation that such an evaluation is necessarily preliminary due to the short period of implementation. In explaining the continuities and discontinuities in unemployment policies, such as the revised EIP and the newly established MLSG, we shall also seek answers to the question: what affected the policy design and implementation of those programmes?

The Asian Financial Crisis and the social contract on labour market reform

The Korean economy was hit severely in late 1997 by the Asian Financial Crisis that swept through much of East Asia. The unemployment rate increased to an unprecedented 8.8 per cent in February 1999 and life-long employment, long cherished in Korea, was threatened. The number of temporary and daily workers rapidly increased, and accounted for more than 50 per cent of total waged workers after 1999 (Table 6.2).

The existing welfare system was not well designed, or equipped, to address the social and economic consequences of such a massive scale of unemployment. First, the public assistance system was based on the residualist approach, with strict eligibility criteria and a low level of benefits. The recipients of public assistance benefits were 3.1 per cent of the population in 1997, and only 26.2 per cent of these recipients were provided with cash allowances. Secondly, the EIP covered only 20.6 per cent of total employees in 1997,

Table 6.2 Trends in major economic and social indicators, 1996–2001 (%)

Indicator	1996	1997	1998	1999	2000	2001
GDP growth rate (real)	6.8	5.0	–6.7	10.9	9.3	3.0
Labour force participation rate	62.1	62.5	60.7	60.6	61.0	61.3
Unemployment rate	2.0	2.6	7.0	6.3	4.1	3.8
Gini index	0.291	0.283	0.316	0.320	0.317	0.319

Sources: National Statistical Office *Korea Statistical Yearbook* (National Statistical Office 1997b, 1998b, 1999b, 2000b, 2001b, 2002c); National Statistical Office, *Annual Report on the Household Income and Expenditure Survey* (National Statistical Office 1997a, 1998a, 1999a, 2000a, 2001a, 2002a).

many of the insured did not qualifiy for benefits since they could not meet the minimum one-year contribution requirement. Thirdly, since the social insurance system was based on a strict contribution principle, in which regular wage and salary workers in firms over a certain size were well covered by insurance programmes, the most vulnerable to unemployment – non-regular workers and workers in small firms – were outside social insurance coverage. The need for specific measures to address the mass unemployment problem was widely accepted.

The newly elected Kim Dae-jung government (1998–2003) was, however, under pressure from two contradictory forces. The international financial institutions (IFIs) (such as the IMF, the World Bank) and the employers' associations demanded radical measures to relax labour market rigidity – both visible and invisible obstructions that prevented employers from laying off workers for managerial reasons. Labour market flexibilization was a prerequisite for the 'free market economy' according to which they thought Korea should shape its macroeconomic policy. In contrast, since they blamed the big conglomerates (*Chaebols*) and corrosive state–*Chaebol* relationship for the economic crisis, the trade unions strongly opposed the idea of any labour market flexibilization that would undermine life-long employment.

Under the pressure of the IFIs which were believed to be the only actors able to provide solutions to the Financial Crisis, the Kim government had to follow their 'recommendations'. Instead of confrontation with trade unions, the Kim government sought a way to reach a consensus on implementing labour market flexibilization measures without social disorder. The first step taken was to establish a Tripartite Committee composed of representatives of trade unions, employers and the government in January 1998.

Since the majority in the society agreed that the nation was in a serious economic crisis, Tripartite Committee participants had no option but to accept the IFls' demand for labour market reform. After difficult negotiations, the Tripartite Commission parties reached an agreement in February 1998, called 'the Social Pact to Overcome Economic Crisis'.

One of the main clauses was the enhancement of labour market flexibility through the relaxation of the restrictions on lay-off of workers and the employment of temporary workers. Having made this concession, the trade unions succeeded in including the legal recognition of the associational rights of civil servants and the teachers' trade union, and the political activities of trade unions, in return.[6] The parties also agreed that social policy programmes to counteract unemployment should be implemented as soon as possible. The government moved rapidly to protect the unemployed. Public expenditure on unemployment measures for income support and re-employment of laid-off workers increased from a negligible level in 1997 to the equivalent of 1.2 per cent of GDP in 1998.

Development of unemployment policies after the Asian Financial Crisis

Several changes were made in EIP in the face of mass unemployment after the Financial Crisis (Yoo 2002). The first reaction of the government was to expand the coverage of EIP: within a year, virtually all companies were covered by the EIP and as a result expenditure also increased rapidly.

Secondly, eligibility criteria for unemployment benefits under the UBP were relaxed further. The previous requirement of an insured employment period of twelve months out of an eighteen-month base period prior to the day of job loss was shortened to 180 days out of the eighteen-month base period (temporarily relaxed in March 1998, then permanently in April 2000).

Thirdly, the amount of unemployment benefits was increased. The amount of the Job Seeking Allowance increased to almost 50 per cent of the average wage over the three months prior to the day of job loss. The minimum amount of the Job Seeking Allowance also increased to 70 per cent of the minimum wage in March 1998 and to 90 per cent in January 2000.

Fourthly, the duration of the Job Seeking Allowance was lengthened. The maximum duration had been 60–210 days, depending on the insured employment period and the age of the claimant. The Special Extended Benefit, which extended the duration of Job Seeking Allowance by sixty days in the case where the unemployment rate was higher than 6 per cent in three consecutive months, was introduced in July 1998. In January 2000, the duration of the Job Seeking Allowance was again extended by thirty days.

The number of beneficiaries and the amount of expenditure on unemployment benefits programmes reached a peak in 1999, the number of beneficiaries increased sharply from 49,000 in 1997 to 412,000 in 1998 and to 485,000 in 1999. The total expenditure on unemployment benefits under the EIP increased from 79 billion won in 1997 to 799 billion won in 1998, then to 936 billion won in 1999, representing a tenfold increase (Table 6.3).

Although the number of recipients of unemployment benefits increased after the crisis, the proportion of beneficiaries was only 10.8 per cent of the total unemployed in 2001, a very low rate compared to the USA (37.3 per cent

Table 6.3 Expenditures and beneficiaries of unemployment benefit under the EIP, 1997–2001 (million won/person)

Benefit	**1997**	**1998**	**1999**	**2000**	**2001**
Job Seeking Allowance	75,947 (44,334)	783,118 (392,569)	911,287 (455,355)	443,545 (303,859)	783,852 (377,752)
Employment Promotion Allowance	2,579 (4,526)	15,277 (17,750)	22,237 (25,233)	24,886 (24,760)	57,152 (44,311)
Sickness Benefits	212 (257)	1,019 (1,366)	2,637 (4,163)	2,361 (4,059)	4,099 (6,078)
Total	**78,738 (49,117)**	**799,414 (411,685)**	**936,161 (484,751)**	**470,792 (332,678)**	**845,103 (428,141)**

Source: Employment Research Centre, *Employment Insurance Review* (Employment Research Centre 1998, 1999, 2000, 2001, 2002).

Table 6.4 Coverage rate by EIP, by employment status, August 2002 (000 persons, %)

Status	**Composition of employment (thousands, %)**	**Coverage rate by EIP (%)**
Regular employees	6,597 (48.4)	79.4
Temporary employees[a]	4,658 (34.2)	24.4
Daily employees[b]	2,376 (17.4)	3.8
Total wage and salary employees	**13,631 (100.0)**	**47.4**

Notes:
[a] temporary employees are defined as employees who have an employment contract lasting between a month and a year.
[b] Daily employees are defined as employees working less than a month.
Source: National Statistical Office (National Statistical Office 2002b).

in 2000), the UK (20 per cent in 2000), Canada (40 per cent in 2000), Japan (39 per cent in 1997) and Germany (43.6 per cent in 2000). There are two main reasons for this. First, the EIP did not cover all non-regular workers, who rapidly increased in number after the labour market flexibilization process and who eventually accounted for about 51.6 per cent of total waged workers in August 2002[7] (see Table 6.4).

Secondly, restrictions on the entitlement to unemployment benefits resulted in a low take-up rate. The EIP did not provide unemployment benefits to those who quit their job voluntarily, only about 30 per cent of the unemployed met the conditions for benefits, having justifiable reasons such as lay-off for managerial reasons, business closure, bankruptcy, early retirement or termination of their employment contract.

The number of unemployed who benefited from the EDP increased sharply during the high unemployment period of 1998–9. The insured employees who became unemployed had free access to vocational training courses for re-employment, where the unemployed were not eligible for unemployment benefits, they could receive a training allowance during the training period. In 1999, 226,000 insured people participated in this free vocational training scheme. Expenditure on vocational training for the unemployed accounted for 72.7 per cent of the total expenditure of the EDP, showing that the major focus of the EDP was placed on the improvement of the job capability of the unemployed for re-employment. However, as the economy regained strength, the EDP's major focus shifted to employer-provided vocational training for employees. Firms' vocational training increased and expenditure on employer-provided training became the largest among the three sub-programmes of the EDP in 2001. The employers' criticism that the EIP spent too much money on training for the unemployed rather than on employer-provided vocational training for employees whose costs were entirely borne by employers was one of the reasons for this change. In response, the government implemented several measures promoting firms' vocational training, which resulted in an increase in expenditure on this area (Table 6.5).

It is worth noting here that the EDP had two limitations as a programme for the development of job capability. First, there was a big gap in the participation rates among different-sized firms. The participation rate of small firms in employer-provided vocational training was very low: in 2001, the participation rate of firms with fewer than 150 employees was only 4.1 per cent while that of firms with more than 1,000 workers was 84.9 per cent. Secondly, the opportunities for training were relatively fewer for low-skilled, temporary and daily workers compared to regular workers.

The EIP included the Employment Stabilization Programme (ESP), which aimed at both preventing lay-offs and encouraging new employment. The ESP was largely composed of two sub-programmes: the Employment Adjustment

Table 6.5 Beneficiaries of the EDP under the EIP, 1997–2001 (million won/person)

Beneficiary	**1997**	**1998**	**1999**	**2000**	**2001**
Employer-provided training	41,388 (189,566)	49,526 (412,543)	91,522 (789,854)	154,041 (1,228,090)	180,559 (1,564,013)
Employee's self-directed training	15,222 (8,365)	16,950 (12,352)	23,524 (13,603)	34,685 (18,842)	46,507 (61,736)
Training the Unemployed	2,262 (1,949)	191,194 (163,111)	306,172 (226,356)	215,512 (120,296)	152,509 (104,559)
Total	**58,872 (199,880)**	**257,670 (588,006)**	**421,218 (1,029,813)**	**404,238 (1,367,228)**	**379,575 (1,730,308)**

Source: Employment Research Centre, *Employment Insurance Review* (1998, 1999, 2000, 2001, 2002).

Subsidies (EAS) and the Employment Promotion Subsidies (EPS). The EAS were designed to support the companies to avoid lay-offs, which can be seen as a scheme for job security. Employers were to be subsidized when they took measures to avoid massive lay-offs in the form of the provision of subsidies to wages in the case of temporary shut-downs and reduction of working hours; subsidies were also provided to training costs for redundant workers, to paid/unpaid leave and to the dispatch or reassignment of workers to other plants or companies. Subsidies were also given to employers when they employed displaced workers insured by the EIP. During the high unemployment period of 1998–9, the EAS increased rapidly, contributing to preventing unemployment during the restructuring process and reemploying displaced workers.

Under the EPS, companies were provided with subsidies to the wages of the elderly, women and the long-term unemployed. The programme encouraged employers to hire them and consequently increase job opportunities for these groups. The role of the ESP became significant in the wake of the economic crisis, the number of beneficiaries and the amount of expenditure increased from a negligible level in 1997 to 182 billion won in 1999 for 664,000 beneficiaries. As the economy gradually recovered, the government's emphasis shifted from the EAS to the EPS and wage subsidies increased to promote the employment of disadvantaged workers (Table 6.6).

There were, however, several problems with the ESP. Expenditure accounted for only 31.8 per cent of ESP's accumulated funds during the high unemployment period of 1998–9, and decreased to 11.2 per cent in 2001. This low degree of utilization was due to changes in the labour management strategies of companies, which preferred the reduction of labour costs through lay-offs to the maintenance of employees through employment subsidies. The effectiveness of the ESP has also been criticized, the deadweight loss and substitution effects and, in addition, the EAS seemed to have mainly benefited large rather than small firms.

Table 6.6 Expenditures and beneficiaries of the ESP, 1997–2001 (million won/person)

Expenditure	1997	1998	1999	2000	2001
Employment adjustment subsidies (EAS)	67 (177)	80,101 (659,568)	155,124 (472,461)	71,602 (211,906)	77,013 (288,777)
Employment promotion subsidies (EPS)	12,035 (117,384)	14,541 (117,942)	27,039 (191,690)	39,467 (229,677)	48,395 (262,304)
Total	**12,102** **(117,561)**	**94,642** **(777,510)**	**182,163** **(664,151)**	**111,069** **(441,583)**	**125,408** **(551,081)**

Source: Employment Research Centre, *Economic Insurance Review* (Employment Research Centre 1998, 1999, 2000, 2001, 2002).

Reform of the public assistance system

Another major measure to address the unemployment problem was the Minimum Living Standard Guarantee (MLSG), implemented in October 2000. Until the MLSG was established, the government used several temporary measures to address the increasing number of people below the poverty level, such as the Temporary Livelihood Protection (TLP) programme which targeted the unemployed poor who qualified for neither unemployment benefits nor the Livelihood Protection programme (LPP). The government also launched a variety of public works projects to create jobs. In 1998–9 these latter were the programmes on which the government spent the largest budgets.

Civil society organizations demanded the introduction of a comprehensive public assistance system, rather than temporary measures. In response, the Kim government in August 1999 announced the 'Productive Welfare' initiatives aimed at protecting the poor while facilitating economic development. According to these initiatives, the minimum standard of living would be maintained by government assistance under the principle of social rights. The government also emphasized, however, that the right to work for poor people would be given key importance (Chung 2002) and that the welfare programme would be designed to motivate welfare recipients to escape the 'benefit trap' (Presidential Committee for Quality-of-Life 2002). The government revised the Livelihood Protection Law into the National Minimum Living Standard Security Law in 1999, and implemented it from October 2000.

One of the most significant changes in the MLSG was the abolition of the demographic test. In the former LP, those aged between eighteen and sixty-four were excluded from coverage even if their income fell below the official poverty line. Under the MLSG, the state took more responsibility for the livelihood of the poor by expanding coverage through the abolition of the age requirement. The imposition of family responsibility was also relaxed because the MLSG did not consider family members who could not afford to take care of poor dependents as responsible carers. Although the total number of recipients did not increase greatly, the beneficiaries of the cash allowance which was the core support for the poor increased from 0.4 million in 1997 to 1.5 million in 2002.

Together with this relaxation of the eligibility for cash benefits for the poor, the programme also placed emphasis on the development of their job capability. In the MLSG, recipients were divided into two groups: unconditional and conditional beneficiaries. The 'unconditional beneficiaries' were those who were incapable of working, they were selected through a work test and given benefits without any conditions. Those who were capable of working were classified as 'conditional beneficiaries', they were given benefits on condition that they participate in vocational training, subsidized work, an intensive placement service, public works or community service programmes.

The programmes for job capability in the MLSG had an element of workfare, which required people to work in return for public assistance benefits (Lødemel and Dahl 2001). However, the workfare principle was enforced in a context different from that of the UK and the USA. It did not come as a part of welfare retrenchment, instead, the programme came with an expansion of wider welfare provision such as income support and training programmes. Furthermore, MLSG's self-support programmes placed a strong emphasis on voluntary participation in the employability development project as well as on public works projects (Hwang 2000). Instead of simply forcing recipients to work, social welfare officers referred them to programmes that fitted their skills and aptitudes. Some of the conditional recipients who were expected to have difficulty in getting jobs in the labour market were referred to social work such as community service and public works. The others, who were expected to get a job quickly, were provided with vocational training and a comprehensive placement service.

Recently, however, there has been growing concern about the effectiveness of the self-support programme for job capability development, since it was found that the high re-entrance rate of benefit recipients in the labour market was due to other factors such as the recipients' own accumulated job capability and their willingness to get out of the public assistance scheme rather than the self-support programme itself. Another problem noted is that the eligibility criteria of public assistance are not wide enough to cover all the poor, and the level of basic living benefits is still very low.

Preliminary evaluation of unemployment policies

The EIP has played a key role in developing the job capability of the unemployed while providing income support to them in the wake of the Asian Financial Crisis. The comprehensive public assistance programme was established to provide the unemployed poor with the opportunity to develop their job capability and receive some income support.

Job security, job capability and job opportunity have always been considered important in Korea. Programme components protecting these dimensions of the unemployment policy are built into the EDP and the EPS under the EIP. The emphasis on the development of job capability can also be found in self-support programmes under the MLSG. The most noticeable departure from the unemployment policy of the previous government is that these programmes provide income support as well as vocational training for the development of job capability. Income support has been greatly improved, in terms both of coverage and the level of benefits. Expenditure on the programmes for income support has shown the biggest increase, due to policy efforts to widen coverage, relax eligibility criteria and lengthen the duration of unemployment benefits. Even though the expenditure on unemployment benefits fluctuated as the labour market conditions changed, the unemployment benefit programme played a significant role in providing a social safety

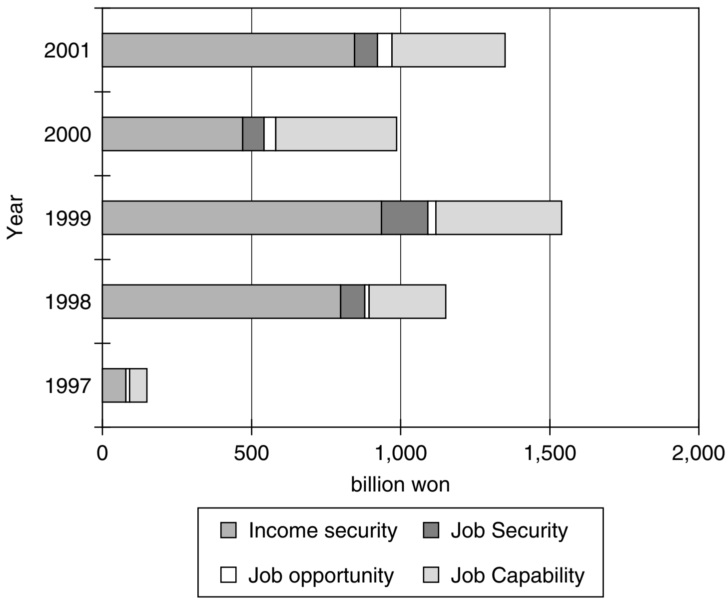

Figure 6.3 Expenditure on EIP, by security dimension, 1997–2001
Sources: Table 6.2, 6.4 and 6.5.

net for the unemployed. The public assistance programme, as a last resort for the unemployed poor, also greatly improved: the MLSG guaranteed an official minimum income for all. The expenditure on the public assistance programme increased from 0.9 trillion won (1.0 per cent of government expenditure) in 1997 to 2.3 trillion won (1.8 per cent of government expenditure) in 2000.

Given the continuous emphasis on the programme for the development of job capability, the outcome of the programme does not seem very satisfactory. The most important test of effectiveness is whether it was effective in helping recipients to get a job again. We will review how the unemployment programmes affected the unemployed in terms of re-entrance into the labour market by focusing on the effects of the unemployment benefits programmes and the EDP Training Subsidies for the Unemployed under the EIP.

Hwang (2000) conducted in 1999 a comparative evaluation of the re-employment rate, the unemployment duration and job search period of those who received unemployment benefits and those who did not. The treatment group (claimants who received unemployment benefits) and the comparison group (non-claimants) were selected from those who became unemployed between April and June 1998. By simple comparison, it was found that the re-employment rate of non-claimants was higher than that of claimants. Econometric analysis using a duration model which controlled for such factors as personal and previous job characteristics also showed that recipients of the unemployment benefits tended to have longer spells of unemployment than non-claimants. This does not, however, necessarily mean that the unemployment benefits programmes had a casual relationship with long unemployment, since the estimation result showed that the recipients of unemployment benefits made more effort in job-seeking activities than non-recipients. It is noteworthy that despite the low re-entrance rate of recipients, job placement and counselling services of the public employment offices turned out to have a positive effect in significantly shortening the unemployment spell. Further research (Yoo, Kim and Sung 2003) conducted as a follow-up survey on those who became unemployed between April and June 2000 has similar findings, indicating that the unemployment benefits programmes themselves did not have such a negative effect as to dates recipients from re-entering the labour market, but played a positive role in protecting income security. This shows the importance of the establishment of well-functioning public employment offices providing job placement and counselling services to the unemployed in raising the effectiveness of an unemployment benefits programme.

The Training Subsidies for the Unemployed is a key programme to develop the job capability of the unemployed in the EIP; the main goal is to facilitate the re-employment of the unemployed by improving their skills and qualifications. Lee (2000) conducted research in 1998 into the re-employment of those who participated in the training programme and those who became unemployed but did not participate. The result shows mixed results. While those who had participated in the programmes found jobs more quickly than non-participants, the actual training content did not significantly affect the re-employment rate. This implies that the training programmes should be improved for higher effectiveness in developing job capability.

Conclusion

This chapter has examined social protection against unemployment in Korea, applying a recipient-based approach in order to examine how unemployment problems have been addressed within the policy environment. Focusing on the needs of the unemployed, workers facing lay-off and first-time job seekers, we classified unemployment programmes into four different kinds: job security protection, job opportunity increase, job capability development and income protection. Through our analysis of unemployment policy in Korea, two distinctive phases were found in the period between the 1960s and the 1990s. When Korea was pursuing the goal of extensive economic growth (until the early 1990s), social protection against unemployment was mainly carried out by an industrialization strategy which consequently secured job security. This was combined with a residual public assistance system, public works projects and government-led vocational training programmes which aimed at increasing job opportunity and developing job capability.

After the early 1990s Korea developed the EIP programme protecting all four dimensions of risk. After the reform in the wake of the Asian Financial Crisis in 1997–8, the EIP gradually expanded its coverage and increased its benefits. In addition, the newly established public assistance programme MLSG was developed as a complementary scheme.

We found that the EIP had a strong component for the development of job capability with income support as well as programmes to increase job opportunity (such as the EPS under the ESP). This was extended to all firms regardless of their size during and immediately after the crisis, and EIP recipients expenditure rapidly increased. The new MLSG guaranteed a minimum level of income as a social right, which may qualify the government's approach to unemployment as that of an inclusive welfare state. The fact that the MLSG also includes programmes for the poor to develop their job capability indicates that there is continuity in the government's approach to unemployment problems.

The different approaches to social protection against unemployment risks are closely related to the changes in political regime and government macroeconomic management paradigms. During the period 1960–92, two features of the developmental state in Korea shaped social policy, particularly unemployment policies. The authoritarian government often introduced social policies when it was faced with the challenge of opposition to its legitimacy. Although policies established within this context often served immediate political needs, the major concerns of these policies were economic rather than social. Social policies were mainly determined by economic needs under the overarching paradigm of economic development. The growth-oriented economy, based on cheap and skilled labour, could provide job security as long as growth continued; the government's unemployment policies during this period were, therefore, designed and implemented to increase job security, job opportunity and job capability within the logic of economic development. However this unemployment policy paradigm came with a downside. Labour had to accept a low level of wages and could not make their voices heard through trade unions: one could not refuse to take a job with a low wage since there was no adequate social safety net.

The change in the paradigm of economic development and democratization brought about a change in unemployment policy. The Kim Young-sam government, concerned with the rigid labour market and the long-term repercussions of high labour costs, despite strong opposition, pursued a labour market reform to enhance national competitiveness. The structural reform of industries and labour market reform were among the top priorities. The trade unions, which had gained social power during the democratization process, blocked the first attempt of government at labour market reform. In contrast to the delay in the labour market reform, the EIP was introduced in 1995 without real problems.

The real test for Korean social policy development came in the form of a sudden economic crisis in 1997. In the Tripartite Committee, all participants were constrained by the crisis and the IFIs, and therefore had no option but to accept labour market flexibilization measures. The need for a social safety net, which was also discussed in depth, was realized in the policies to expand the coverage and expenditure of the EIP. Income security was strongly emphasized, as well as the protection of job security, the development of job capability and the increase of job opportunity. As we can see in the case of the MLSG, the government's policy for the unemployed gradually moved to an institutional and social rights-based welfare system.

It is therefore fair to say that the reform process of social policy after the crisis is heading in a different direction from that of the past, and that unemployment policies in Korea have become more comprehensive and inclusive in terms of the protection of recipients.

Notes

1. In Korea, the Family Support Act of 1988 established a Job Opportunities and Basic Skills Training (JOBS) programme which provides the recipients with training, work experience and education opportunities. The recipients are required to participate in the JOBS programme as a condition of eligibility. Gray points out that the access to work is also contingent on the availability of child-care-friendly jobs for mothers.
2. Park Chung Hee's *de facto* governance began in May 1960 and his *de jure* governance as the President ran from 1963 to 1979.
3. Increasing unemployment was particularly serious in urban areas, and resulted in severe poverty. In August 1962, of the 9.8 million economically active population, 0.7 million were unemployed (Editorial Committee of the History of the Korean Military Revolution, 1963: 510–1). Since the survey included people working more than twelve hours per week (twenty days per three months) in the category of the employed, the number of the unemployed was underestimated. The unemployment rate in urban areas was four times bigger than that of rural areas in 1963 (Economic Planning Board 1971: 48).
4. The recipients were those who were aged eighteen or below, those aged sixty-five and above, pregnant women and disabled men who had no relatives or families to rely on.
5. Social insurance programmes such as the Industrial Accident Insurance Programme, the National Health Insurance Programme and the National Pension Programme were established and expanded their coverage to more workers gradually in a piecemeal fashion. Because of managerial reasons and financial feasibility the government targeted the workers employed at a certain size of establishments. Industrial Accident Insurance was introduced in 1963. National Health Insurance, adopted in 1963,

covered all of the population in 1989. The National Pension programme, originally enacted in 1973, was put into practice in 1988. Employment insurance (EI) was established in 1995. The public assistance program, named Livelihood Protection (LP), was introduced in 1969.

6. The general congress of the KCTU did not ratify the Social Pact, strongly denouncing the clause on lay-offs for managerial reasons. The representatives of KCTU withdrew from the Tripartite Committee immediately after the general congress. They strongly criticised the legalization of lay-offs for managerial reasons as unilateral economic restructuring by the government. Since then the KCTU was in and out of the Committee in February 1999, finally withdrew from the Commission.
7. See Yoo *et al*. (2002) for an overview of changes in the EIP after the economic crisis. The Korean government extended the coverage of employment insurance to temporary workers in October 1998, and to daily workers who worked less than a month in a firm in January 2004. But insurable employees are not all covered because of employers' passive attitude and limited administrative capacity.

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7

Unemployment and Policy Responses in Taiwan: Gender and Family Implications

Fen-ling Chen

Introduction

The Taiwanese economy has shown strong performance since the 1970s and national income has steadily increased. The outstanding success of Taiwan and other 'Tiger' economies in Asia challenged the contentions that economic development was unlikely in less developed countries: Taiwan moved from an underdeveloped agrarian economy to an industrialized one in a little more than a generation. Democratization took place side by side with rapid economic development, since the mid-1980s, Taiwan has become a welfare state that aims to establish social rights alongside progress in democratization and economic development.

Taiwan's economic success was based on an export-oriented economic strategy after the 1960s, and Taiwan has remained competitive due to impressive productivity gains – at least 6 per cent per annum. However, Taiwan's outward-looking strategy had its own weakness, in particular vulnerability to global economic fluctuation. Global integration provides opportunities and challenges; as in other countries, globalization put the Taiwanese economy under pressure with intense competition, and Taiwan had to reorganize its industrial structure. The economic insecurity of citizens increased to a significant extent due, for example, to the delocalization of enterprises, the volatility of financial markets and the rapid change of labour market skills required.

In contrast to economic development, progress in social welfare was slower. This was partly due to Taiwan's economic success. Having experienced a growing economy for over thirty years, Taiwan paid little attention to welfare provision for the unemployed and neglected to build up a comprehensive social security net for its citizens. Recent industrial restructuring and the relocation of enterprises then led to a sharp rise in unemployment, which forced the government to provide better employment services and social security systems, in contrast to its traditional reluctance to intervene the social functions of the family.

This chapter analyse the underlying causes of the mid-1990s rise in unemployment in Taiwan, and examine the policy responses of the government to unemployment It will also analyse the way in which unemployment affected the population in a gender-specific perspective, and whether government policy responses were effective in helping those who were affected most, middle-aged men and their families.

Export-oriented development and the rise of unemployment

From 1952, soon after fleeing from the mainland, Taiwan pursued a strategy of import substitution for economic development. In the late 1960s, many transnational corporations in developed countries came to Taiwan to seek cheap labour and to build their production line. The division of labour in the world economic system provided an opportunity for Taiwan to develop labour-intensive industry, and the economy experienced impressive growth during 1966–73 (Tuan 1992: 55). A labour-intensive export-oriented economy needs a great deal of cheap labour to support it, labour from the agricultural sector, including young women, flowed rapidly into the industrial sector. In the 1960s, Taiwan focused on developing textile and clothing industries, in the 1970s, transnational corporations transferred production processes in the electronics industries to Taiwan. Since then, Taiwan has mainly developed light industry. In the 1980s, however, Taiwan's export-oriented economy was faced with competition from other countries with a cheap labour force. The government then decided to change the economic structure from labour-intensive to capital- and skill-intensive.

Taiwan's industries are mainly composed of small- and medium-sized companies (SMEs). This is in contrast to Taiwan's East Asian counterpart, the Republic of Korea, where big conglomerates (*Chaebols*) account for much economic activity. By 1995, 98 per cent of firms in Taiwan were SMEs, and 53 per cent of firms had fewer than ten employees (Ministry of Economic Affairs 1996). Many of these were family businesses, which meant that the majority of staffs were family members or relatives. Gender division in a family business is similar to that in a traditional family, the husband acting as a boss while the other family members act as clerks, secretaries and machine operators (Hiseh 1992). As Hsiung (1996: 42) points out, 'Taiwan's export-led economy has created may opportunities for men to become employers, whilst the new opportunities open to women are mainly as wage workers.' Although increasing numbers of women entered the labour market, many were not under the protection of labour legislation and the social security net. One reason is that small businesses were usually excluded from labour legislation and gender equal employment law, and those companies with fewer than five employees were not forced to have labour insurance. The other reason is that in a family business female family members usually take on unpaid work, are not independent economically and easily fall in poverty if their marriage ends (Chen 2000: 98–104).

In comparison with most OECD countries, Taiwan maintained a very low unemployment rate (under 3 per cent) for decades (see Figure 7.1). There were three periods when the unemployment rate reached a peak (1975–6, 1983–6 and 1996–present). In 2002, the unemployment rate in Taiwan reached a historical peak (5.17 per cent), which made both the government and ordinary people anxious. The first two unemployment peaks were affected by oil crises, while the late 1990s peak was mainly due to the large number of factory closures. In 1999, 35 per cent of unemployed workers has been made redundant because their workplace closed or downsized. For the first time, these factors were the key factors in unemployment (DGBAS 2001b). In 2001, 57 per cent of the unemployed lost their previous jobs involuntarily, up from 36 per cent in 1996. 41 per cent of those who applied for unemployment benefits did so as a result of workplace downsizing; 36 per cent as a result of factory closures (Labour Affairs Council 2001a).

Both industrial restructuring and global economic downturn contributed to the unemployment problem in Taiwan. The former was the main reason for rapidly increasing unemployment, the latter made the recovery of the economy more difficult. Although this factor affected most countries, countries more integrated with the world economy were more affected (Chiu 2002). Three critical factors underlie the industrial restructuring and unemployment growth in Taiwan. First, since 1994, many firms, especially SMEs, businesses, shut down their factories in Taiwan. Most moved their capital and equipment to mainland China, for two reasons. First, many labour-intensive industries (such as food and beverage processing)

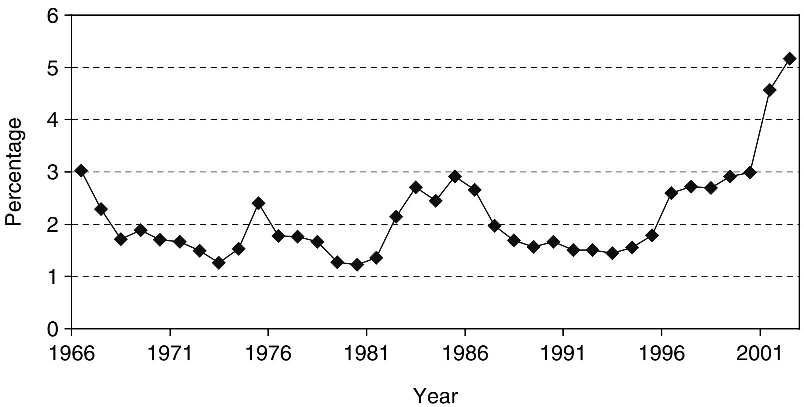

Figure 7.1 Unemployment rate, Taiwan, 1966–2002
Source: DGBAS (2002b).

relocated their plants in developing countries, especially to Mainland China, as a result of increased wages in Taiwan. They may still receive orders in Taiwan but the production is done offshore. Secondly, the market in Mainland China is very large and is thus attractive to transnational firms all over the world, in particular Taiwanese firms, that share the same language and culture.

Capital mobility has knock-on effects on other businesses. When a large firm moves to Mainland China, its supplier firms also move there to serve the principal firm. Those supplier firms (usually SMEs) shut down their factories completely in Taiwan since they cannot afford to operate there and are forced to operate in Mainland China to maintain their competitiveness by low labour costs. Taiwanese investment in Mainland China thus soared (see Table 7.1). The main investment industry also changed from food and beverage processing industry to electronic and electric appliances, from unskilled labour-intensive industry to skilled technical-intensive industry (Kao and Chi 1997). The size of companies also changed from SMEs to large firms. According to the official statistics of the Chinese government, Taiwan became their second largest importing country and fourth largest trade partner; while Mainland China was the third largest trading partner and had the largest trading surplus with Taiwan (*China Times*, 5 April 2002; Bureau of Investment (Bureau of Investment 2003) 1288, 2003)

The second important factor making the unemployment problem worse was the introduction of foreign workers. Foreign workers were first introduced in 1994 and their number increased substantially from 1994 to 2000 (see Table 7.2). Due to their low wages and their willingness to work long hours, increasing numbers of employers employed foreign workers and reduced the number of local workers. By 2000, 327,000 foreign workers resided in Taiwan, 3.3 per cent of the labour force (Labour Affairs Council 2003). The Chen government attempted to reduce the number of work permits given to foreign workers and their number declined after 2001. Nevertheless, the government could not reduce the number of foreign workers completely, since it might force some Taiwanese firms to move

Table 7.1 Statistics on approved indirect investment in China from Taiwan, 1991–2002 (US $ 10,000)

Year	**1991**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total amount of investment to China	17,416	96,221	109,271	122,924	433,431	203,462	125,278	260,714	278,415	672,306
% of total amount of foreign investment	9.52	37.31	44.61	36.21	59.96	38.17	27.71	33.93	38.80	66.61

Source: Ministry of Economic Affairs, Statistics Department (August 2003).

Table 7.2 Foreign workers in the Taiwan area, 1994–2002 (persons)

Year	Foreign workers	% of total labour force
1994	151,989	1.67
1995	189,051	2.05
1996	236,555	2.54
1997	248,396	2.63
1998	270,620	2.83
1999	294,967	3.04
2000	327,000	3.34
2001	304,605	3.10
2002	303,684	3.05

Source: Labour Affairs Council (2003).

abroad for a cheaper labour force, resulting in a further rise in unemployment in Taiwan. Chang (2002a, 2002b) also supports the view that foreign workers undermined the job opportunities for local unskilled labour. Using a simulation model, his research found that the increasing numbers of foreign workers played only a minor role in the decline of overall wage levels, but might have led to high unemployment rates in the long run.[1]

Thirdly, the late 1990s rise in unemployment is also related to the economic consequences of the September 2000 earthquake. On 21 September 2000, a severe earthquake hit the central region of Taiwan, some parts of which were severely affected. The central region, largely dependent on tourism industry, lost their business as few tourists wanted to visit the region. Local factories were destroyed or damaged by the earthquake, and never managed to recover fully; many employers and workers lost their jobs. The decline of the local economy accelerated pressure for enterprises to move aboard. As a result, the unemployment rate in central Taiwan remains much higher than in other areas.

Unemployment did not affect everyone equally, some sections of the population were harder hit than others. Unskilled and semi-skilled male workers were hit hardest, with more complex implications than might first appear. In 2001, 51 per cent of the unemployed were machine operators or unskilled workers. The unemployment rate of machine operators was 5.8 per cent, up from only 1 per cent in 1993. 68 per cent of the unemployed were male, many of them were middle-aged, and 65 per cent of them from the manufacturing sector. In the past, long-term unemployment had not been a major problem in Taiwan. The average period of unemployment was twenty-three weeks, 70 per cent of those made unemployed found another job within twenty-seven weeks (DGBAS 2001b: 186, 2003). However, in the 1990s long-term unemployment was more common: 34 per cent of job losers entered long-term unemployment. Only 18 per cent persons who received unemployment benefits found a new job; 74 per cent were still job-seekers weeks later (Labour Affairs Council 2001a). More women than men withdrew from the labour market (10.92 per cent of female unemployed, 4.53 per cent of male unemployed). Young people had more chance to find a new job, but people over forty-five had greater difficulty in re-integrating into the labour market (see Table 7.3).

Compared to their female counterparts, male workers turned out to be more vulnerable to unemployment. In 2001, the unemployment rate of men was 5.2 per cent, while it was 3.7 per cent for women. Moreover, the labour participation rate of men was gradually declining: it was 72.4 per cent in 1994 and 68.5 per cent in 2001 while the labour participation rate of women slightly increased, from 45.4 per cent in 1994 to 46.1 per cent in 2001 (DGBAS 2002). For many middle-aged workers who lost jobs in their forties and fifties, it was very difficult to find a new job and continue productive activities. When jobs were available, wages offered were often much less than they had been used to receive, and they often turned down such offers. In this situation, women who had remained at home entered the labour market to support their families. These women, mainly wives, however, often had no skills and prior experience, and therefore had to take low-wage, low-status work, hoping go back to family life once the male breadwinner found a job, as presupposed by the 'reserve army' theory (Breugel 1979). An increasing number of women became low-paid workers, or ran micro-businesses without employment security (DGBAS 2002) (Figure 7.2).

Inevitably this situation led to a decline in family income and reduced life chances for other family members, most importantly through children's education. Loss of income in the unemployed family affects the educational opportunities of their children and are more likely to occur in low-income families.

Table 7.3 Movements of the unemployed, by gender and age (per cent)

Unemployed	Found a new job	Job seeking	Withdrew from the labour market
Gender			
Male	18.40	77.07	4.53
Female	18.20	70.88	10.92
Age			
Under 19	27.27	63.64	9.09
20–24	24.56	66.08	9.36
25–34	26.28	62.72	11.00
35–44	20.90	72.52	6.58
45–49	14.03	79.80	6.18
50–54	10.36	80.02	9.61
Over 55	10.41	79.59	10.00

Source: Labour Affairs Council (2001: 12).

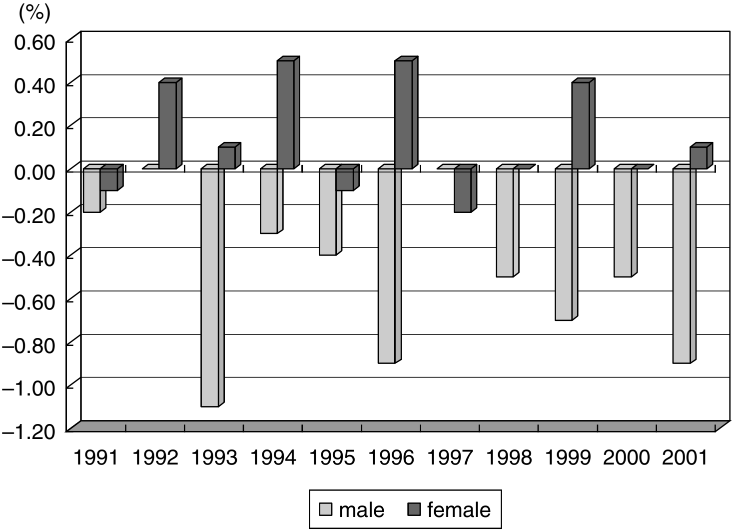

Figure 7.2 Increasing/declining percentage of labour participation rate, by gender, 1991–2001
Source: Calculated from the data in DGBAS (2002).

The growth rate of family income and expenditure steadily decreased after 1994. If we divide family expenditure into five levels, we can find that the gap between the highest group and the lowest group is increasing (Figure 7.3). Only the family in the lower levels faced the threat of income decline, while the consumption of the high-income family seemed not be affected by the phenomenon of mass unemployment (DGBAS 2001a). Parents in Taiwan usually pay tuition fees for their children, but students from unemployed families had to find other solutions. In 1996, only 3.6 per cent of students in senior high-school level and above applied for governmental student loans; in 2001, it was 22.4 per cent (Ministry of Education 2001). Many unemployed families were also unable to pay contributions to National Health Insurance (NHI). In 1998, 99.6 per cent of the insured were able to pay the premium; in 2003 the NHI payment rate had dropped to 94.5 per cent (NHI Bureau 2004). Unemployment problems enlarge social inequality among families.

The Taiwanese government took the rise of unemployment seriously since it suffered not only from an economic downturn, but also increased social spending on, for instance, unemployment. To prevent such double-edged problems and related social problems – such as an increased rate of crime and poverty – the government introduced new welfare schemes for unemployment. In this chapter, we will analyse the extent to which

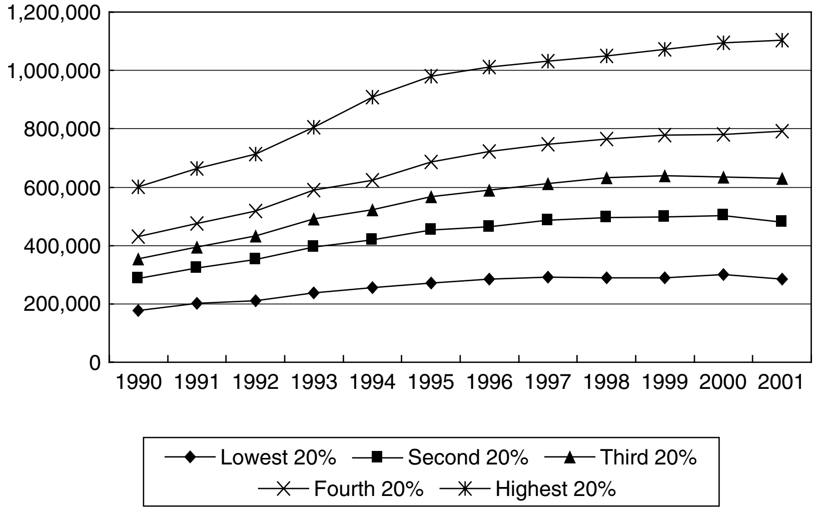

Figure 7.3 Comparison of family expenditure, different income groups, 1990–2001 (Taiwan dollars)
Source: DGBAS (2001b).

unemployment policies have been effective in helping the unemployed to find new jobs, and to support them while unemployed, with special attention being paid to middle-aged men. Before we proceed, it is necessary to describe the basic structure of the welfare system in Taiwan, and unemployment policy in particular.

Social security systems and the reform of unemployment policies in Taiwan

Social security systems

In Taiwan, most social policy programme are *social insurance schemes*; non-contributory benefits such as old-age allowances are few and non-universal. The provision of social services is also inadequate. Social insurance programmes in Taiwan are fragmented, complex and mainly employment-based, focused on wage earners. Workers are required to join various insurance schemes according to their occupation. One of the underlying ideas of the employment-based system was to reduce the mobility of workers, with an element of social control. There are four major insurance systems in Taiwan. Labour Insurance (LI) and Military Servicemen's Insurance (MSI) were introduced in 1950, Government Employees' Insurance (GEI) in 1958 and Farmers' Insurance (FI) in 1985. The former three social insurance schemes used to cover sickness as well as maternity, invalidity, old age and death; *old age* is not covered by the latter system. A universal insurance scheme, National Health Insurance (NHI), launched in 1995, covers not only wage earners but also their dependants. A family without a wage earner can also join the NHI at a different contribution rate. By 1996, 92 per cent of Taiwanese had joined the NHI system (Department of Health 1996: 104) (see the Appendix, p. 188, for the development of social welfare policies in Taiwan).

Concerning social security in old age, benefits are usually paid as a lump sum, except for those retired from the government departments. There are two sources from which retired workers can claim old-age benefits: one is paid by the insurance systems – such as labour insurance schemes, government employees' insurance schemes, etc. – the other is paid by their employers who are regulated by legislation, such as the Labour Law and the Government Employees Retirement Law. Contributors can usually collect their old-age payments from insurance schemes when they reach retirement age, but they cannot claim old-age payments from their employers if they have lost their job before retirement. The amount of old-age payments from insurance schemes is insufficient, although payments from employers are a better deal. However, as occupational benefit schemes in Taiwan encourage employees to work for the same employer throughout their working career, workers in private companies are eligible to claim old-age payments from their employer only if they have been in service with the same employer for over twenty-five years. Employees' working history, and the benefits accruing, cannot be split between two insurance systems. If civil servants transfer to private firms, for instance, their work experience in public departments cannot be transfered into the LI system.

Employers are often reluctant to pay old-age benefits; they either claim an inability to pay the full amount of payment or they dismiss older workers before their retirement age. The longevity of companies in Taiwan can be short: to avoid old-age payments, some companies would rather shut down and establish a new business in another area. As a result, few people in Taiwan can in fact receive old-age payments from their employers and rely on old-age payments for living after they have retired. In 1998, 27 per cent of men over sixty-five depended on their old-age benefits for living expenses, 38 per cent of them depended on their children's support. While only 3 per cent of women over sixty-five relied on old-age benefits for living, 69 per cent had to rely on their children (DGBAS 1999). In 2002, in order to carry out the promises in the presidential election manifesto, the new DPP government introduced a more generous mean-tested old-age benefit for those not under the protection of social insurance systems. Under this new scheme, people over sixty-five years old without occupational old-age payments could claim 3,000 New Taiwan (NT) dollars per month (about 90 USD) paid by the government.

Poverty among the retired population became a hot political issue after 1993. The new DPP government began to plan for a universal national pension system. In 2002, the government introduced the more generous, mean-tested old-age benefit noted above. The new government also permitted the issue of a lottery to raise the money for a national pension scheme; however, this is still under consideration at the time of writing.

Unemployment policies

Taiwanese used to depend on themselves and on the support of their family rather than on the state in times of economic difficulties. As shown in Table 7.4, the majority of unemployed people relied on support from their families and their own saving during periods of unemployment. Since the 1970s, the saving rate in Taiwan remained high, over 30 per cent in the 1990s, the highest among Asian countries (Tuan 1992: 164). In the Taiwanese welfare mix, the family always plays the most important role, family support being especially important for the young unemployed.

Taiwan remained without an unemployment insurance scheme until 1999. Before then, during periods of economic recession, the government provided special loans, youth training opportunities and tried to encourage women to do subsidised family work at home. Because the economy often recovered rapidly, the government in Taiwan paid more attention to planning active employment projects rather than building up a comprehensive social security system. Since 1994, unemployment caused by factory closures became a serious social problem, the unemployment rate rose and the number of industrial disputes reached a peak in 2000 (Labour Affairs Council 2001b). Traditional sources of support, if any, could not meet people's need. The government therefore began to introduce policies to help unemployment caused by factory closures (Table 7.5). The three most important policies are:

Table 7.4 Source of living expenses during unemployment, 1978, 1997 and 2001 (per cent)

Year/Age	Savings	Family	Payments from workplace[a]	Unemployment benefit	Total
1978	18	76	6		100
1997	48	50	2		100
20–24	23	77	0		100
25–29	40	59	2		100
30–34	63	35	1		100
35–39	71	27	1		100
40–44	70	23	7		100
45–49	64	34	2		100
Over 50	77	19	4		100
2001	35	25	-	80	150[b]

Notes:
[a] Data includes old-age payments and redundancy money both from the employer and the insurance system.
[b] people can choose more than one answer.
Sources: DGBAS (1997); Labour Affairs Council (2001a).

Table 7.5 Important policies for unemployment, Taiwan, 1994–2003

Year	Policies	Benefit duration	Payment, NT$/Number of people subsidized
1994	Measure to encourage employment among those made redundant		
	Temporary jobs for Breadwinners	4m	Minimum wage
1997	Special loan for those made redundant after factory closures	5y	6% interest rate
6/1997	Job subsidies to those made redundant covered the workers in the traditional industries	12m	NT$ 10,000/m
1/1999	**Unemployment Insurance** (**UI**)	max. 6–16m[a]	50% earning
4/1999	Employment promotion subsidy	1–3m[b]	50% earning
5/1999	**Employment Promotion Allowance** (**EPA**)		
6/2001	Inc. transport subsidies for job seekers, temporary job subsidies, living expenses during training, business start-up loans, job subsidies to employers, job matching fee	p. a. 6m 12m 5y 12m	NT$ 550 NT$ 542/day NT$ 12,000/m INT. 6% NT$ 5000/case NT$ 3000–5000/case
8/1999	NHI Subsidy for the Unemployed	6m	
9/1999	Vocational training coupon for the Involuntary Unemployed	6m	NT$$10,000/m
9/1999	Protection Measures for a Major Redundancies Litigation subsidy for joining the Labour Insurance		
2001–2	**Engineering of Sustainable Employment Project (ESE)**	1.5y	25,736 persons NT$ 2870 million
2001	Job creation project in the governmental departments	1y	35,695 job opportunities 77,048 persons (training) 5816 persons (subsidies)
2001	Emergency job matching measure	1y	7320 persons

2001–2	**Multiple Job Creation Project**	2y	
	Job subsidies to those made redundant from the traditional industries	1st –6th m	60,000/case
	Job subsidies to the owners of fishing boats	7th – 12th m	NT$ 10,000/case
2002	**Employment Insurance Act**		
3/2002	Vocational training Subsidies to trade unions		NT$ 3,000,000/unit NT$
1/2003	**Enlarging Public Construction Project**		NT$ 20,000 million

Notes:
[a] The period of payment depends on workers' working history. The maximum period of payment for any worker is between six and sixteen months.
[b] For factory closures during 1996–8 only.
m = months.
y = years.
Sources: Employment and Vocational Training Administration (1999); Chiu (2002).

(1) the introduction of Unemployment Insurance (UI) and the Employment Insurance Act; (2) the Employment Promotion Allowance (EPA) and (3) job creation schemes, including the Engineering of Sustainable Employment Project, the Multiple Job Creation Project and the Enlarging Public Construction Project.

The Labour Insurance Bureau is responsible for operating the new unemployment scheme. The Bureau collects 1 per cent of a worker's wage as a contribution to unemployment insurance. The contribution by employees accounts for 20 per cent of the total contribution to labour insurance, the rest is financed by the employer's contribution (70 per cent) and the local authorities and the state (5 per cent, respectively). Only workers who have been in the system for more than one year can claim payment, provided that the public employment service centres fail to find a new job for them. In the beginning, the unemployment insurance scheme aimed to solve the problem of short-term unemployed, so its eligibility and coverage were limited. In 1999, the first year, only 11,341 persons (4 per cent of the unemployed) received payment and it cost 516 million NT dollars (0.5 per cent of the total labour insurance expenditure). In July 1999 and December 2000, the eligibility and coverage of the unemployment insurance scheme was extended as the unemployed problem became critical. By October 2001, the number of beneficiaries rose to 87,516 persons (17.3 per cent of the unemployed) costing 5688 million NT dollars (6 per cent of total labour insurance expenditure) (DGBAS 2003; Labour Insurance Bureau 2003).[2] After the introduction of unemployment insurance, the payment became the major source of living expenses during unemployment for all age levels of unemployed (see Table 7.5). This scheme actually saved many families. In order to run the unemployment insurance more efficiently, the government also enacted a new law, the Employment Insurance Act, in 2002. Under the Act, workers have to pay 1–2 per cent of their salaries as contribution. If they are involuntarily unemployed, the social insurance system will offer them unemployment benefit, living fees during training, NHI subsidy, or lump-sum for early return to the labour market.

Employment services, vocational training and support for job seekers

In the early period of economic development, the Taiwanese government promoted vocational training in order to meet new skill requirements along with rapid industrialization. The training courses offered at public vocational training centres focused on developing skilled and semi-skilled labour for first-time job seekers. The government also contracted out training programmes to firms and polytechnics. The courses were free of charge, and usually lasted between several months and one year. Trainees had to attend courses full-time and to live in the centres or factories. After the Bureau of Vocational Training was founded in 1981, public vocational training was made more systematic. In response to the changes in Taiwanese economic structure, a new emphasis was placed on training for the service sector. In 1986, the government introduced new training courses for service sector jobs in 1987, the government also strengthened training in secondary skills, which might be useful if workers lost jobs due to rapid changes in the labour market. In fact, the majority of the trainees in secondary skills have been women. It was difficult for the public vocational training centres to change their regular courses and to provide new ones since they had to buy new equipment, the government thus contracted out the programmes to private organizations or colleges with new training courses in more recent years (Chen 2000: 161–5). The government also subsidised enterprises to provide training programmes in the ‘Multiple Job Creation Project’, which combined work experience with some measure of training. If enterprises recruited more than half of the participants after the training course, the government paid for 35 per cent of the course fees and their first three months’ standard wages to the employers, plus NT$ 5,000 per person for the following six months (Labour Affairs Council 2002a).

According to a governmental survey, half the unemployed would like to attend vocational training, computer operation and restaurant service being the most preferred courses. No more than 20 per cent of the unemployed were willing to do home caring jobs and 0.4 per cent wished to do 24-hours-caring jobs, although the government was overenthusiastic about the possibility that it could cut demand for foreign home nurses (Labour Affairs Council 2001a).

It is also fair to say that public employment service has not been much utilized by the unemployed. A small number of the unemployed (6 per cent) used the public employment service to find jobs. Most of them got the information from their relatives, friends and newspapers (Labour Affairs Council 2001a). Nevertheless, the recent rise of unemployment does not result from ineffective dissemination of employment information, but more from decline in the demand for labour.

As providing unemployment payments is somewhat at odds with the traditional Taiwanese emphasis on work, the government introduced a series of active employment policies that aimed to prevent the unemployed from being dependent on welfare. A supporting scheme for job seekers was introduced in 1999 and revised in 2001, as shown in Table 7.5, was the Employment Promotion Allowance, including: (1) transport subsidies for job seekers; (2) temporary job subsidies for those doing community service; (3) living expenses during training; (4) business start-up loan; (5) job subsidies to encourage employers to take on people who have been out of work; (6) a job matching fee to encourage private employment service centres to introduce job opportunities for the unemployed (Employment and Vocational Training Administration 1999).[3] In 2002, a further job subsidy was introduced to encourage the owners of fishing boats and traditional industries to hire redundant workers (Chiu 2002).

In the recent change of employment services and vocational training, the government in Taiwan is by no means to be the only direct service provider. It wants to build up a new partnership with schools, trade unions, enterprises and NGOs by contract out programmes. The flexibility and equipment in the private sector can provide more useful and practical skills for the development of a high-tech economy while the state is the provider of finance.

Job creation schemes

Although the government introduced many supporting schemes for job seekers, the unemployment rate is still increasing. Inspired by Korea's experience after the 1997 Asian Finance Crisis, the Taiwan government shifted its efforts to job creation. In 2001, a job creation scheme, the Engineering of Sustainable Employment Project (ESE project), was introduced. This scheme aimed to solve structural unemployment in local areas. The effect of globalization caused many labour-intensive firms, most of them in rural areas, to shut down and move their business to other developing countries. The September 2000 earthquake further catalysed capital flight from Taiwan. The ESE project subsidized local authorities and NGOs to help local residents to develop new business, teaching local people how to use local raw materials to develop new products. People who joined those programmes could receive salaries, even in their training period (Labour Affairs Council 2000). Like many other unemployment schemes, the funding of the scheme came from the Employment Stabilization Fund, which was collected by employers who hired foreign workers. All the employers who hired foreign workers, foreign attendants or foreign maids had to contribute money to the Employment Stabilization Fund. Hiring a foreign attendant, for example, involves an obligation to contribute with 600 NT dollars per month to the Fund. The money in Employment Stabilization Fund is spent by the Labour Department on vocational training, job creation projects and employment services, especially subsidized activities for the unemployed. By 2001, the Taiwan government had raised 44 Funds, each having special working targets and also collects money from users, but also receiving subvention from public expenditures.

Some communities used this funding to develop leisure businesses; others used local raw materials to make handicrafts. Some urban communities tried to train middle-aged women to do caring work. The DPP government takes pride in the outcome of these projects, especially on helping many middle-aged and unskilled residents to find a new job and self-esteem. By May 2002, these projects had spent 2,870 million NT dollars on 1,391 projects and recruited 25,736 people (Legislation Yuan 2002). Local authorities implement most of the projects, but some local NGOs also participate in the programme. The performance of NGOs in these projects varies, since many local NGOs are not well organised and their staffs are not professional. It is also not easy for the organizations to submit well-organized proposals to get funding from the scheme. In contrast, many local governments have used funding for purposes not intended by the programme; they either use the money for their own temporary staffs or for unemployment benefits without creating any new communities' business. There has been some criticism about government policy, arguing that the government gives grant to local authorities and NGOs without professional advice prior to the implementation of the projects and proper inspection afterwards. (Shin 2001; Legislative Yuan 2002). Another job creation project, the Multiple Job Creation Project (MJC project) was introduced in response to such criticism. This project also supports enterprises to run 'training and recruiting projects'. In 2002, this project spent 959 million NT dollars on 1,040 projects and provided 7,962 people with new job opportunities (Labour Affairs Council 2002a). In this project, unlike the ESE, workers were directly introduced by public employment service centres to enterprises without the need to go through local governments or NGOs.

As the President announced that the government would reduce the unemployment rate to 4.5 per cent in 2003, a new job creation project was introduced, the Enlarging Public Construction Project (EPC project). Based on enlarging government debts, this project was intended to hire unemployed persons for one year to do public service in the governmental department, such as keying-in data and community cleaning activities. This project was criticized as a social assistance policy rather than an active employment policy because many believed that it would not crease valuable and long-term jobs (Legislation Yuan 2002).

Those measures for unemployment may have being implemented for a long time in many countries, but for the Taiwan government to be involved in the provision of unemployment welfare, especially to provide cash benefits, is the exception rather than the norm. It implies that the government has become an important provider of social protection as well as a traditional welfare provider. However these unemployment policies have certain limitations. In many schemes, the qualification for application is strict and benefits are implemented for a very short period, usually no longer than one year. It is also worth noting that the funding for solving unemployment comes from enterprises rather than from the government.

The implications of recent unemployment policies in Taiwan

Taiwan has benefited from the rapid expansion of world trade, the economy grew fast by adopting an export-oriented strategy after the 1960s. For many decades, Taiwan experienced productivity growth of over 6 per cent, and even double-digit growth. Yet the pace of social development was slower compared to economic development: economic development was an overarching national mission, and social policies were justified in terms of capital accumulation.

As an export-oriented economy, however, Taiwan was vulnerable to world economic conditions. From the mid-1990s, the country was strongly affected by the new global economy. Capital flight from Taiwan to China caused unemployment among middle-aged unskilled and semi-skilled male workers, and free labour movement made the unemployed problem worse. However, due to an inadequate social protection system, many laid-off workers failed to receive their redundancy and old-age payments after their factories shut down business in Taiwan and moved to China. In response, many new social policies were introduced for this special group of unemployed. As in the Republic of Korea, when mass unemployment appeared the government responded with a series of social policies (Kwon 2001). In the Taiwanese context, the recent policy reform for the unemployed was mainly in response to a serious social problem that could have damaged the government's credibility and undermined social stability. In contrast to previous welfare reforms in the 1990s in Taiwan, the recent reform, in the wake of the Asian Financial Crisis, was neither the consequence of social movements (such as policies for the disabled and for battered women), nor of demand from interest groups (such as the enactment of the Gender Equal Employment Law), nor of political competition (such as old-age benefits) (Ku 1997; Chen 2000: 200–32). It is also worth noting that no international organization was involved in the decision making process on measures to fight unemployment in Taiwan (Deacon Hulse and Stubbs 1997; Deacon 2000), understandable since the country has been largely internationally isolated since the 1960s.

In contrast, the changes in social perception have been an important factor in the state response to social problems. Traditionally, state welfare has not been regarded as a social right; the concept of a residual welfare state is widely accepted by the Taiwanese people. The majority see the first priority of state welfare as being to maintain minimum living requirement of the poor, most of them value the importance of work and consider the state responsible for protecting people in unemployment (Lu 1995). Judging from recent unemployment policies, there has been a shift in the social consensus of the Taiwanese people towards an active role for the state in social welfare. Of course, the traditional morals remain, but the government has become a welfare provider, even a job provider. The DPP government also believes that the government should take a larger responsibility in the provision of social welfare: social protection policies are now seen as not mere instruments for economic development, but policy goal in its own right.

Another underlying rationale for the recent reform of unemployment policies is that the Taiwan government has begun to rebuild new social partnerships with various agencies involved in unemployment policy. In the past, during the peak period of unemployment, the government adopted universal policies to lead the unemployed back to work, regardless of the differences among areas. The state now subsidizes companies, trade unions, NGOs and local organizations to create job opportunities for the unemployed. The ESE project permits local people to develop their own community-based business and local agencies are deemed to know communities' needs better than the government. The idea is that the new social partnerships can facilitate solidarity and foster the development of civil society. With the experience of working with the government, many NGOs may become important resources in mixed economics of welfare. As highlighted by the relational dynamics approach in institutions, all institutions – including political bodies, economic bodies and social bodies – are being changed in order to meet the changes in socioeconomic development (Kwon 1999: 27–31; Hall and Soskice 2001).

From a gender perspective it should be noted that many job creation schemes did not aim to create jobs for the unemployed, but led their wives to take the breadwinners' place. Many early sub-projects under the ESE developing handicrafts and caring businesses were cases in point. The majority of the participants were women, but they were mostly married women in the past and their husbands were the recent redundant. The job creation schemes attracted women to accept a low-level and irregular job for their families because the male redundant would not take low-paid work. The DPP government also reduced the permitted number of foreign attendants in order to release job opportunities, and set up the development of caring business as one of the main strategies (the 'Long-term Plan for the

ESE project') (Labour Affairs Council 2002a) Will these policies represent chances to change the traditional gender contract, or are they mechanisms to commercialize women's traditional unpaid caring work so as to create commercial values? These policies are likely to double the women's burden, in both the private and the public spheres. Making the caring responsibility a market good, without any change in gender division, only enlarges inequality among women so that women in low-income families can deliver services for women in high-income families. Under the Taiwanese patriarchal mindset, the female labour force is still regarded as the 'reserve army' in the labour market.

Although many social policies were introduced for the unemployed, they offered payments only for a limited period. The new unemployment policies focused on providing a short-term palliative for the unemployed, and failed to recognise that middle-aged job losers might find it harder than other people to find a new job in the labour market. The Taiwanese government needs to pay careful attention to these unemployed groups, since reducing the unemployment level will not necessarily take care of the social crisis that unemployed middle-aged workers and their families are experiencing.

The appendix, notes and references follow overleaf.

Appendix

Table 7A.1 Important social and employment policy, Taiwan, 1950–2002

Year	Policy
1950	Labour Insurance implemented
	Military Servicemen's Insurance implemented
1953	First Four-Year Economic Plan
1958	Government Employees' Insurance implemented
1965	Fourth Four-Year Economic Plan (employment policies)
1981	Bureau of Vocational Training established
1983	Measures for Solving the Present Unemployment Problem
1984	Labour Standards Law (old-age payments)
1985	Farmers' Insurance
1986	Middle and Long-Term Plan of Manpower Department for Economic Development (1986–2000)
1992	Employment Service Law
1995	National Health Insurance implemented
1997	Labour Standards Law revision (more flexible working conditions)
1999	Unemployment Insurance implemented
2002	Labour Insurance Law Revision (workers can consolidate working history between different employers for old-age payment)
	Gender Equal Employment Law
2002	Old Age Benefit implemented

Notes

1. Foreigners with work permissions in Taiwan are classified in four categories: foreign workers who mainly work in factories, foreign attendants who stay at employers' home to take care of disabled people or the elderly, foreign attendants in social service organizations who stay at welfare organizations to take care of disabled people or the elderly and foreign maids who usually do housework for their employers. The price to hire a local attendant is three times the price of a foreign attendant and few Taiwan people would like to do this work, so the foreign attendants actually do not take jobs away from local workers. Permission for foreign maids has now been revoked by the government.
2. The state budget was 1,271,440 million NT dollars in 1999, 1,608,147 million NT dollars in 2001. Since the government contributes to 5 per cent of the worker's insurance fees, Unemployment Insurance cost 0.002 per cent of total governmental expenditure in 1999 and 0.03 per cent of total governmental expenditure in 2001.
3. The following unemployed persons are eligible to apply for this allowance: people who are unemployed due to workplace closures, workplace downsizing, the 2000 earthquake, or those who are female breadwinners, in a low-income family, old workers and disabled persons.

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8

One and a Half Cheers for Provident Funds in Malaysia and Singapore

M Ramesh

Malaysia and Singapore have had provident funds (PF) since long before the 'individual retirement savings account' (IRSA) became popular in policy discussions following the publication of the World Bank's *Averting the Old Age Crisis* (1994). The PF is similar to the IRSA in every respect except that it is centrally managed by the government rather than by private managers. Otherwise, both are compulsory defined contribution arrangements which specify the level of contribution rather than the benefits more typical of social insurance arrangements. Both are also fully funded in the sense that members' benefit is equal to the balance in their personal account, imposing no actual or accrued liability on the government. The distinction is not firm in practice, however, as the Mandatory Provident Fund (MPF) launched in 2000 in Hong Kong is an IRSA in all but the name.

The PF compels people to do what they have voluntarily done for centuries: save a portion of their current income for meeting their needs when they do not have income, such as during retirement. The basic idea of compulsorily saving for the future is extendable to a number of social policy sectors, most notably health care, whereby people compulsorily save for meeting specific future needs. The problem with the savings approach is that some people have no or little income during their working life and, as a result, they are unable to save regardless of whether it is compulsory or not. Financing home ownership through the PF is more ingenious, in that it allows members to use their retirement funds to meet one of their essential, but expensive, current needs while still maintaining the value of their financial assets which they can use for generating income during retirement.

The PF may also be employed by governments to promote a variety of economic policy objectives. At the most basic level, they involve no government expenditure and hence no burden on the public exchequer which, other things being equal, permits tax rates to be maintained at a level lower than would otherwise be the case. Moreover, by making it compulsory to save, the PF are believed to promote national savings, though the empirical evidence on this is conflicting. Furthermore, the large pool of long-term funds that the PF build up permit the government to tap into them for investment in development projects without inflationary consequences. Tinkering with contribution rates is an effective macroeconomic tool for inflating or deflating economic activity. There are other spillover benefits, such as deepening of the capital market and raising the level of financial market sophistication.

Regardless of their tremendous social and economic policy potential, the PF did not receive enthusiastic support from either the left or the right in policy circles. Left-leaning commentators and traditional social welfare specialists looked down upon it for its limited capacity to afford adequate income security or promote equity. Market-oriented commentators, on the other hand, found its defined contribution aspect appealing but were turned off by the fact that it was managed by the government. In between these two positions is the view that provident funds could be 'an administratively uncomplicated mechanism for delivering a limited range of retirement provision and a savings institution with significant potential for indirect utilization in pursuit of welfare-enhancing activities' (Charlton and McKinnon 2001: 130). The latter includes the capacity to fund annuities, health, education and life insurance. This chapter adopts no *a priori* position for or against PFs – it prefers to assess each such scheme against the criteria specified by the policymakers themselves.

PFs were originally established in Malaysia and Singapore in the early 1950s as an interim measure to provide retirement income. The mechanism's limitations were broadly understood by policymakers even then, but it was adopted because the governments did not have the resources to provide more adequate income protection. In subsequent decades, however, the schemes were not only retained but expanded as governments began to appreciate their potential for pursuing a range of social and economic policy objectives: financing health care, housing and economic development in addition to maintaining income. Indeed it is hard to think of any social security arrangement anywhere in the world which is intended to serve such a variety of goals.

The purpose of this chapter is to describe PFs in Malaysia and Singapore and evaluate them against their stated goal of providing retirement income, promoting economic development and financing health care and housing. The latter two are more pertinent to Singapore as they have been given less prominence in Malaysia. The evaluation will show that the schemes have been successful only in providing housing finance in Singapore; their performance with respect to other objectives has ranged from mediocre to insignificant. Overall, as this chapter will show, their performance deserves only one and half cheers.

Malaysia

The Employee Provident Fund (EPF) in Malaysia is the world's oldest statutory PF scheme. It was established in 1951 without much deliberation in the context of the economic and political upheaval that gripped the Malayan peninsula after Second World War (Lee 2001: 12–13). It currently operates under the EPF Act 1991, as amended in 1995. The post-independence Malaysian leaders broadly understood the EPF's dual role as a social security institution and as a source of long-term investment funds for state-led development initiatives (McKinnon 1996) and this dual focus has remained intact over the years. The 2001 EPF *Annual Report* describes the scheme's mission as providing 'retirement benefits for our members' and promoting 'the nation's socio-economic development'. Accordingly, it seeks to finance not only retirement but also health care, housing and education as well as economic development projects.

The EPF started with a modest coverage and it was not until the late 1980s that universal coverage was achieved. Now all employees except foreign workers (and even they were included between 1998 and 2001), domestic servants, casual and agricultural workers and certain groups of government employees are compulsorily included under the scheme. In 2001, the EPF had a membership of 10.2 million, of whom 5 million (52 per cent of the labour force) were active contributors.

The rate of the EPF contribution was originally set at 5 per cent for the employer and the employee and remained unchanged for twenty-four years, when it began to be gradually raised. The rate of contribution was 6 per cent for the employee and 7 per cent for the employer from 1975 to 1980; 9 and 11 per cent, respectively, from 1980 to 1992; and 10 and 12 per cent, respectively, from 1993 to 1994. Since 1996, the rate has been 11 per cent for the employee and 12 per cent for the employer, giving a total contribution rate of 23 per cent of the base remuneration, which excludes overtime payment, gratuity and retirement benefits. But unlike the Singapore Central Provident Fund (see below), there is no ceiling for the EPF contributions. In 2001, employee contributions were temporarily reduced to 9 per cent, but the original rate was reinstated in the following year. The EPF received US$ 4.8 billion as contributions in 2001, which raised the Fund's cumulative reserves to US$ 48.7 billion.

Individual EPF accounts have been divided into three since 1995. Account I holds 60 per centof a member's total balance and can be withdrawn only upon retirement at the age of fifty-five years or in the event of death, physical or mental incapacitation, or permanent emigration. This is considerably larger than the 10–20 per cent channelled to the comparable 'Special Account' in Singapore (to be discussed below). Balances in excess of US$ 13,160 in this account may be withdrawn for investment in approved financial instruments, of which unit trusts (i.e. mutual funds) are the most common. Nearly 5 per centof all withdrawals in 2001 were for investment purposes.

Account II holds 30 per cent of a fund and may be drawn upon to pay for the purchase or upgrade of the home, higher education and personal computer purchase. Members may also withdraw funds in this account for 'pre-retirement' expenses at the age of fifty years; the purpose of this clause is deliberately vague to allow withdrawal for purposes particular to the individual. The remaining 10 per cent of EPF is set aside in Account III for meeting the cost of treating critical illnesses of the member, her/his spouse, children and parents. All three accounts are merged and the entire sum is made available for withdrawal upon reaching the age of fifty-five years.

Almost forty years after the idea was first mooted, the government in 2001 allowed the EPF members to purchase life annuities from insurance companies using funds in any of their EPF accounts (Lee 2001: 55). Instead of withdrawing all their money with the EPF upon reaching the age of fifty-five, they may buy an annuity plan which will pay them a guaranteed minimum income for the rest of their life. Younger members of any age may contribute towards an annuity plan ('the Deferred Annuity' plan) offering a guaranteed minimum income for the remainder of their life after fifty-five. Tax relief of up to US$ 263 is available for premium payments to a Deferred Annuity plan.

The returns offered by the EPF have exceeded the minimum guaranteed nominal return of 2.5 per centby a considerable margin. Indeed the returns in real terms were continuously in excess of 5 per cent after the mid-1980s, though they declined sharply in 1998. Someone entering employment in 1976 and retiring in 2000 after twenty-five years of continuous employment would have earned average *real* returns of 4 per cent per annum.

Contributions to the EPF by both employer and employee, interest accruals, and gains from all withdrawals are exempt from income tax. However, no more than US$ 1,316 of employee-contributions to the EPF (and life insurance, if applicable) per year may be deducted for the purposes of calculating taxable income. This in conjunction with the absence of a ceiling on contributions has the effect of preserving the tax base while improving equity.

Singapore

The centrepiece of the social security system in Singapore is the Central Provident Fund (CPF) which was established in the context of grim economic conditions following the Second World War. Its establishment involved much more formal deliberation than was the case in Malaysia, even though the government largely ignored the feedback. The McFadzean Commission, established in 1951 to inquire into the feasibility of a retirement scheme, emphatically rejected the PF as an option, on the grounds that they would not provide adequate benefits to the target population and instead recommended a contributory pension scheme, paying subsistence-level benefits. But the report failed to persuade the government, which went on to promulgate the Central Provident Fund Ordinance in 1953 and implement it in 1955. The decision was based more on the colonial government's reluctance to establish a programme that might involve significant public expenditure rather than a belief in its greater efficiency or effectiveness. The fact that Malaya, with which Singapore had a common labour market, already had such a scheme made its adoption all the more convenient (Parrott 2000).

Soon after the CPF's launch, the government realized its limitations and established the Committee on Minimum Standards of Livelihood which submitted a report in 1957. In the same year, an ILO team reviewed the social security arrangements in Singapore and recommended reform. In separate reports, the two recommended the establishment of a contributory social insurance scheme providing retirement, survivor and sickness benefits. They also recommended strengthening the public assistance scheme to supplement social insurance. However, by 1959 the PAP (People's Action Pasty) was in office and it was even less keen than the colonial rulers about social insurance (Low 1997). Instead of replacing the CPF, it gradually increased the contribution rate and expanded its functions to include provision of housing finance and, later, hospital care.

Participation in the CPF is compulsory for employed persons, except for foreign workers (who form a fifth of the labour force), casual and part-time workers and certain categories of contract workers. The self-employed are required to participate in the Medisave component of the scheme and may participate in the overall scheme on a voluntary basis. The CPF had a membership of 2.9 million in 2001, of whom 1.3 million (61 per cent of the labour-force) were active contributing members.

The CPF contribution rate began at 5 per cent each for employers and employees in 1955, creeping up to 10 per cent each in 1970, reaching the peak of 25 per cent each in 1984, then declining to and staying at 20 per cent each for much of the 1990s. To improve the older workers' employment prospects, a lower rate of employer contribution applies to workers older than fifty-five and yet lower for those above sixty. Employer contributions were temporarily reduced to 10 per cent in order to reduce business costs in the face of economic recession in the mid-1980s and late 1990s. In 2003, the combined contribution rate was permanently reduced to 33 per cent, with the employee contributing 20 per cent and the employer 13 per cent. Employees are not required to contribute for monthly earnings of less than US$ 117. In most years, the CPF contributions have exceeded withdrawals, allowing the fund to accumulate a total members' balance of US$ 54 billion in 2001. The entire fund is by law invested in Singapore Government Bonds or awaiting investment in such bonds.

Reflecting the CPF's multi-purpose role, members' accounts are divided into three separate sub-accounts: Ordinary, Special and Medisave. The Ordinary Account holds 60–75 per cent (depending on age) of one's CPF funds. The Special Account holds 10–20 per cent and another 15–20 per cent is channelled to the Medisave account. Funds in the Ordinary Account earn interest rate tied to the rates offered by local banks, subject to a minimum rate of 2.5 per cent per annum. Funds in the Special and Medisave Accounts earn an additional 1.5 percentage points, or a minimum rate of 4 per cent per annum. In *real* terms, the annual returns offered on the CPF was 1.8 per cent over the 1983–2000 period which was lower than the growth in GDP and income (Asher and Newman 2002: 58). This is gradually eroding the replacement rate whose cumulative effect over time is likely to be significant.

Funds in the Ordinary Account are available for withdrawal for a range of purposes, including purchase of housing and approved investment products. The entire balance in the account may be withdrawn for housing but only the sum above the 'minimum sum' may be withdrawn for investment purposes. In 2001, 44 per cent of all withdrawals from the CPF were to pay for housing and another 38 per cent for investment in approved financial instruments. Withdrawal for housing and investment thus formed more than three-quarters of all withdrawals.

Funds the in Special Account are set aside for retirement and may be withdrawn only at the age of fifty-five. Since 1987, however, members have been required to leave a minimum sum in the CPF to ensure that they don't fritter away their savings in the early years of retirement. The minimum sum in 2003 was US$ 46,728, half of which must be in cash and the rest in property. The amount is released in instalments from the age of sixty-two onwards until it is exhausted. Members may, alternatively, use the sum to buy a life annuity with an insurance company or deposit it in a bank.

Withdrawal for retirement (including transfer to the Minimum Sum scheme) formed only 14 per cent of all withdrawals in 2001 (Central Provident Fund Board 2001). The Medisave account, which may be used only for paying for hospitalization expenses, accounted for a yet smaller 2.4 per cent of all withdrawals that year.

In July 2002, a high-powered government committee looked at the CPF and concluded that 'The CPF system is fundamentally sound' (Economic Review Committee 2002). It affirmed that the 'CPF should continue to cater to the three key needs of retirement expenditure, healthcare and home ownership'. However, it noted the insufficiency of funds in the Special and Medisave accounts for fulfilling the income and health care needs of the aged and recommended that a greater proportion of the CPF be channelled to them without raising the overall contribution rate. It proposed that the share of the CPF contributions directed to the Special Account be increased to 13–23 per cent and to the Medisave Account to 18–23 per cent. When implemented, this would in effect reduce the sum available for housing and investment purposes and increase the funds available for retirement and health care.

Income maintenance

Despite tremendous expansion over the years, the EPF actively covers only 52 per cent of the Malaysian labour force, whereas the CPF actively covers about 65 per cent of the Singaporean labour force. In other words, nearly half of the labour force in Malaysia and about one-third in Singapore is not covered by their PF schemes. Many of the non-covered are, of course, covered under other programmes, but a significant proportion of the two countries' labour force still remains uncovered. The low coverage in Malaysia is partly a result of its large informal sector, employing one-third of the labour force which is excluded from the EPF. Foreign workers form the bulk of the non-covered in Singapore.

The most important criterion for judging a retirement programme is the adequacy of the income it provides its members. The EPF Board claims that the average amount available for withdrawal at retirement is 'sufficient' – defined as equalling 50 per cent of the last drawn salary – for most people (Asher 1995). It claims that continuous contribution for forty years at a 20 per cent contribution rate would yield an annuity equivalent of 230 per cent of the last drawn salary for manual workers, 158 per cent for clerical workers and 127 per cent for executive-level workers. The Singapore government also claims that the CPF contributions are sufficient to generate a retirement annuity equivalent to 20–49 per cent of last take-home income, in addition to paying for housing and medical needs (Low 1997: 26). The Economic Review Committee (Economic Review Committee 2002) has noted that 'The CPF should focus on the broad majority of the population, between the 10th and 80th percentiles of the income spectrum', implying that it was adequate for the remaining 70 per cent of the population. These estimates by the Malaysian and Singaporean authorities appear highly optimistic.

In 1998, more than 81 per cent of the EPF members at the age of fifty-four had a balance below US$ 8000 (Lee 2001: 60) and, unsurprisingly, the average balance withdrawn at the age of fifty-five was little over US$ 7,000. This is inadequate for most members who on average will live more than twenty years after retiring. A survey commissioned by the EPF in the early 1990s found that 66 per cent of the retirees had an income of less than US$ 132 per month and, of these, 69 per cent said their that the EPF savings were inadequate to sustain living expenditures after retirement (Mokhtar 1995). More than 60 per cent of those who believed the EPF savings were inadequate had contributed to the scheme for more than twenty-five years (Mokhtar 1995: 11). However, it must be noted that more than three-quarters of the EPF members are below thirty-five years of age, who for the next two decades will be contributing a larger percentage of increased salary than is the case for the current cohort of retirees. Their EPF funds at retirement are likely to be significantly larger than those retiring now, though perhaps still inadequate.

In Singapore, the average sum withdrawn from the CPF at the age of fifty-five was US$ 10,600 in 1999 (Central Provident Fund Board 2001). The CPF is estimated to provide replacement income of 27–30 per cent (depending on the level of earlier withdrawal) of the last-drawn salary (Lim 2001: 374; McCarthy et al 2002: 209). It is projected that 60–70 per cent of the fifty to fifty-five years age group will not have sufficient funds in their account to meet the minimum sum requirement (Lim 2001: 374). The government's own committee admitted that only about 50 per cent of members with a full career of the CPF contributions would have sufficient in their Special Account to meet even the minimum sum requirement (Economic Review Committee 2002).

There are several reasons why the EPF and the CPF are unable to provide adequate income support during retirement despite contribution rates that are high, if not the highest, by international standards. A key reason is *pre-retirement withdrawals* for a range of purposes which reduces the sum available for retirement. In 2001, almost 49 per cent of the total withdrawals in Malaysia, and a massive 86 per cent in Singapore, were for purposes other than retirement. While housing, health and education are worthwhile purposes, withdrawal of funds to spend on them reduces the amount available for retirement. Cardarelli (2000) estimates that the removal of housing withdrawal alone in Singapore would double the CPF replacement rate.

The low returns that members earn on their funds is another major reason why PF are inadequate, especially in Singapore. As mentioned earlier, between 1983 and 2000, the CPF provided average annual *real* returns of only 1.8 per cent, which is well below the 8 per cent and more earned by pension funds in many countries. McCarthy *et al*. (2002: 214) estimate that boosting the CPF returns over time is the most practical alternative for improving the level of retirement benefits. The government has encouraged people to earn higher returns by allowing members greater opportunities to invest directly in financial markets, but the results have been disappointing, as a majority have lost money (*Business Times*, 4 January 2001). The EPF has offered better returns – above 5 per centin real terms – in most years since the mid-1980s, but this has not been enough to offset its other inadequacies. In any event, the high returns were delivered through politically determined above-market rate of interest paid on Malaysian Government Securities, which is likely to have caused other inefficiencies.

A no less important reason for the EPF and the CPF's inadequacy is the absence of any *redistributive mechanism* inherent to personal savings schemes. Those on low incomes or in intermittent employment have little in their fund to withdraw when they reach retirement age. In contrast, redistributive mechanisms built into social insurance, for instance, permits the arrangement to deliver 60 per cent replacement income with a contribution of only 10 per cent of income over twenty-five years.

The relatively early age at which the PF are available for withdrawal in the region also reduces their income maintenance potential. In Malaysia, members can withdraw one-third of the accumulated EPF balances at age fifty, and the rest at fifty-five. In Singapore, except for the minimum sum, balances may be withdrawn at fifty-five. This inadequacy is aggravated by the availability of the funds as a lump sum rather than in periodic or annuity form.

Fortunately, the low-income support offered by the EPF and the CPF is significantly offset by support from family members. Around two-fifths of aged males in Malaysia and Singapore and over half of all aged females in both countries depend on their children, grandchildren and spouse as their main source of income (Jones 1990). In comparison, 97 per cent of the elderly population in OECD countries on average rely on statutory social welfare programmes. The 1995 National Survey of Senior Citizens in Singapore found that children provided more than three-quarters of the income for 58 per cent of the elderly aged fifty-five above. Even then, the aged were hardly in an enviable position, as 79 per cent of them had monthly income of below US$ 584, approximately one-third of national *per capita* GDP. Having said that, 89 per cent of the elderly considered their income sufficient for their expenses (Lim 2002: 69).

The income support the aged receive from their family members is reinforced by common living arrangements. The percentage of the elderly living alone is only 6 per cent in Malaysia and 7 per cent in Singapore, confirming that the traditional care system is largely intact. In comparison, in OECD countries only 23 per cent of the elderly (sixty-five+) live with children or family and 29 per cent live alone. However, the proportion of the elderly population living alone or only with their spouse is creeping upwards: the share of all-elderly households in Singapore increased from 1.6 per cent of all households in 1990 to 2.8 per cent in 2000 (Singapore Department of Statistics 2001).

There are worries that as the proportion of the aged increases and the family size shrinks, an increasing number of aged will need additional income support. While their population is still relatively young – only 3.9 per cent of the population in Malaysia and 6.8 per cent in Singapore are sixty-five or above – it is ageing at one of the fastest rates ever witnessed. In just twenty-one years (1999–2020) the proportion of the aged in Singapore will double from 10 to 20 per cent of the population, a process that took sixty-eight years in Sweden and eighty-six years in Britain (Jones 1990: 23). The proportion of the population over the age of sixty-five will similarly rise from 3.9 in 1990 to 7.4 in 2020 in Malaysia and from 6.1 to 14.5 in Singapore. As the aged population expands, so will the need for protecting their income during old age. While the cultural system in the region is likely to continue to ensure that most elderly will live with their family in the short and medium term, the same cannot be said with certainty for the long term. As a Singapore government report admitted: ‘Changes in social and demographic trends in Singapore mean that future retirees cannot rely on their children to the same extent as today’s retirees. With longer life expectancies, families with fewer children, and a growing proportion of unmarried retirees, future generations will have to depend more on their own CPF savings for financial security’ (Economic Review Committee 2002).

But even if the family structure in the region remains intact and the aged continue to be looked after within the family, there will be people who will face financial difficulties during old age. Poor people often have poor relatives who do not have the resources to look after their aged kin. Moreover, there are people who do not have family members – or, if they do, lack emotional bonds for a variety of reasons and cannot realistically expect help. Again such people will be left without income unless they have sufficient savings or access to state support.

The Singapore government is aware that the CPF is insufficient for low-income households. 'Those in the lowest income group (10th percentile and below) cannot rely on the CPF alone for their retirement needs ... Other social support schemes and policies will be required to supplement the CPF framework for this group' (Economic Review Committee 2002). Even if we accept the 10 per cent figure (the actual proportion is in all likelihood much higher), there is no public scheme to look after them in a substantive sense. Public assistance in Singapore is discretionary and available only to those who are unable to work for a justifiable reason – age, illness, disability or unfavourable family circumstances – and have no means of subsistence and no one to depend on. The number of persons receiving public assistance declined from 2,867 in 1988 to 2,070 in 1998, 0.1 per cent and 0.05 per cent of the population respectively (Singapore Department of Statistics 1999). Unsurprisingly, the aged form an increasing share of public assistance recipients. In Malaysia, under the Destitute Persons Act 1977, public assistance is available to households with monthly income of less than US$ 121. Unfortunately no detail is available on the programme, although the amount and the number of people benefiting from it is believed to be small.

Equity is an important criterion by which social security programmes can be judged. In the case of the PF, however, they make little difference in that they merely replicate the income distribution generated by the market system. Each member's PF balance corresponds to their income – at the age of fifty-five, they get what they and their employers have contributed, which is strictly tied to their salary. The high wage inequalities in the two countries are reflected in their PF balances. In Malaysia, those earning less than US$ 263 a month formed 63 per cent of the active members but only 24 per cent of the balances, while those earning above US$ 1,300 accounted for 3 per cent of the active members but 22 per cent of the balances. In Singapore, active CPF members with balance below US$ 11,682 formed 16 per cent of all active members but only 1 per cent of total balance (Central Provident Fund Board 2001: 81). To the extent that the share of income channelled to the EPF/CPF is exempt from taxes, it is inequitable because the benefit is positively related to income. Indeed, majority of the population in both Malaysia and Singapore do not pay any income tax and hence do not receive any tax benefit.

Health care

Medisave in Singapore was the first compulsory medical savings account arrangement in the world. It was launched in 1984 as a part government efforts to reduce its involvement in the financing of health care. The scheme compulsorily covers the entire workforce, including the self-employed. As mentioned earlier, it sets aside 6 – 8 percentage points (depending on age) of one's CPF funds in the Medisave account. The money may be used to pay only for hospital care of the account holder and his/her immediate family, except siblings. There are also several other restrictions on how much can be drawn from it. Notwithstanding the compliments heaped by Singaporean and foreign observers, Medisave plays a rather insignificant role in the overall financing of health care. It accounted for only 8 per cent of total health expenditure in 1999 (Singapore Ministry of Health 2000: 17). In 1998, the average balance in the Medisave account was US$ 4,147 for all members, and less than half as much for those above the age of sixty-five (Lim 2002: 70).

Malaysia adopted a medical savings scheme called Account III in 1995, a decade after the launch of Medisave in Singapore. The scheme exists within the EPF and receives 10 per cent of PF contributions. Funds in the account are available only for treatment of critical illnesses, but the list of illnesses covered is not available to the public. Account III accounted for only 0.2 per cent of all the EPF withdrawals in 2000, but its share is likely to grow over time. For a decade, however, the government has been seriously considering proposals to turn it into a social insurance arrangement.

Housing

Malaysia began to employ the EPF as a mechanism for financing housing in the mid-1970s but it never gained the level of centrality in the policy architecture that one finds in Singapore. The EPF members were allowed to use their balance in Account II for purchasing low-cost housing (currently defined as houses priced below US$ 6,580 in West Malaysia) in 1976 and non-low-cost housing after 1982. The former is for members earning less than US$ 132 per month and allows withdrawal up to a maximum of US$ 2,632. Members earning more than US$ 132 may withdraw up to US$ 10,528. For both types of housing, funds may be used as a downpayment on housing purchase or repayment of a housing loan. However, there is no public lending facility for housing purposes, as is the case in Singapore. Nor are members allowed to draw on funds on a monthly basis to pay off their loan. Despite these restrictions, withdrawals for housing purposes have in recent years accounted for 25–50 per cent of all the EPF withdrawals. Unsurprisingly, much of the withdrawals are for purchase of non-low-cost housing. Unfortunately, it is not known as to what percentage of the housing stock has been purchased through EPF funds.

Housing has been the coping stone of the CPF since the launch of the Approved Housing Scheme in 1968, permitting members to use funds in their Ordinary Account to pay for purchase of public housing, the use of the CPF funds to purchase private housing was permitted in 1981. Buyers of public housing flats are eligible for Housing Development Board (HDB) loans up to 80 per cent (which may rise to 90 per cent in certain cases) of the selling price for up to thirty years. The interest rate is set at 0.1 per cent above the interest offered on savings in the Ordinary Account, which is currently set at 2.5 per cent.

The housing scheme within the CPF has been phenomenally successful, as most Singaporeans use it to the fullest extent to purchase their own home. As a result, home ownership in Singapore stands at 90 per cent, up from 30 per cent in 1970. The enthusiasm for ownership housing is hardly surprising considering that buyers earned average annual *real* returns of 4 per cent while the Ordinary Account offered nominal returns of only 2.5 per cent. It is only rational for the CPF members to buy housing rather than leave the money with the CPF (McCarthy *et al.* 2002). Significantly, most home-owners in Singapore are able to service their mortgage loans entirely from their CPF contributions (*Business Times*, 13 March 2000). In other words, Singaporeans are able to pay for their apartments without any reduction in their monthly disposable income (Chua 2000: 49).

There are concerns, however, that the success of the housing scheme has been at the expense of the CPF's main objective of providing retirement income. Nearly half of all the CPF withdrawals in a typical year is for housing purposes, leaving little funds in the account for retirement purposes. It is argued that people may be overinvesting in housing and thereby jeopardizing their income security during retirement. A typical worker at the age of fifty and above in Singapore has 73–77 per cent of her/his financial assets in housing and only about 20 per cent in the CPF Ordinary and Special Accounts (McCarthy *et al.* 2002: 207–9). This is much higher than in the USA (where home ownership is also high), where only 20 per cent of retirement wealth is typically in the form of housing.

Housing is, of course, a tradeable asset which may be liquidated to generate income during retirement. But there are a number of practical complications (Lim 2002). For reasons particular to Singapore, owners of public housing cannot readily downgrade or reverse-mortgage their property to generate income. A more important concern is the possibility of long-term decline in housing prices which will reduce the value of Singaporeans' most important financial asset. In the meanwhile, the government cannot substantially increase the share channelled to the Special Account (reserved for retirement) because of the fear that many CPF members will have difficulty meeting their mortgage commitments, which will depress housing prices (personal interview with Mukul Asher). Success in housing the population is a major reason for the Singapore government's popularity – indeed, legitimacy – and it is unlikely to undermine it, even if it means accepting inferior income maintenance outcomes (Chua 2000).

Economic development

Gross national savings (GNS) in Malaysia has been healthy and rising: as a percentage of GDP, it rose from 25 per cent in 1978 to 29 per cent in 1988 to 40 per cent in 1998. Significantly, savings through the EPF accounted for an increasing share of the GNS: they averaged 10 per cent in the 1960s, 11 per cent in the 1970s, 16 per cent in the 1980s and 18 per cent in the 1990s (Lee 2001: 137). The gross savings mobilized by the EPF (contributions + income – withdrawals + expenses) was US$ 0.2 billion in 1977, US$ 1 billion in 1987 and US$ 4.5 billion in 1997, though it declined somewhat during the Asian Financial Crisis in the following year (Lee 2001: 132). The growth was due to expanded the EPF coverage and higher contribution rate, coupled with increasing incomes. However, there is no recent study on the extent to which the EPF generates additional savings and does not merely substitute voluntary saving. A study of the 1961–75 period concluded that the EPF did not have a significantly adverse effect on voluntary saving in Malaysia (Datta and Shome 1981). However, the EPF contributions were low at the time and it is unlikely that the same conclusion would apply to the subsequent period when contributions were twice as high.

The EPF's investment portfolio of US$ 47 billion (amounting to 52 per cent of GDP, in 2000) makes it an important player in the Malaysian economy. Its investment strategies have a significant impact on domestic financial markets, not to mention the returns it earns for its members. Indeed, there are fears that the EPF may be too large for the domestic capital market and should therefore be invested mostly in international markets.

Deepening of domestic financial markets in an important objective of IRSA type plans (Catalan 2000). However, the PF are inherently limited in this regard because of their centralized management by the government. Within this overall limitation, reforms adopted over the years have expanded the EPF's investment options. In the beginning, all the EPF funds were required to be placed as bank deposits or held in government securities. It was allowed to extend loans to housing finance companies in 1969 and to industrial finance companies in which the government was a participant (such as Malaysian Industrial Finance) in 1971, and was allowed to invest in selected money market instruments in 1986. Its options were considerably expanded in 1991, when it was allowed to participate in joint venture projects and privatization programmes. In 1995, the EPF was permitted to invest in equities and debentures of any public company, lend directly for home purchase and invest overseas. Changes in 1996 allowed it to establish or purchase a company or manage any project joint venture or privatization of a state enterprise (Lee 2001: 143–9). Other significant changes that year included allowing members to use balances exceeding US$ 13,160 in Account I to invest in various equity and financial market instruments, the objective here being to promote the domestic financial industry in general and the Kuala Lumpur Stock Exchange in particular.

The expansion of the EPF's investment mandate over the years is reflected in its investment portfolio. Over the 1990s, its investment in Malaysian government securities declined from nearly three-quarters to just over one-third. At the same time, the proportion held in equities increased, rising from 16 per cent in 1996 to 21 per cent in 2000 (Employees Provident Fund 2003). The EPF had ambitious plans for further investment in domestic and foreign equities, but the depressed stock market conditions after 1997 delayed implementation of the plan.

The 80–90 per cent of the EPF's investments that were held in the Malaysian Government Securities until the 1980s provided a ready and cheap source of funds to the government which it employed in the achievement of its economic development objectives. The EPF accounted for 18–39 per cent of total public development expenditures under the seven Five-Year Development Plans implemented between 1956 and 1990 (Lee 2001: 159–60). The 1996–2000 Plan envisaged a public sector surplus and hence no need to rely on the EPF, but the depressed economic conditions after 1997 may have changed this. While the government itself has had little need to rely on the EPF funds since the early 1990s, it has used the EPF to promote other objectives. With government encouragement, the EPF has been actively involved (mostly in the form of loans and debentures) in project financing and joint ventures in infrastructure projects. The EPF also holds equity in many (formally or informally) government-sponsored firms in power generation, urban transportation and airports (Lee 2001: 163). The EPF directly or indirectly bought equities in privatized firms with the objective of increasing *Bumiputra* control of the economy. Similarly, in 1996, the EPF became actively involved in housing when it acquired large tracts of land and began to build low-cost housing in joint ventures with private firms (Lee 2001: 180). The EPF funds thus continue to be used in pursuit of the government's economic and social policy objectives.

While traditional economic and financial commentators do not approve of such policy-directed investment, the EPF are reasonably well managed by the standards of similar schemes in other countries. The average annual *nominal* rate of return on members' EPF was 6 per cent in the 1960s, 7 per cent in the 1970s, 8 per cent in the 1980s and 7 per cent in the 1990s. In *real* terms, the returns were 4 per cent in the 1960s, 1 per cent in the 1970s, 5 per cent in the 1980s and 4 per cent in the 1990s. The improvement in the 1980s partially reflected the diversification of EPF investments, though the economic decline in the late 1990s eliminated much of these gains.

Singapore's CPF carries a greater weight in the domestic economy than does the EPF in Malaysia. In 2001, the CPF members' balance totalled US$ 54 billion, (60 per cent of GDP). Similar to Malaysia, gross domestic savings (GDS) has grown continuously in Singapore: its share of GDP increased from 37 per cent in 1980 to 43 per cent in 1990 and to 49 per cent in 1999. Indeed Singapore has been saving more than it needs for two decades and, as result, been a net lender of capital to the rest of the world since the mid-1980s

(Peebles 2002: 375). While there is disagreement over the size and components of public sector savings in Singapore, it is generally accepted that close to a majority of private savings is in the form of the CPF (Peebles 2002: 377). Private savings peaked in 1985 when the combined the CPF contribution rate was 50 per cent. Several studies have found that the CPF savings have been at the expense of voluntary savings in Singapore, Koh estimates that 'every dollar of compulsory saving will reduce voluntary saving by about 55 cents' (Peebles 2002: 381).

Given the dominance of the CPF in private savings, it is not surprising that voluntary household savings (i.e. excluding public, corporate and CPF savings) formed a modest 14 per cent of the GDS in 1997 (Peebles 2002: 380). The increasing reliance on the CPF for savings and the concomitant decline in voluntary savings has been a matter of concern for policy makers. As the Prime Minister himself noted in 1996, households were voluntarily saving 11 per cent of their income (i.e. in addition to the required CPF savings) in 1988, but the share had more than halved to 5 per cent by 1993 (*Straits Times*, 6 October 1996). He warned that the CPF would not be enough, and that Singaporeans needed voluntarily to save 10–12 of their income to produce retirement funds equivalent to two-thirds of their pre-retirement income.

As mentioned earlier, any money in the CPF that is not withdrawn by members must be deposited with the government. While the government has not needed these funds for almost two decades because of its large budget surpluses, they were a vital source of development finance until the mid-1980s. Between the mid-1960s and the mid-1980s, the CPF money was used to build industrial and transportation infrastructure to underpin the industrialization effort. However, heavy investment in housing and infrastructure projects may have limited the spin-off benefits (Peebles 2002: 393).

The Singapore government also used the CPF contribution rates as 'an instrument of macroeconomic stabilization – increasing the contribution to compress aggregate demand and reducing it to boost demand during recessionary times' (Rao 1998; Charlton and McKinnon 2001: 143). The employer contribution to the CPF was halved in the mid-1980s and late 1990s following the economic recession. Conversely, rates were increased to 25 per cent each for employers and employees in the early 1980s in order to increase wage costs so as to weed out labour-intensive low-wage industries. Few governments have access to a policy instrument which can have such a quick and direct impact on wage costs.

Similar to other countries that use the IRSA or PF to boost domestic financial industry, the CPF members are allowed to invest in selected financial products. The objective is as much to increase returns to members as deepen the Singapore Stock Exchange and the local fund management industry. The results have been disappointing, however. Transaction costs for such investments are high due to the relatively small number and size of individual investments and the large number of firms competing for business. Moreover, the small size of investments has inhibited diversification of risk by individual investors, indeed, most members have lost more money than they earned every year since the investment scheme has been in place. In retrospect, members would have been better off leaving funds with the CPF. The Singapore government is considering proposals to use its market power and investment expertise to allocate assets among fund managers and bargain with them to keep transaction costs low for the CPF members.

The heavy use of the CPF for investment in housing and real estate may have caused inflationary pressures in the housing sector in the early and mid-1990s, followed by a bust in the late 1990s. This would not be a matter of general concern were it not for the fact that an overwhelming proportion of household assets in Singapore were in the form of real estate and any significant long-term decline in its price would have grave consequences, especially for the elderly. The linking of the CPF contributions with housing could be justified in the early years because of the need to provide liquidity to potential home buyers at a time when a large proportion of the population could not afford to buy, but these conditions have not existed for more than a decade.

Conclusion

The chapter has described the ambitious goals in income maintenance, health care, housing and economic development that Malaysian and Singaporean policy makers pursued through their PF schemes. It found that they had only limited success in all these respects, except for housing in Singapore.

While the EPF and the CPF enjoyed wide coverage – those outside their net would be hard to cover under any contributory arrangement – they provided an inadequate level of income support to the majority of their members during retirement. This is a disappointing record for retirement schemes with comparatively high contribution rates. A major part of the problem lies in withdrawal of funds during the working life for a variety of reasons. While permitting withdrawals for non-retirement purposes may serve vital social and economic policy objectives, it erodes the level of income security for the aged, ostensibly the most important objective of any PF. The problem is compounded by the lack of an effective public assistance scheme to protect those inadequately served by PFs in Malaysia and Singapore.

The financing of health care has recently been tacked on to both the EPF and the CPF, and neither has much achievement to show for its efforts to date. Admittedly, the schemes will play a more important role with passage of time, but the average amount in these accounts is unlikely ever to be sufficient to pay for expensive medical treatment.

Enabling people to buy housing from their own PF is an important objective of both the EPF and the CPF. This is especially true for the latter which allows withdrawal of 60–75 per cent of the total balance (i.e. the entire balance in the

'Ordinary Account') for the purchase of housing. The availability of such a high proportion of funds for housing arguably makes the CPF primarily a home-financing scheme and, if that is the case, then it has been tremendously successful: over 90 per cent of Singaporeans live in self-owned homes financed largely through the CPF. The EPF must also be considered a qualified success in housing, as Malaysia's housing outcomes are consistent with the level of policy emphasis placed on it.

With respect to economic development, the EPF was an important source of development finance in Malaysia in the 1970s and 1980s, although in recent years it has been employed largely for non-development purposes, such as shoring up companies linked to the governing party or enhancing *Bumiputra* ownership of the economy. The CPF was also a vital source of development finance in Singapore in the 1960s and 1970s, but the government has not needed to rely on it since the mid-1980s. The PF have not been employed as a macroeconomic management tool to any significant degree in Malaysia, but in Singapore, the CPF was employed as a counter-cyclical, cost-cutting tool in the mid-1980s and again in the late 1990s.

All in all, the achievements of the EPF and the CPF are considerable, despite the fact that they do little in the areas of income protection and health care. They played a significant role in financing economic development projects in the early stages of industrialization. In the case of Singapore, the CPF also played a vital role in promoting home ownership.

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9

Social Care in Hong Kong: The Dynamics of the Welfare Mix

Veronica Pearson

Introduction

From the 1970s through to the early 1990s Hong Kong had one of the most vibrant and fast-growing economies in the world. This came to an end in October 1997 with the Asian Financial Crisis, followed by precipitous falls in US stock markets. This also coincided with the reversion of Hong Kong to the sovereignty of the Mainland so that the post-1997 government was beset by problems from the start. Business and political circles (largely coterminous in the last thirty years of Hong Kong's history) have always been aware of what they saw as the fragility of Hong Kong's economy (Wilding 1996), knowing that it was dependent ultimately on world economic factors over which Hong Kong had no control. It is in this context that welfare developmentalism has to be analysed. In the case of this chapter, social care will be used as a means to explore three related issues:

(a) deciding whether welfare developmentalism has been weak in Hong Kong and linking it to Hong Kong's unique political and institutional characteristics as a British dependent territory and then a Special Administrative Region (SAR) within Mainland China
(b) examining, through the use of a case study of services for the mentally ill in Hong Kong, how responsibility for the provision of social care is negotiated by the state and non-government sector
(c) Reflecting on the connection between social care and the legitimation of governance.

In Hong Kong, the notion of the welfare state – particularly among the rich and powerful – serves not as something to strive towards but as something to avoid at all costs. The government rarely loses an opportunity to reiterate that Hong Kong is not a welfare state although it is concerned to portray itself as caring, as in the first line of the chapter on social welfare in

Hong Kong 2002 (the government's annual report produced for public consumption) which begins:

> The government has an unswerving commitment to make Hong Kong a caring community with self-sufficiency, dignity, harmony and happiness… Hong Kong devotes much effort to caring for and supporting those least able to take care of themselves. Through social welfare, the government discharges its special responsibilities of putting in place a well-resourced safety net to look after the physical and psychological well-being of the elderly, the infirm and the disabled and encouraging those in society with sufficient means to show concern for others in the community. The guiding principle in developing welfare services is to build a caring community in which there is self-sufficiency, dignity, harmony and happiness. (Hong Kong Government 2003: 184)

In the years immediately prior to the return of Hong Kong to Mainland China considerable anxiety was expressed in some quarters that the overly generous approach to welfare provision that was seen to typify the Patten government would empty the government coffers and leave the post-1997 government pauperized. For instance, in 1996 a Legislative Councillor, Philip Wong, equated 'welfare' (the notion that when a community becomes rich it should take care of its poor) with opium. Both, he argued, were a product of British colonialism designed to weaken the moral fibre of Chinese people (*South China Morning Post*, 28 March 1996). Social welfare services are suspect because in Hong Kong they tend to be used by the poor (because the rich can make other arrangements) and may thus erode the much-admired capacity of Chinese families to find their own resources in times of trouble and promote dependency.

One might think that China, a country that espouses socialism, would be supportive of a well-developed system of welfare and social care[1] but this is not the case. Again in the lead-up to 1997, Chen Zuo'er, a Mainland member of the Joint Liaison Group, became notorious in Hong Kong when he publicly likened Hong Kong's welfare system to a high-performance racing car that would inevitable hit a wall and kill all its occupants – i.e. that Hong Kong was living beyond its welfare means and this would lead to the collapse of its economic success. With the benefit of hindsight, we can now see that it was the other way round: the difficult economic conditions following the 1997 Asian Financial Crisis and the precipitous falls on Wall Street soon after led to a retrenchment in welfare provision in Hong Kong.

Welfare developmentalism in Hong Kong

Academic discussion about welfare and social policy tends to be dominated by the contribution of the state. Yet, a total sum of welfare available in a society that includes only what the state provides risks ignoring many other contributory sources and skewing our understanding. Higgins (1981) proposes six potential sources of welfare: the state, employers, trades unions, family, religious bodies and the market. As Rose and Shiratori (1986: 7) point out 'the institutional mechanisms for delivering welfare, whether by government or independent of government, differ greatly'. The notion of the 'mixed economy of welfare' is helpful in this respect. The household, the market and the state are nominated by Rose and Shiratori as the institutions providing the total sum of welfare available in any society. They also make a significant contribution to health and welfare facilities. Families have always been a major source of non-monetized care and as, we shall see, government's concern about undermining this source of welfare by taking over some of its functions has been a major influence in the shaping of social care policy. In the higher echelons of employment, many companies make very generous provision for employees and their families in the areas of health, education, housing and pension benefits. This chapter is concerned mostly with state provision, but that does not deny that there are other important sources of welfare. Nor should we forget the *interactive effects* between the different elements, particularly state, the market and the family (Esping-Andersen 1990).

It is a measure of the negative connotations of 'welfare' that the Hong Kong government preferred to take an inordinately modest approach to its very considerable achievements in social policy areas, seemingly embarrassed that its success might damage its hard-nosed reputation. It is true that before 1997 government interference with business or the markets was limited, although the monitoring of public utilities, fixing the price of rice and controlling public transport fees indicates they were more active in the financial arena than they pretended. The preferred role was that of a *regulator*, creating a level playing field, a low tax environment and letting the market work its magic. However, in the social policy areas of health, education, housing, transport, social care, social security and the environment, the situation is very much more complex.

The Hong Kong situation clearly demonstrates that it is not helpful to use the concept of the welfare state as a blanket term to include all social policy programmes. Given the debate over what a 'welfare state' is, who has one and how they work (Esping-Andersen 1990), it may be better to treat the idea as a socially constructed ideal-type to which some states strive to aspire and others try hard not to emulate. Greater clarity can be sought by analysing each programme separately. Hong Kong is often characterized as a residual welfare regime, but this is clearly factually incorrect (Chow 1998; Wilding and Mok 2001). Those programmes that could be classified as contributors to economic development rather than consumers of resources are, on a continuum, very much more institutional than residual. Hospital care is virtually free at the point of delivery, and to a significant extent the government has made good its promise that no one should be denied health care because of inability to pay. This is particularly true in the treatment of acute illness, and Hong Kong's health indicators are some of the best in the world (Hong Kong Government 2003).

All children in Hong Kong are entitled to nine years of free education and schooling is heavily subsidized after that. Including those who go overseas, about 26 per cent of the relevant age cohort receives tertiary education to degree level. The public and subsidized housing programme was for many years considered one of the government's greatest achievements, albeit the programme was typified by quantity rather than quality. In the 1990s standards were improved and nearly 49.6 per cent of the population still lives in government subsidized housing (Hong Kong Government 2002). Public transport is generally cheap and reliable and the planning and building of the Mass Transport Railway (MTR) was a model of its kind. Supposedly in private hands, it is in fact heavily subsidized and regulated.

Notice, however, that these programmes had obvious, and not so obvious, benefits for the business sector, not the least of which was a healthy, educated, mobile and decently housed workforce paid for by the state rather than by the individual or the business sector. The government's motives were not always altruistic. Its squatter clearance and rehousing policy provided land for redevelopment and jobs for the working classes and kept wages low. Indeed, many commentators believe that rehousing squatters in public housing was not about compassion but about freeing up valuable building land (Drakakis-Smith 1979; Castells and Kwok 1990; Jones 1990; Bray 1991). The introduction of six years of free primary education in 1971 was at least partly motivated by the desire to convince the European Economic Community (EEC) (as it then was) that Hong Kong was not using child labour in its textile industry, thus circumventing threatened import quotas and boycotts (Sweeting 1992). The colonial government had no democratic basis to its authority to rule Hong Kong people and in the first 120 years of its governance this was not considered to matter. This attitude changed in the mid-1960s; in its search for legitimacy, the government began to establish its social contract with the people. It would be benevolent, if autocratic, and in return for accepting this arrangement citizens would be provided with an ever-increasing range of welfare products, which in many cases would be virtually free at the point of consumption.

That was the good news; sadly the story for environmental protection, social security and social care was very different and infinitely more residualist in practice. The government came late to the need to intervene to protect the environment and then only under intense pressure from the 'green' lobby and public concern that the air and water had become damaging to health. Needless to say, business interests were opposed to limitations on their ability to degrade the environment. Lydia Dunn, an influential member of the Legislative Council, expressed a view typical of the business sector when she said 'while all of us, industrialists and non-industrialists alike, accept that increasing consideration should be given to preserving the environment, the economy must come first' (Scott 1989: 308). It was not until 1989 that the government produced its first White Paper on the environment, *Pollution in Hong Kong: A Time to Act*. Although the government has been more proactive in the decade since 1993, pollution in Hong Kong is still unacceptably high.

Social security and social care were seen as undermining the highly valued Chinese cultural beliefs in self-reliance, family orientation and respect for elders (Lau 1981; Lau and Kuan 1991). More importantly, perhaps, these programmes were net consumers of resources, particularly in the case of income maintenance. Generous benefits were thought to undermine the will to work for low wages, while unemployment benefits were thought to be a potentially large contributing factor to increased unemployment. Wilding and Mok (2001) claim that there is a deep-seated anxiety that public provision in social care areas will undermine family responsibility and these fears are used to justify a hands-off, minimalistic stance of the state. Children were thus seen as essentially a family matter and so maternity and child benefits never materialized. Furthermore, Hong Kong had a transient population and the government feared that the provision of decent social care would encourage an even greater influx of people from China. The transience of the population probably also dampened the government's desire to provide.

Wilding and Mok (2001) outline a six-point approach to social development that could be described as a 'Hong Kong model of welfare'. It sees economic growth and full employment as the main instruments in promoting welfare. It accepts a major role for the state in providing and funding housing, health, education and social care but it is a pragmatic intervention without clear goals and is essentially reactive and incremental. It talks a great deal about the superiority of the free market, but in reality it intervenes vigorously in a wide range of areas and cannot be simply dismissed as 'residualist'.

The mix of social care

On one level, it can be argued that if the economy had not been one of the most successful and fastest-growing of the 1970s and 1980s, the money would not have been there to provide social care services, housing, education, health, transport and so on. Equally, there was nothing that compelled the colonial government to spend money on public services; the primary motivating factor was almost certainly the search for legitimacy. Most other Asian countries did not experience this issue in the same way, if at all.

The easiest way to track the path of government involvement in the provision of social care is to examine a number of official documents that chart the government's changing attitudes. The two most significant changes in attitudes are, first the reasons for which social care programmes are provided and, secondly, in the perception of the role of NGOs.

The reasons for state intervention in social care

The first White Paper on social welfare *Aims and Policy for Social Welfare in Hong Kong* (Hong Kong Government 1965: 4) stated in the preamble that it was 'poor economy to sustain non-productive members of the community' if they could be helped towards self-sufficiency. Compare that to the following statement of aims that occurs in the 1995 edition of the *Social Welfare Development Review* (Hong Kong Government 1995a: 3):

> Social welfare in Hong Kong is based on the premise that societies have an obligation to assist their members to overcome personal and social problems and to fulfil their roles in life to the optimum extent in accordance with the particular social and cultural development of their society. In particular, they recognize a responsibility to help their disadvantaged members to attain an acceptable standard of living. The extent to which societies can meet these obligations depends very much on their system of values and the resources available . . . Social welfare services should not be regarded as some form of charity but should be made available to all those who need them.

Over the thirty years between those two statements, there has clearly been a change in the rhetoric of justification, at the very least. There is a shift from a concern about how to maximize the economic contributions of citizens to society towards what might be called a concern with the 'moral obligations of society' to maximize the possibility of personal and familial fulfillment for all its citizens. The proviso about resources being available remains; but then one has to bear in mind that welfare provision in Hong Kong is largely non-contributory and thus the performance of the economy always dominates issues of programme development. In recession, social welfare stagnates.

To an extent, this pattern was challenged by the governorship of Chris Patten, who seems to have been genuinely surprised at the unwillingness to spend some of the enormous budget surplus (at that time) on social care. Patten pledged to increase standards and spending on social welfare, for instance, by increasing recurrent spending by 26 per cent in real terms between 1993 and 1997. His personal initiatives in the disability field helped to raise the profile of this neglected group; spending on rehabilitation increased 163.3 per cent from 1990 to 1995 in comparison with an overall increase in spending on social care of 115.5 per cent. Only services for elderly people did better, at 177.8 per cent (Hong Kong Government 1995b). Views vary as to whether this sudden surge in interest and funding of social care was genuine or manipulative. Possibly it was both, Patten and other members of his government were undoubtedly acutely aware that the years immediately before the handover to China were not the time to change the basis of the social contract between state and citizens.

Non-governmental organizations

Social care services have been largely provided by non-governmental organizations (NGOs). The government acts as a regulator rather than a provider of care (Kwon 1998b) but almost all social care services in Hong Kong are paid for by the government via the Social Welfare Department (SWD). The non-government sector provides about 66 per cent of all social care services and employs about 80 per cent of all social welfare staff (Hong Kong Government 1991b). At the end of March 1995 there were 168 NGOs receiving subventions from the Social Welfare Department and were in turn operating 2,296 service units covering eighty-nine types of different service (Hong Kong Government 1995a: 104). By 2002, these figures had risen to 181 NGOs and 3,188 units. In the financial year 2003–4 $7.2 billion (79 per cent of government expenditure on social care and rehabilitation services) was paid in subventions to NGOs (Social Welfare Department 2003).

This division of responsibility has been a source of frequent friction between the two sides, particularly in the areas of setting standards, introducing new projects and methods and monitoring and evaluation. It is particularly frustrating to the NGOs that the government sets standards in areas in which it has no direct experience of running services – for instance, half-way houses for people recovering from mental illness and sheltered workshops for mentally ill people. Frequently these standards are considered suspect, based on a guiding principle that 'bigger is better' (because it saves money) rather than on professional considerations. Despite government claims of full consultation and liaison with the NGOs, largely through the Hong Kong Council of Social Service, there is a persistent feeling among NGOs, particularly the smaller ones, that their voice is either not heard or ignored.

Funding

Before the government became involved in the funding of social care its attitude tended to reflect gratitude, thanking the NGOs for their contributions in money, goods, time and prayer (Pearson 1992). By 1973, gratitude was no longer apparent and instead the government was talking about partnership, the difference being that the government was now paying. Other sources of funding were available particularly for capital costs – the Jockey Club, Community Chest, the Lotteries Fund – but no NGO can run on a rational basis or attract staff unless it can be certain of guaranteeing its recurrent expenditure, and it was this function that the government performed. It would be ungracious to deny that the government's role in social care has led to a far better resourced sector than is the case in many other East Asian nations. However, it would also be disingenuous to ignore that the SWD's control of the purse strings gave them very significant leverage over the provision and shaping of social care that they were not afraid to use when they needed to bring a recalcitrant NGO into line.

The government set standard costs for running a particular service and set guidelines for the kind and grades of staff that could be appointed. From the point of view of the NGOs, the system was inflexible and many of them had concerns about the standards set by the SWD, but they were also aware that the system provided security and predictability, both of which were welcome. The government had its own concerns in particular; it felt that the evaluation systems that were in place were not working particularly well and it could not be sure that it was getting value for money, despite its large and growing investment (Hong Kong Government 1995a). As we shall see later, this led to very significant changes in the funding system for NGOs that began in the mid-1990s (Pearson 1997) but really began to bite in the post-1997 era.

Social care post-1997

The portents for the development of social care after the handover to China in 1997 were never good. References to 'opium' and 'crashing racing cars' did not bode well. One of the noticeable changes was the absence of White Papers on social welfare. Two were produced in the early 1990s one in 1991 *Social Welfare Into the 1990s and Beyond* (Hong Kong Government 1991b) and another on social rehabilitation in 1995, *Equal Opportunities and Full Participation*: *A Better Tomorrow For All* (Hong Kong Government 1995b). There have been none since then. Instead the government produces Policy Objective booklets issued annually based on the Chief Executive's policy address. While these may have a place in the government planning mechanism they do not supplant the purposes and process of a White Paper. White Papers are produced after wide consultation and compromise between government, the NGO sector and users' groups. They determine a ground plan that is supposed to guide government priorities for years to come. They help the government avoid reactive, incremental responses to new situations.

Given that most social care is provided by NGOs, probably the most significant change since 1997 has been in their funding. As we saw, concerns already existed among the NGOs over the lack of flexibility in the funding system and among government on the lack of accountability and quality control. As early as 1995 the government employed a firm of consultants, Coopers and Lybrand, to review the subvention system. Coopers and Lybrand's remit was to recommend a simpler system, set up performance-based contracts with measurable 'outputs', to ensure value for money in subvention allocation and to consider appropriate incentives for agencies to guarantee efficiency and effectiveness. One of the most contentious recommendations that Coopers and Lybrand made was the de-linking of the NGO staff from the government's Master Pay Scale, this would destroy parity between social workers and others working in the government and those working in the NGOs.

In 2001, expenditure on social welfare amounted to HK$29.7 billion: this included HK$20.5 billion (69 per cent) on financial assistance payments (social security), HK$7.2 billion (24 per cent) on subventions and HK$2 billion (6.7 per cent) on services provided by the government's Social Welfare Department. Social welfare (including social security) accounted for 13.8 per cent of the total recurrent public expenditure and 24.9 per cent of GDP (Hong Kong Government 2002). We can thus see that the pattern of the government paying and the NGOs providing has been maintained. However, the way that subvention is calculated has been radically altered. In 2001, a lump-sum grant subvention system was introduced, along with a service performance monitoring system. The lump-sum grant gives less money, has removed the link to the government's Master Pay Scale and works out the subvention for salaries based on the mid-point of the scale. Many agencies were reluctant to accept it, but had little effective choice. In addition, the subvented sector is subject to the same reductions as other government departments. Between the handover in 1997 and 2003 the government had four years of budget deficits and it became routine for cuts or savings to be demanded. In 2003–4 it was 1.8 per cent.

It was probably inevitable that the government was going to demand tighter financial and quality control given the considerable amount of money that it was pumping into the subvention system. In return for this, the NGOs gained more flexibility in how the money was spent and were able to introduce more innovative modes of service provision. The predicted difficulty in employing staff on lower wages did not materialize because the job situation was poor and the tertiary institutes were producing more qualified social workers than the sector could absorb. It was not unusual to find that fresh social work graduates were willing to work at a grade below the one they were entitled to in the hope that when a vacancy at their proper grade became available it would be offered to them because they had already proved their worth. An informal probation employment system thus came into being. On the other hand, job mobility was affected and long-serving, experienced staff were thought to be too expensive to consider hiring. They also posed problems for agency heads in that the subvention for salaries did not fully cover the wages of those on or near the top of their scale, so that other savings had to be found in order to pay them.

Social care and the mentally ill: an example of policy in practice[2]

Most of the services that the government provides for mentally ill people in Hong Kong are aimed at those with severe mental disorders, such as schizophrenia and bi-polar disorder. Those with neurotic complaints are likely to see a doctor in private practice, or seek counselling from one of the NGOs that specializes in that area (Wong 2000). Hotline services are very popular given the complete saturation of landline telephones in Hong Kong households and the popularity of mobile phones. Social care in relation to mentally ill people is thus aimed mostly at those with schizophrenia and the following discussion will take place in that context. There is a split in the division of labour: medical services are provided by the Hospital Authority in hospitals, day hospitals and outpatient clinics. Many who can afford it prefer to consult psychiatrists in private practice. However, almost all social rehabilitation services are the responsibility of the NGOs and are thus closely associated with social workers.

Epidemiology and medical services

Only one proper epidemiological study of mental illness in Hong Kong has been undertaken and that was of one particular town, Shatin (Chen, Lee and Lau 1993). The government estimate of the prevalence rate of schizophrenia in Hong Kong is 3 per 1,000 adults (around 15,350 in total in 2002) and anticipates that 70 per cent of them (10,744) require long-term rehabilitation (Hong Kong Government 1999). In 2001, the Hong Kong Hospital Authority supplied 703 day hospital places and 5,324 beds for mentally ill people spread over fifteen hospitals (Hospital Authority 2001). Most of these beds are concentrated in two large hospitals built as the consequence of policies adopted in the 1950s–1970s. The rest are located in psychiatric units in district general hospitals. In 1981 there were officially 2,315 psychiatric hospital beds (Lo 1986) so the number has increased by approximately 120 per cent in twenty years. It may be said that the medical provision for severe mental disorder in Hong Kong remains somewhat bed-centric, although there has been an increase in the recognition of the importance of community-based psychiatry, especially among younger psychiatrists (Pang, Yip and Yeung 1997).

Social care services

Social care can be divided into three areas: accommodation, vocational and general community-based services.

Accommodation

There are three kinds of accommodation for ex-mentally ill people who have no family members willing or able to care for them: long-stay care homes, half-way houses and group homes arranged through compassionate rehousing where three people with a psychiatric history are housed together in an apartment in a public housing estate. There are also a small number of supported hostel places (twenty in 1998). Of these, long-stay care homes and half-way houses provide the backbone of the government's accommodation programme and will be considered in depth here.

The long-stay care programme began in 1990 as a way of decanting long-stay patients from the two large psychiatric hospitals. The patients chosen had symptoms that were well under control but who would always need care and supervision. They were moved into purpose-built, large (200–400 bed) facilities run by NGOs. In 2002–3 there were projected to be 1,170 long-stay care home places, with a shortfall of 1,794 (Social Welfare Department 1998). It was felt that this was a better way to care for people who did not need intensive nursing or medical treatment. Units contained forty people and bedrooms had six beds (as opposed to 100 or more on a standard ward), the facilities were fresh and bright and personal space and lockers were provided. Rehabilitation and social activities were given high priority and the food was better. An evaluation study (Cheung 2001) demonstrated that the residents much preferred living in a long-stay care home than in the hospital. However, doubts have been raised about how meaningfully this can be described as 'community care' and 'integration into the community' when front doors are locked and the institutions are clearly identifiable for what they are. Smaller units spread more evenly through the community in the same way as half-way houses, occupying space in public housing estates, could have served the same purpose in a less stigmatizing way, but would have been more costly to provide because economies of large scale would have been lost.

Half-way houses are 'intended for ex-mentally ill persons who are able to return home or live independently after hospital treatment but require a transitional period of residential care for readjustment to normal life' (Hong Kong Government 1999, para. 8.42b). In 2002–3 the projected demand was 2,679 places, projected provision was 1,417 and there was an anticipated shortfall of 946 places. The difficulty that the government faced in this case was the lack of flexibility and variety in the provision of accommodation, and the key word is their use of 'transitional'. The premise that people will move on to somewhere else has always appealed because it seems to be more economic, although psychiatric hospitals and long-stay care homes are both more expensive per bed (Cheung 2001). The government favours residents moving to live with family members or living independently (both of which are cheap options from the government's point of view). But many half-way house residents have no family left or have worn out those they do have who are not willing to provide accommodation on a permanent basis, although they may wish to stay in touch and be involved. Independent living is not highly valued in Asian cultures and the idea of living with other ex-mentally ill people who are unrelated in a small public housing unit is not attractive to many. The government's fear is that if their provision of accommodation is too generous, it will absolve families of their responsibility to house their family members. This seems to assume that the families are willing to shoulder their responsibilities despite limited support from the government and/or their relatives. However, the widely held notion of a large extended Chinese family willing to share the tasks of caring is a myth as far as Hong Kong is concerned (Pearson and Ning 1997; Lam 2004; Pearson and Tsang forthcoming).

Half-way houses were popular in the 1950s but by so relentlessly replicating the model the government has not kept up with the felt need of many service recipients. In 1998, the SWD began to focus on the fact that

> some residents have been staying in halfway houses for a prolonged period (more than four years) in some cases as they are not ready to return home or live independently. This has defeated the object of half way houses... no solution is available in the coming years as there are still shortfalls in long-stay care homes and supported hostel places. (Hong Kong Government 1999, para. 8.58)

In 1997, they carried out an in-depth investigation into the running of six half-way houses and raised concerns about the low turnover rate among residents (14.8 per cent per annum) and the length of stay (Social Welfare Department 1997). The fact that half-way house residents are not keen to leave does not necessarily mean that the staff are not doing their job, as is sometimes implied by the government. Rather it suggests that the available alternatives are not considered to be attractive or viable by the ex-mentally ill. Most of us need the security of a permanent home; how much more so must this be of people with a mental illness, especially those with little or no family support? In retrospect, it would have been a better decision to have a more balanced distribution of places between supported hostels and half-way houses. One of the positive aspects to long-stay care homes is that there is no pressure on residents to move out.

Vocational opportunities

Work is central to self-image and contributing to the family income is a major signifier of the move from dependent child to adult status within a family in Hong Kong. Able-bodied people who do not work tend to attract strong negative reactions. People who have a psychiatric history tend to have greater difficulty finding and keeping a job, partly because of their own skill and social deficits and partly because of other people's attitude towards them. In an environment with an unemployment rate of over 8 per cent their chances are even more reduced. Vocational rehabilitation of mentally ill people in Hong Kong has been characterized by innovation and development. This is because, first, work is given such an emphasis in Hong Kong society. Secondly, until 1997, an expanding economy meant there were jobs to be had.

Sheltered workshops were recognized as limited in their ability to help their workers find jobs in open employment, torn between their role as a welfare institution and a productivity oriented enterprise (Yip and Ng 1999). Although they continue to exist, new facets to their work have been introduced that are better able to create opportunities to practice job-related skills in realistic situations. The concept of *supported employment* was first introduced to Hong Kong in 1988. Four models were identified in the 1990 *Rehabilitation Programme Plan* (Hong Kong Government 1991a) and reiterated in the 1995 White Paper on Rehabilitation (Hong Kong Government 1995b). These were the mobile crew, supported job, enclave and benchmark models. Examples include running a stationery shop under the supervision of staff, running a vegetable stall in a market, offering a delivery service with the use of a van and bidding for a cleaning contract in offices and carparks. Often these systems of service delivery are attached to a workshop run by an NGO or within a psychiatric hospital and offer opportunities for clients to be 'promoted' to a higher level of responsibility.

The ultimate goal is to find a job in the open market place. Research conducted by Pearson *et al.* (2003) suggests that this is no easy matter. They found that potential employers were very reluctant to offer an interview for a clerical job to someone with a history of mild depression in comparison with other kinds of applicant – someone without a disability, someone with a minor mobility problem or someone with a hearing impairment. The research strongly suggests that discrimination against people with even a mild mental illness (never mind a major illness like schizophrenia) is still prevalent. A considerable amount of work has also been carried out locally on developing a vocational model of social skills training suitable for Hong Kong (Tsang and Pearson 1997, 2001; Tsang 2001). This model has demonstrated considerable efficacy when compared to the standard package available in a workshop setting and its effects are enhanced by continuing supportive contact after the formal social skills' training ends.

There has been increasing pressure on NGOs to become more deeply involved in running businesses as part of their vocational rehabilitation role. In its 2001 *Annual Report*, the SWD announced a project called 'Enhancing Employment of People with Disabilities Through Small Enterprise' along with a HK$50 million capital commitment to provide grants as seed money to NGOs in setting up small businesses to provide jobs for employees, 60 per cent of whom should be people with disabilities (Hong Kong Government 2002). The maximum grant was $2 million, and this scheme was initially expected to create 130 job opportunities. In addition to this, the Marketing and Consultancy Office (MCO) (Rehabilitation) was established within the SWD, staffed by people with a business and marketing background. Its goal is to assist in the business development and marketing of sheltered workshop and supported employment products and services, aiming them at business organizations and government departments. In 2001–2 the MCO had secured 190 job orders and eight tender contracts accounting for $4 million. They had also created 70 part and full time jobs (www.info-gov.hk/swd/html_eng/cor_info/pubctn/index.html).

These initiatives are laudable and welcomed by the NGOs. The emphasis on creating real jobs in real companies is professionally welcome and indicates high standards in vocational rehabilitation. It is unfortunate that the expansion towards a business orientation has coincided with a poorly performing economy. If these initiatives had been introduced ten years earlier in a booming economy they would have enjoyed great success in job creation, currently, in a depressed economic climate, it is even hard for people without disabilities to find a job. Competition for such things as a cleaning contract is fierce and being willing to slash wages to the bare bones and beyond is frequently a feature of a successful bid. A businessman expects that in return for hiring workers with manifest problems he will be able to pay less. The expectation that these welfare businesses will be able to offer real wages (i.e. the same as an able-bodied person will expect) has thus not been met. Staff in some NGOs are deeply uncomfortable at being forced to be complicit in exploitation. There has also been pressure from the staff employed to run the welfare business to allow them to hire a greater percentage of able-bodied workers than the agreement allows. They feel under pressure to maintain standards and find this hard to do when 60 per cent of their workforce has had a severe mental illness. The issue that used to bedevil sheltered workshops has thus reappeared in another guise: what should come first, rehabilitation or business? In a perfect world, the two goals are compatible, but in the real world this is not always so.

A bone of contention between the SWD and the NGOs has been the issue of whether companies who employ people with a disability should be offered tax breaks and whether a quota system for employing a minimum percentage of people with a disability should be made compulsory for larger companies. Needless to say the SWD does not welcome these proposals, claiming that

> The Administration is of the view that employment of people with disabilities should be promoted on the basis of their abilities. The primary goal of community acceptance could be easily defeated if [people with a disability] were to be given employment only because of the tax benefits accruing to employers or because of certain statutory requirements. (Hong Kong Government 1999, para. 12.60)

Presumably, the government might also be influenced in its view by knowing that quota and tax benefit systems have been tried elsewhere in Asia (for instance, in China) and have not been successful (Pearson 1995). The idea of offering tax concessions runs directly contrary to the core government belief (when it suits them) that the market must be allowed to take its course without interference.

Community-based services

Other than those already described, the major services that the SWD funds for people who have been mentally ill are Day Activity Centres (DACs) and social clubs. DACs are expected to admit discharged patients with some chance of re-integrating into society. In 2001 there were five DACs with 230 places. Those attending the centres participate in an active programme that concentrates on basic work and social skills as well as recreational activities. There are seventeen social clubs (with 1,000 places) located throughout the territory that offer programmes, normally out of working hours (Hong Kong Government 2002). The DACs and social clubs offer somewhere to go, a chance to socialize, peace of mind when family members are not at home and a respite for care givers. A new initiative introduced in 2002 is the Community Mental Health Link. Link staff are attached to existing half-way houses and DACS, the service provides additional care and support to ex-mentally ill persons and their families in the community, including outreach visits, networking local resources and the provision of tangible services (Social Welfare Department 2002).

Of course, the largest community-based resource is the families of the ex-mentally ill. The government estimates that there are 15,350 people with schizophrenia in Hong Kong for whom there are approximately 2,600 beds in half-way houses and long-stay care homes. The vast majority of the remaining 12,750 will be living with family members. For many years, families were treated as though they were an inexhaustible resource that would be able to cope with whatever happened. Many struggle for years to cope with difficult, disruptive and sometimes violent behaviour and make few demands on any sources of help (Pearson and Ning 1997; Pearson and Tsang forthcoming). Often they do not know what is available, or who to ask. Many are elderly parents who are not well educated and believe that it is shameful to turn to the government for help. Since the 1980s, professional attitudes have begun to change, and families now receive more support and sympathy, but they are still a long way from being treated as partners in care. One Family Resource Centre has been made available particularly for the families of mentally ill people, here they are able to find out more about the illness, attend psycho-educational groups, seek support and counselling for themselves and meet others in a similar situation. This centre is well received by those who use it.

A number of support groups for relatives have been established, usually at the instigation of social workers. Their intention is to work with relatives to set the group up and then retire from an active role so that the group takes on a self-help complexion. Those who attend these groups report that they find them helpful (Pearson and Ning 1997), but there is definite resistance among some relatives to discussing such delicate matters in front of others. This hesitation to participate has meant that the self-help and empowerment movement among relatives and patients is not as strong as it is elsewhere in Asia, for instance Japan (Kobayashi 1993).

There is no internationally accepted benchmark for social care services for mentally ill people, and thus placing Hong Kong in some sort of league table for these matters is not possible. Based on the author's personal experience, the provision of medical and social care facilities in Hong Kong is more generous than in Singapore, Malaysia, Japan, Korea, China and India. It would be unfair not to recognize the Hong Kong government's achievements in relative terms, whether it has achieved as much as it could have done in absolute terms is more debatable.

Are Hong Kong's welfare policies inclusive?

What is 'inclusive welfare developmentalism'? Based on Kwon's definition (1998a, 2003) 'developmental' means facilitating and promoting economic growth and structural transformation. It is 'inclusive' in the sense that it pursues social policies that provide equitable entitlements for all citizens to ensure that they are capable of participating in social affairs. It is 'democratic' in the sense that it derives its legitimacy from popular participation and the electoral process.

Turner (2002: 206) points out that 'citizenship rights are fundamental because in the last analysis they determine who is included and who is excluded . . . social citizenship involves membership of [a] community, the allocation of resources, the creation of identities and a set of virtues relating to civil obligation and responsibility'. Have welfare systems been socially inclusive in the sense that vulnerable groups such as the disabled, the elderly and women are protected and able to join in the mainstream of society? First we need to ask what mechanisms facilitate inclusion, and in Hong Kong, as in many other places, the key is employment (Turner 2002). Batsleer and Humphries (2000) point out that in what they call the 'civic republican' traditions of citizenship the active pursuit of the goals of society, frequently defined as participation in the labour market, is the badge of citizenship and leads to inclusion. As they say 'paid work is no mere economic necessity; it is also the practice of civic virtue' (Batsleer and Humphries 2000: 2). Exclusion involves notions of 'otherness', of marginality and even of threat. Dependence on welfare is a failure of citizenship because of the primary failure to participate in the monetized economy. In 2003 Hong Kong's unemployment rate reached an historic high (8.4 per cent) When the able-bodied struggle to find a job, traditionally those with a disability are likely to find it even harder to get employment.

'Otherness'

There are many ways of being 'other' in Hong Kong: newly arrived immigrants from China, especially women who have come to marry Hong Kong men, people who are not Chinese, especially if they are from Africa or the Indian sub-continent, those who have a disability. Mentally ill people and their families certainly fall within this category. In 1986, residents of the Western district successfully blocked the development of a half-way house on the grounds that they already had an abattoir and an incinerator in their district and should be considered to have suffered enough (Pearson and Yiu

1993). Chinese people with a mental illness and their families are acutely sensitive to stigmatization, and even when it is not manifested they nonetheless curb their behaviour 'in case' (Phillips, Pearson, Xu and Yang 2002). This is to say that they internalize other people's negative feelings about them and shape how they behave accordingly. In Hong Kong, there has been a long history of community action against the opening of half-way houses and other social care centres for ex-mentally ill people in residential areas (Pearson and Yiu 1993). This action is potentially violent and aggressive, threats have been made against the personal safety of half-way house residents, they have been videoed and the tapes shown in local shopping centres so that they can be recognized and other people can thus protect themselves. Community residents have threatened to defecate and urinate in or near the half-way house. In the past, feelings have tended to run particularly high at the times of local district elections because candidates know that to revile people with a mental illness is an easy way to garner votes (Tam 1986).

In recent years, levels of hostility seem to have abated somewhat, at least partly due to government education programmes. Nonetheless, those of us responsible for running half-way houses are only too aware of the damaging possibilities involving an incident between a half-way house resident and a member of the community – even when the half-way house resident has presented no provocation. Restrictions are thus imposed on residents, for instance locking the outside door of the half-way house so that they have to ask permission to go out. Such restrictions are considered professionally undesirable in rehabilitation terms, but are thought necessary by the front-line staff, who are acutely concerned about upsetting the local community. And, as the staff point out, it also stops undesirable members of the community coming in. However one looks at it, it does not add up to full acceptance.

Conclusions

Hong Kong has much to be proud of in what it has achieved in the area of social care since the 1950s, but the design and provision of services tends to be 'top down' with little participation by users, especially those with a mental illness and their families. Social welfare in general, and social care in particular, continue to be used by the state as a means to legitimize its governance. The strategy is the same one that the colonial government used when faced with a similar problem, that they were more successful was because they came to the strategy earlier when there was more room for improvement in the social fabric and because they had the inestimable benefit of a thriving economy. The current government has had a tougher time because what was easy to achieve has already been done and their efforts to please the people are much less effective. It is dealing with a population with higher expectations and whose expectations are clearly not being met. It is debatable as to whether the state can meet the demands of its people in the present economic climate, and it cannot rely on people to be understanding of its limitations.

Notes

1. In Hong Kong, social care includes services for children and youth, the elderly, families, those needing social rehabilitation and correctional facilities for young people.
2. In addition to her academic employment, Veronica Pearson also holds the voluntary position of Chairman of an NGO, the Richmond Fellowship of Hong Kong, subvented by the government to provide services for recovering mentally ill people. Some of the material in this section is based on her experience in that capacity.

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Part III

Welfare Developmentalism in Formation?

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10

China's Social Policy: Reform and Development in the Context of Marketization and Globalization

Xinping Guan

Introduction

China has undergone a fundamental economic reform from socialist to market economy since the late 1970s. The social welfare system, which used to be an integral part of the socialist economy, has inevitably been subject to a drastic reform process. This transition to the market economy coincided with a globalization process to which China's economy has been rapidly integrated. This, in turn, has strongly affected the social policy reform in China. This chapter aims, first, to examine the social policy reform in China in the context of marketization and globalization since the economic reform started.

In order to trace the reform process in social policy, it is also important to examine the nature of the *dual system of social policy* in China: urban and rural welfare systems. Before the reform, the welfare system in urban areas was based on the state enterprise economic system. The state enterprises were the cornerstones of the socialist economy in China where economic production and social protection took place at the same time. The government centrally regulated economic activities and provided social welfare through state enterprises. In rural areas, collective organizations in which farmers collectively owned farmland were the basis of economic production and social protection. It is important to recognize that given China's low level of economic development, the pre-reform social welfare system successfully provided the Chinese people with social protection such as basic subsistence to avoid starvation and supported primary education. The Chinese government carried out different reform policies in urban and rural areas after the late 1970s. The second aim of this chapter is to examine the institutional changes of the social welfare system in urban and rural areas. Thirdly, it will attempt to identify the changing roles of the state, enterprises, community collectives and emerging NGOs in the provision of social welfare. In the conclusion, the chapter will reflect on the question whether the Chinese welfare system has moved closer to the developmental welfare state, as in other East Asian countries, where the dual policy goals of economic development and political stability have largely determined the structure of the welfare system.

China's social policy before the economic reform

Socio-economic background of the traditional system before the economic reform

The pre-reform welfare system developed in a specific political and socio-economic context. First of all, in terms of ideological orientation, the social welfare system was based on a socialist programme of equality and social justice, and a collective approach to economic and social life was emphasized in the welfare system. Based on a socialist ideology, the government was required to take the main, if not all, responsibility for the social protection of the citizens from social contingencies such as starvation and poverty, including various kinds of social security and social care for people in need. Secondly, such a task was politically seen as one of the most important imperatives of the communist party and the socialist government. Especially in the Cold War era, the social welfare system, evolving in the ideological and political contests between the capitalist and communist camps, was used to convince the Chinese people that the communist regime was performing better than its capitalist counterparts in securing a minimum living standard for the people. Thirdly, the socialist model of economic development also strongly influenced the welfare system in pre-reform China. The state enterprises were the main force for China's industrialization programme and economic activities were essentially controlled by the central government. For state workers, who worked in the state enterprises, salary and welfare benefits were planned and regulated by the central government. Within this system, the employment and welfare provision were so strongly tied together that it was difficult to separate them. A low level of salary was supplemented by comprehensive welfare benefits for state workers.

In rural areas, all farmers were the members of the People's Commune, a collective economic organization which not only guaranteed farmers' equal access to the collectively owned farmland, and thus guaranteed everyone a subsistence living, but also formed a collective economic base on which some universal welfare services (basic education and health care) and a rural social assistance system, were created. The Chinese government also placed a strong emphasis on the family and kinship to support those who could not actively participate in economic activity, and only those who had no family (the lonely elderly) could get welfare benefits from the collective organizations.

In spite of this socialist programme and its political and economic aims, China, a poor country, could not opt a Western-style generous welfare state to provide a unified universal welfare for a huge population, due to low GDP and government financial weakness. Instead, the government had an uneven welfare structure, in which expensive welfare provisions (such as pensions, free medical care and public housing) were provided to only a small group of people (state workers and government staff). A three-tier welfare system was formed, in which the state workers enjoyed high universal and comprehensive welfare benefits, other urban residents had much less and the rural dwellers were at the bottom of the system. In other words, the pre-reform Chinese welfare system discriminated against rural areas in favour of urban regions, contrary to the socialist ideal of equality and social justice.

Overall, in three-decades of pre-reform history, the Chinese social welfare system, generally speaking, functioned well in terms of its achievements in longer life expectancy, minimum living security and low illiteracy, given the low level of income. In fact, most Chinese people got basic security and were free from starvation; in consequence China as a whole managed to achieve a higher level of social development compared to other developing countries in a similar economic situation. This system was, however, designed under the centrally planned and closed economic system, which was seen as less efficient and less responsive to the new social needs. The economic development and reform which began in the late 1970s brought a market system of production and exchange and raised the necessity of a reform of the social welfare system.

Socialist welfare programmes before the economic reform

China's social welfare system before the reform could be summarized as a pattern of 'socialist welfare system in the context of an underdeveloped economy' (Liu and Zhang 1989). This welfare model was first established in the early 1950s soon after the Chinese Communist Party (CCP) took power in Mainland China, and was then consummated step by step in the following three decades. The government's early welfare activities were simply a response to post-war urban unemployment and poverty in the early 1950s, while after this period the welfare system was built as a necessary requirement for industrialization. As a result of this three-decade period of development, a socialist welfare system was established in China, and the Chinese people, urban residents especially, had access to welfare benefits despite the low level of economic development.

One of the most significant features of the traditional social welfare system was its high institutional overlap with the economic system. In urban areas, income maintenance was mainly guaranteed by the 'full and stable-employment policy', upheld by the planned economic system. The state enterprises were the linchpins for employment and welfare for the urban state workers. For them, welfare provisions were comprehensive, covering almost all areas of social risk ranging from occupational risk, to welfare services to meet the various needs during the course of life (see Table 10.1).

In principle, all Chinese people were covered by a universal welfare system. Most of welfare provisions were universal for all members within a socio-economic category (e.g. state workers, non-state urban people and farmers in the People's Commune). There were some benefits specifically targeting the poorest group (e.g. the 'Three Nos' in urban areas, and the 'Five Guarantee Households' in rural areas[1]), but the scope of the projects and the number of beneficiaries was very limited. However, as mentioned above, these universal and comprehensive welfare provisions were not provided to all the Chinese people, which led to a stratified system of welfare provision. Table 10.1 summarizes the general arrangement of the welfare system before the reform, as operated in urban and rural areas.

Table 10.1 Welfare arrangements before economic reform in China

Main aspects	Urban areas	Rural areas
Social security	1. Government financial subsidy towards food, clothes and other basic subsistence materials, so that urban residents could benefit from lower prices	1. The *Wu Bao Hu* system: a rural collective-organization-based social relief provision for the elderly and disabled who had no family support
	2. 'Labour insurance' for workers in the state sector and government staff, covering pensions, medical care, occupational injury, etc.	2. The natural disaster relief system: government relief projects for villagers suffering from natural disasters
	3. Cash benefits for the urban 'Three Nos' (no working ability, no family, no income)	
Education	1. Public schools and other education facilities financed by the government and state enterprises	1. Public primary and middle schools financed mainly by rural collective organizations and subsidized by the government
	2. Low schooling costs for students in primary and middle school	2. Lower schooling costs for students in primary and middle schools
	3. Free enrolment to higher education (for those who passed the entrance examination)	

Health services	1. Preventive health programmes organized and financed by government and state enterprises 2. Public hospital system financed by government and state enterprises; low prices in medical care 3. Free medical care for state workers and government staff	1. Preventive health programmes organized and financed by collective organizations and subsidized by the government 2. A rural cooperative medical care system, based on the rural collective economy
Employment	1. Full employment policy: all urban labour could be assigned a job in either state or collective sectors 2. Stable employment: state workers were free from the risk of losing their job, once they got it	1. Full and stable employment for all rural labour based on the public ownership of farmland; all labourers had the right to work and get grain and a cash income from it
Housing	1. Public housing: most urban houses and flats were owned by the government and state enterprises, and distributed to workers and staff free of charge 2. Lower rent: the average rent of public houses and flats was lower than the basic maintenance standard	None
Personal services	1. Public caring facilities and services financed by the government and urban communities for the elderly, disabled and orphans, etc. who had no family support 2. Daily services in childcare, elderly care, mess service, etc. by state enterprises and community organizations	1. Some public caring facilities and services in some rich villages, financed by collective economic organizations for the elderly, the disabled and orphans, etc. who had no family support

The two stages of social policy reform

The rationale of welfare reform

In the pre-reform period, the goal of the welfare system was to provide *basic security* for the workers so that they could maintain the work ethic with their low level of income. However, the economic reform after the late 1970s changed the government approach to the welfare system. Policy makers saw the traditional welfare system as costly and less efficient and wanted to reform the system. The underlying reason was to reduce labour costs in order to produce internationally competitive products and to attract foreign investment to China. Before the reform, the workers' input of labour was seen as a key element in economic development, and increasing the level of social expenditure and collective social protection were seen a useful means to enhance cooperation and social integration, both within economic organizations and in the society at large. From the late 1970s, however, the economic rationale of the Chinese government changed. In 1984, a historical document, *'Chinese Communist Party Central Committee's Decision of Economic Reform'*, was presented in the Third Assembly of the 12th CCP Central Committee, which was seen as the beginning of comprehensive economic reform in urban areas. Independent management of enterprises and efficient performance of individual workers were now regarded as the key for economic success, and the central planned economic system seen as less efficient, and ripe for replacement by 'market mechanisms'.

This market reform affected social policy in China in two ways. First, a *market economic system* was set up, and institutional arrangements in social welfare changed accordingly. Before the reform, there was an 'enterprise-statist' welfare model, in which state enterprises, following governmental regulation, provided welfare benefits to employees, including pensions, health care and housing, and the government took responsibility for the enterprises' finance, including finance for their welfare provision. The first step in the economic reform was financially to separate state enterprises from the state and to give them an 'independent business' status. The government no longer took financial responsibility for enterprises, and they had to bear their own profits and losses. Without governmental subsidy, however, many enterprises were not able to, or did not hope to, take welfare responsibility for their employees, especially true for those with poor business performance. The traditional 'enterprises-statist' welfare model could no longer operate, and new systems became necessary. Secondly, the government had strong motivation to use 'market mechanisms' for distributing welfare provisions, as it was seen as a 'panacea' which could cure both the inefficient economic system and the inefficient welfare system. The government attempted further to separate itself from traditional welfare responsibility in order to control social expenditure, and thus reinforce their activity in economic areas.

The economic reform also changed the *political context* of the welfare system. Before the reform, social welfare was part of the 'socialist distribution system' which aimed for social equality and equity, attempting to maintain a minimum standard of living by provision of a subsistence level of living. This had been the main rationale for the legitimacy of the CCP's political leadership. With the reform, the Party's authority was legitimated by success in market reform and rapid economic growth, and it no longer saw the need to pursue a universal welfare system. Market reform and the 'open-door policy', however, despite successful economic growth, caused some serious negative social consequences, such as the worsening of social inequality, unemployment and poverty after the late 1980s (Guan 1999; Li 1993, 1998; Ye 2001; Zheng 2002; 41). The structural and dynamic features in social policy reform and development, especially after the mid-1990s when social problems increased, partly reflected the government's hope that it could control the negative effects of the economic strategy. The overarching political goal of the social policy became to keep political stability by providing basic welfare benefits for the poor and worst-off groups.

Unlike in many other democratic political systems, in China's centralized political system the political leadership is not, generally speaking, inclined to respond directly to citizens' opinions. However, the socialist ideology, which is still a part of the foundation of the CCP's political authority, prevents the government from going too far towards a neo-liberal social welfare reform. To maintain political power, the Party could rely on a well-organized political control system and heavy-handed use of power in the short term to suppress political challenge. However, the Chinese political leaders have to engender political support from the people in a long run to maintain political stability. This means that it still needs to be sensitive, perhaps no less than its counterparts in democratic voting systems, to collective complains from worst-off groups. Since the social problems of the market reform had negative political effects, the leaders hesitated to take greater political risks by further reducing welfare provision, and hoped to reinforce some social welfare fields in a more targeted way that would be economically efficient. Of course the government paid more attention to urban areas than to rural ones, because urban social problems were a greater political threat. This reinforced discrimination against rural areas.

Another important factor that influenced the welfare system is China's further integration in the world economy (the globalization process). In the late 1970s and early 1980s, the 'open-door policy' began to create some experimental 'Special Economic Zones' (SEZs) in coastal regions, encouraging local governments to create a 'favourable investment environment' for international investors, seen as vital component in economic development. Because the cheap labour force was a key factor in a 'favourable investment environment', local governments hesitated to reinforce social protection which would have required higher taxation on foreign investment. Instead, it tended to maintain lower social expenditure and thus lower labour costs in order to have greater economic competitiveness in the international market for trade and capital. This trend extended to almost all regions in China in the 1990s, and was also a cause of the increasing social problems.

Chinese social policy reform illustrated the 'globalization dilemma' for the government. On the one hand, in a more open economy, the government faced pressures to enlarge social welfare programmes to deal with increasing unemployment and poverty caused, at least partly, by international economic competition. On the other hand, however, as a result of global market forces, the government had to reduce its social expenditure in order to strengthen the country's competitive capacity. China's social welfare reform can be taken as an example of how social problems rise and social policy falls in a developing country when it enters into the globalizing world economy.

The reform and development of China's social policy since 1985 rested on two basic principles:

Principle I: To increase economic efficiency and competitiveness by a cheaper welfare system.
Principle II: To maintain political stability by providing an effective safety net for the poorest people.

The early stage of welfare reform

Starting from the early 1980s, the welfare reform process can be divided into two stages. The goals, principles and results were quite different in each stage.

In the first stage, from the early to late 1980s, welfare reform occurred as a direct response to the problems caused by economic reform, the institutional dysfunction of some welfare aspects and the shortage of welfare provision for new social risks such as unemployment. In fact, the first stage of the welfare reform was, to a large extent, a simple passive response to economic reform. Since the traditional welfare system was institutionally interlinked with the central planned economic system, it could function well only within the institutional frames of such a system. Before the economic reform, each individual enterprise paid employees' benefits of pensions and medical services, and the government had total responsibility for the enterprises' finance. After the economic reform, the government no longer took responsibility but the enterprises still had to pay welfare benefits. The welfare system could no longer function adequately because of the institutional unbalance between the reformed economic system and the unreformed welfare provision. This process began with the state workers' pensions and free medical care benefits in the early 1980s. After the state enterprises' reform they became more financially independent from the government

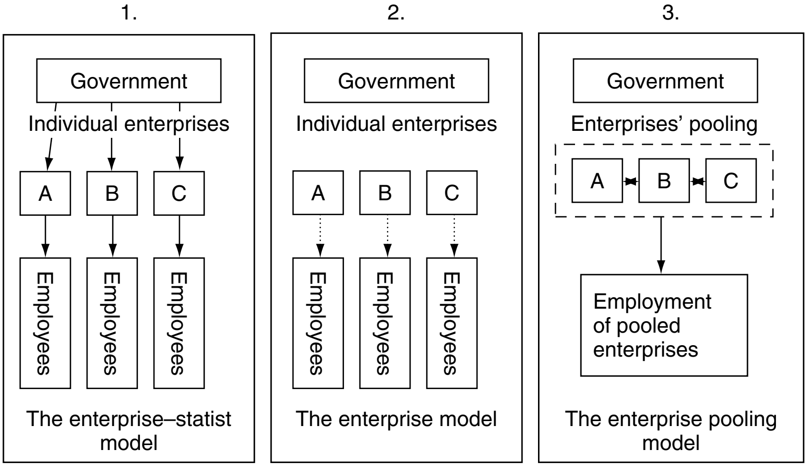

Figure 10.1 Pensions and medical benefits in state sectors, before and in the early stages of economic reform in China

1. Before economic reform: Each individual enterprise paid employees' benefits of pensions, free medical care, etc., and the government took total responsibility for the enterprises' finance.
2. After economic reform but before welfare reform: The government no longer took total responsibility for the enterprises' finance, but they still had to pay.
3. After welfare reform: Pooling systems in pension and free medical care were tried.

and, step by step, became an individual business. The traditional enterprise-managed pension and health system could no longer be reimbursed by the government, and many enterprises (especially the 'older' ones with more retired members), could not afford, or could not hope to offer, these benefits. To solve this problem, some *pooling systems* in pension and free medical care were tried (Figure 10.1).

In some other welfare aspects, such as urban employment, housing and personal services, the early reform were mainly a knee-jerk response to badly needed welfare provision. In the late 1970s and early 1980s, with the end of the 'Great Cultural Revolution', young people returned to the cities from rural areas, and shortages of jobs and housing became serious problems, which could not be solved by the government in a short-term enterprise–statist way. To relieve these problems quickly, the government began to try other ways.

Fundamental changes in social policy after the late 1980s: a general summary

In the late 1980s, social policy reform entered into a second stage. Unlike the first stage, the government carried out the welfare reform, which resulted in fundamental changes in almost all aspects of the social welfare system. The government began to re-build the system in three ways. First, encouraged by the success in economic system reform, the government hoped to reform the less efficient welfare system by applying 'market mechanisms'. Secondly, encouraged by the fact that the Party had more political supports from late 1979 to the mid-1980s because of economic achievements, the government began to believe that rapid economic growth would be better than more welfare provisions to solve social problems. Social welfare should be fundamentally reshaped and made an integral part of the economic development plan. Thirdly, as China's economy was increasingly involved in the world economy, the government, especially local governments, hoped to make the labour force more competitive in order to create a favourable environment for international investment and trade. The second stage of welfare reform was thus no longer a simple response to temporary problems caused by economic reform, but rather a deliberate process with a long-term goal to establish a new Chinese social welfare system. The fundamental social policy transition can be summarized as the changes from an *enterprise–statist* model to a *societalization* model:

- **Changes of the state's role** Before the reform, the government took most of the responsibility for providing social welfare, or even the whole responsibility, via the state enterprises in the state sector. After the reform, the government took only a *limited responsibility*; the recipients, enterprises, and community organizations are asked to share the responsibility and NGOs of various kinds are encouraged to participate.
- **Roles of enterprises** Before the reform, enterprises played an important role in providing social security and a wide range of welfare services. After the reform, *enterprises no longer played an important role*, except for taking financial responsibility for occupational insurance and sharing financial responsibility in the contributory social insurance programmes including pensions, medical insurance and unemployment insurance.
- **Changes in the management of social service organizations** Before the reform, such organizations were totally or mostly funded by the government. After the reform, most social services were *semi-commercialized* (i.e. the government no longer took the whole responsibility for financing social services, and the social service organizations had to raise funding, at least partly, through customer-paid services).
- **Changes in welfare beneficiaries' responsibilities** Before the reform, beneficiaries enjoyed 'free welfare': they were not directly responsible for financing social benefits in most welfare fields. After the reform, they had to *share financial responsibility* by insurance contribution for most cash benefits (e.g. co-contribution for pensions, medical benefits and unemployment benefits), and by fees-for-service in most social services (e.g. housing, higher education, health care and personal services), except

in a few fields such as social assistance for the poor and occupational insurance.
- **Relative decline of the welfare level** As will be shown later, there was a decline in social welfare provision, as measured by the government expenditure on various social services.

In brief, after the decade-long reform, China's social policy and welfare system became quite different from the traditional enterprise–statist model in goals and basic principles, as well as in welfare provision and institutional arrangements.

Fundamental changes in specific welfare fields since the late 1980s

Urban welfare system

Abolition of the old rationing system in basic subsistence goods Before the reform, there was a rationing system through which urban residents could buy basic goods such as foods and cloths at nominal prices. Until the late 1970s, almost all agricultural products were traded under government control, and prices were maintained at low levels for urban residents mainly by the government, which imposed low prices on the farmers. From the late 1970s, the government purchased agricultural products at higher prices, but it maintained the price for the urban residents at a low level with a government subsidy. Beginning in the late 1980s, when the market reform gained momentum, this rationing system was totally abolished, and the government no longer subsidized food and other necessities for urban residents, who had to purchase all their food and other goods at market prices.

Employment Before the reform, the government pursued a policy of full employment, and tried to keep unemployment rates low. All urban workers were expected to be assigned a job and workers had stable employment, seldom being laid-off, especially in the state sector. After the reform, however, the government abandoned the full employment policy and did not take responsibility for urban workers' employment. Workers were now exposed to risks of unemployment and job security was guaranteed only by individual contracts. The job security provided by state enterprises, often described as 'the iron rice-bowl,' was in fact identified as one of main obstacles to economic reform. Privatized enterprises were encouraged to lay-off workers.

Unemployment benefits Unemployment benefit is a new feature in China's social policy. Before the economic reform, there were few unemployed. An unemployment insurance system first came into being in 1986, when a new contract employment system was introduced for new employees in state enterprises. Since the early 1990s, there have been two kinds of unemployment benefits. One is the unemployment insurance benefit for the 'registered unemployed' whose employer has participated in the contributory unemployment insurance project. Another is the basic living allowance, paid by government and enterprises, for laid-off workers who are not registered formally as an unemployed person. Since many laid-off workers choose not to be registered formally as an unemployed person, the actual benefit recipients have so far been very limited. One reason is that many employers do not pay their contributions to unemployment insurance. More importantly, however, many state workers hesitate to be registered formally as unemployed because they do not hope totally to break off their employment relationship with the state enterprises and thus lose the status of a state worker, which was very valuable in the traditional planned economic system. According to government statistics, registered unemployment rates were been between 3 per cent and 4 per cent from the early 1990s. Actual unemployment rates, in fact, were more than 7 per cent if unregistered laid-off workers were included or, as some researchers estimated, even above 10 per cent (Zhang 2000; Ding 2001; An 2002). The government reduced the scale of the living allowance for laid-off workers who were not registered as unemployed, and was expected to phase out the programme. In consequence, the registered unemployment rate and the unemployment insurance expenditure will increase sharply.

Pensions Before the reform, non-contributory labour insurance was the pension programme for the workers in state enterprises. After the reform, a 'social insurance' model came into being, requiring contributions from both employers and workers to give eligiblity to benefits. The government also takes some financial responsibility by providing subventions to pension funds and paying for administration (administrative expenses are not paid out of the employers' and employees' contribution), and subsidizing social funds when funds experience financial difficulty (see Figure 10.2).

As shown in Figure 10.2, the new programme has three important features. First, in the old system enterprises took responsibility for paying the pension benefits of their own retirees and enterprises' finance was guaranteed by the government. In the new system, the financial responsibility is shared by three partners: employers, employees and government. Secondly, in the old system, benefit levels were determined by governmental regulation, all retirees got benefits according to the length of their working life and wage level at retirement. In the new system, by a combination of social funds and individual accounts, the redistribution mechanism and the individual payees' interests are brought into balance. Thirdly, unlike the old labour insurance which covered just state workers, the new system aims to cover all urban labourers, although it has so far not reached this goal because of the increasing informal employment in urban areas, and some employers' refusal to participate.

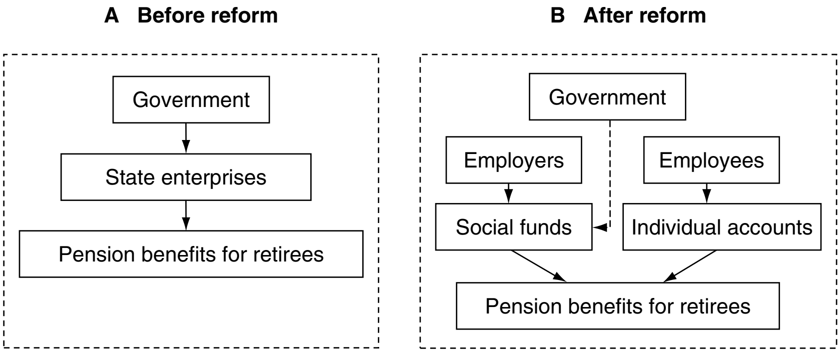

Figure 10.2 Financial mechanisms of pension systems, before and after economic reform in China

Health service Before the reform, non-contributory free medical care was provided for state workers and government staff, and partial low-price medical care for their family. Other urban residents also benefited from low-price welfare medical services, which were guaranteed by the government-financed public hospital system and planned medicine production. After the reform, medical costs increased, partly due to the commercialization of drug production and the relative reduction of government expenditure on public hospitals. To replace the old free medical care system in the state sector, a new contributory medical insurance system, the Basic Medical Insurance (BMI), was established, paid for by both employers and employees. The government no longer takes direct financial responsibility in the new BMI system, except paying for the administrative system and tax exemptions. (see Figure 10.3).

In the new medical insurance, beneficiaries are required to take financial responsibility in two ways: first, before getting the benefit, they have to co-pay for their insurance entitlement; secondly, for inpatient expenses, they have to pay the first deduction, a specific amount of the total medical expense that has to be paid by the patient. The medical insurance will thereafter pay. The new BMI also aims to cover all urban labourers, but so far the coverage is still limited in many cities, because of some employers hesitation to participate, and of unavailability to the informal labourers.

Social assistance Since the pre-reform social assistance benefits was just for the 'Three Nos', it had a narrow coverage. It could not deal with growing urban poverty problem after the reform, since most of the new poor were not in the category of the 'Three Nos'. To deal with this new urban poverty, a new social assistance system, the 'Minimum Living Security' (MLS) system, was

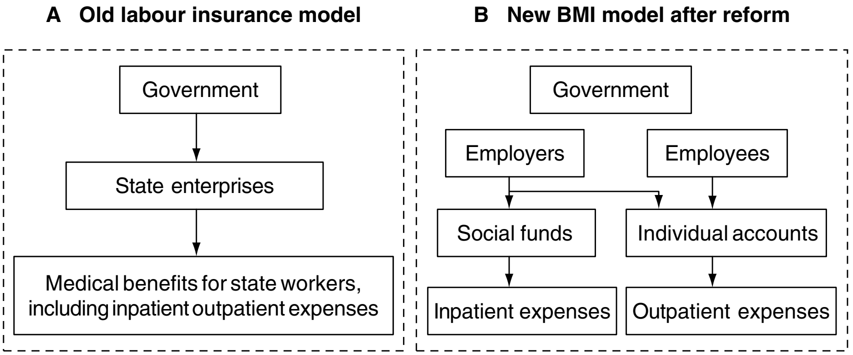

Figure 10.3 Financial mechanisms, old and new medical insurance systems in China

established in the 1990s, aiming to offer mean-tested benefits for all urban families whose income fell below a certain threshold. In this programme, the local municipal government sets a Minimum Living Threshold according to the local average income and the general level of local consumption prices. Any family can apply for the benefit if its household income falls below the official MLS. However, before 2001 only a small number of poor families got this benefit in most cities because the local governments, who took all the financial responsibility, did not intend to spend much on it. Since 2001, as central government has taken most of the financial responsibility, local governments have relaxed their control over applications, and the numbers of beneficiaries increased sharply in almost all cities. Up to the end of 2002, beneficiaries in all Chinese cities were over 20 millions and over 22 million in 2003 (4.9 per cent of the urban population)[2] (China Civil Affairs Ministry 2004).

Housing Before the reform, public housing provision was provided to the workers in the urban state sector by the 'welfare house-distribution system', through which state workers and the government staff were assigned a flat free of charge, and at a low rental cost. The government spent significant amounts of public money in the construction of public housing; with the reform, the housing provision system has been commercialized. Since the late 1980s, the government implemented a policy of 'merchandization of housing', treating houses as a commodity to be distributed through market mechanisms. This policy accelerated after the mid-1990s: by 1998, the traditional welfare housing policy (free provision of public housing and low rents) had ceased. Public housing construction had, to a large extent, given way to a real estate market, and residents paying for their housing at market price, although employees can expect to be compensated by their employers with an extra housing benefit. Almost all urban public housing has been sold to tenants and urban people have now to buy their house on the open market (Jiang 1999).

Education Before the reform, almost all schools, colleges and universities were publicly funded, and the students at all levels had access to free education. After the reform, although the basic framework of the public education system remains, there have been some significant changes in the institutional organization of education. First, private schools have been allowed at all levels, from elementary school to higher education. Secondly, the government no longer takes all the financial responsibility for the public higher education, and the public universities and colleges are encouraged to increase their revenue through external funding; students have to pay tuition fees. Moreover, in the 1990s, public expenditure in education grew very slowly (or even fell relatively in some years in terms of its ratio to GDP). The insufficient public funds for higher education was thought to be causing a serious 'brain drain' in universities, and thus incurred a lot of criticism. From the late to 1990s, however, public expenditure in education grow faster, reflecting partly the characteristics of the 'developmental welfare state', in which education is emphasized more than other fields of social policy.

Personal services Before the reform, the government financed welfare homes for the elderly, disabled and orphans who had no family support. Since the reform, private investors and non-governmental organizations/non-profit organizations (NGOs/NPOs) have been encouraged to participate in providing services. A series of changes generated a dual system. While state-run welfare houses are still retained and funded by government, an increasing number of private, collective and non-profitable services began to operate, especially in the welfare homes for the elderly. Even state-run welfare houses are encouraged to provide commercial services to reduce their budget deficit.

Other welfare facilities and services Before the reform, most of the urban infrastructures and facilities for residents' daily life and cultural activities – such as urban transportation, parks and museums – were publicly financed. Urban residents could access these public facilities free of charge, or at nominal prices. After the reform, due to insufficient public financing, most, if not all, urban welfare facilities have to be run on a commercial basis, at least partly, and residents have to pay a market price for many of the services.

The rural welfare system

There are marked differences between the rural and urban welfare systems, both before and after the reform, not only in their scope and coverage but also in their institutional arrangements. Because of the disintegration of the collective economy after the economic reform, the rural social welfare system, which had been based on the collective economy, witnessed a collapse in traditional welfare arrangements while new ones did not fill the gap because of reduced government financial support and limited local public funds compared to urban areas.

Farmland Before the reform, all the rural workers had equal right to access the collective-owned farmland, and thus their food and income were guaranteed. After the reform, farmland was distributed to individual households, and farmers have to take responsibility for their own food and income. Since all the rural households have been assigned farmland, and the farmland is not permitted to be sold, it is actually a source of food security for rural households. But there is a big problem, especially in suburban areas, where in the process of rapid urbanization more and more farmland has been expropriated for commercial and other uses. Farmers are compensated for their loss, mainly in cash but sometimes by employment in an urban company, or both. But such compensations does not secure their income in the longer term.

Pensions Before the reform, there was almost no pension system in rural areas. After the reform, a social insurance programme for pensions was introduced. The rural pension system had several features. First, the government's policy was that its finance should be from three sources: the insured individuals' contribution, the local communities' subsidy and the local government's favourable policies such as tax exemption. Since the latter two sources are quite indeterminate and unstable, however, finance actually comes just from the first source – that is farmers' contributions. Secondly, it is an individual responsibility system, in which each individual insured has a personal account, and from which all pension benefits will be paid. Without any redistribution mechanism, it is more like a government-administrated personal saving system than a social insurance system. Thirdly, it is a totally funded system, in which all the individuals' monthly or annually payments will be accumulated in their personal accounts for many years until they start to draw benefits. This makes it quite vulnerable to both inflation and interest rate decline.

There has been a dramatic turnaround in the history of pension programmes in a decade. In the early stages (1986–91), pension programmes existed in only some rich villages. Promoted by the government, they extended rapidly in the second stage (1992–7), and up to the end of this period, almost all the provinces and more than 2,000 counties had rural pension programmes, more than 80 million farmers were covered and the total amount of the insurance fund had reached 19.8 billion Yuan (Zhao 2003). In the third stage (after 1998), however, the rural pension insurance programme experienced a slowdown in development and the number of people covered declined sharply because of the intrinsic institutional vulnerability to external factors such as interest rate decline. In 1999, the central government decided to stop its further development and regulate the existing programmes. The Ministry of Labour and Social Security (MLSS) has had some proposals for the rural pension insurance, but opinions is quite divergent among researchers and officials. The MLSS issued a policy document in November 2003, asking local governments to reinforce the administrative system, avoid further misuse of the accumulated insurance fund and be more active in experimenting on new rural pension programmes.

Social assistance Before the reform, the traditional 'Five Guaranteed Household' (*Wu Bao Hu*) system, which provided basic security to the elderly, disabled and orphans who did not have family to support them, was funded by collective economic organizations. After the reform, the basic social assistance has been kept to support only the 'Five Guaranteed Households'. Because the rural economic organizations no longer existed, the government issued a new regulation that the *Wu Bao Hu* system should be financed by the local community's financial sources (community resources and other communal income and the local governments' subsidies). Because of financial difficulties in both rural communities and local governments, it is quite common for people in need to fail to receive benefits. Moreover, as a result of the rural taxation reform since 2002, which aims to reduce farmers' tax duty, most villages have lost the public financial sources to support this social assistance system, and new financial arrangements are urgently needed.

Another development in rural social assistance is the Rural Minimum Living Security (RMLS) system, which, in principle, aims to provide means-tested benefits to all poor farmers whose incomes fall below the MLS. This programme began in the late 1990s in several developed regions, and extended to most provinces, and many rural poor have benefited from it. Encouraged by MLS success in the cities, the Civil Affairs Ministry attempted to promote RMLS further in 2003. Top policy makers and central, provincial and local governments still hesitate to take financial responsibility however; so the RMLS cannot be extended to a larger areas, nor cover more rural poor in the villages that operate programmes.

Health services Before the reform, a cooperative medical system prevailed, based on rural collective economic organizations. This system had rural public heath service networks, (including rural public hospitals and primary heath workers, 'barefoot doctors') and the farmers' free medical care system, which covered almost all farmers for their basic medical care. After the reform, the cooperative medical care systems were disbanded and replaced by private medical care practices in most villages. Moreover, in the 1980s–1990s, the government had, to a large extent, neglected rural health development and, given the low total public expenditures on health services, the amount of health expenditure for rural areas was much less than that for urban. Rural health services declined rapidly, and many poor farmers could not get even basic health care because they cannot afford the expensive commercial health services. The government's rural health policy was been heavily criticized, and the government decided to reinforce the rural public health system after the 2000. In 2002, the Party's Central Committee and the State Council issued an important document (CCP Central Committee and the State Council 2002) to implement new action to reinforce rural health services, aiming to re-establish an effective rural health service and new cooperative medical care system. In 2003, after the SARS crisis, the government decided as an important part of the national public health strategy to accelerate action, and much higher government budgets are planned for rural health service programmes in this area in coming years.

Changing role of the state and the emergence of new actors

In the earlier system, almost all welfare programmes in urban areas were paid for by government, either directly from government budgets or through state enterprises. In rural areas, welfare provisions were paid for by collective organizations under governmental regulation. A basic objective of the reform was to 'societalize' the welfare system – reduce the government's financial and administrative responsibility and encourage more actors to participate in welfare provision. In the reformed social policy, three main actors saw their roles changed.

Government

Although the government is still the most important actor in the new system, it has given up its traditional role of being the one and only financial provider in the social welfare field. The government reduced its share of financial provision and, at the same time, individuals and other organizations have been being asked to pay, to varying extents, for welfare benefits. Taken as a whole, the government's current responsibility can be summarised under four headings:

- *Regulation maker*: formulating rules and setting basic standards for welfare projects
- *Administrator*: in charge of most welfare projects and controlling the behaviour of related actors
- *Financial provider*: although on a reduced level, the government budget is still the most important source for many welfare programmes
- *Financial guarantor*: in some welfare projects, such as urban social insurance for pensions, the government is still responsible for guaranteeing financial viability, should the system get into difficulties, even though it is no longer responsible for normal payments.

NGOs

Before the reform, there were almost no NGOs operating in the social welfare field in China. In the 1990s, however, NGOs emerged as an important actor in welfare provision. Different NGOs work at various levels. At the local level, almost all urban community organizations, called *resident community committees*, now provide community services to local residents. During the 1980s and 1990s, the urban community organizations were a kind of NGO because they could no longer rely on government finance. Instead, they were encouraged to mobilize and utilize local financial resources in various ways, including undertaking profitable activities to help finance community services for local residents. Since the late 1990s, however, in the new round of the 'urban community building' strategy, the government has reinforced urban communities with more administrative control and more financial support to local community organizations. The latter have two main roles in local affairs: to be the government's agents in the local public administrative system and to provide community services to residents. Community services cover a wide range of activities, from personal services for the elderly, the disabled, the poor and children, to the general provision of public sanitation and public security.[3]

In addition, some specialised non-governmental and charitable welfare agencies have been set up to provide personal services, mainly for the elderly, disabled, unemployed and poor families. Again, some charity societies and other non-governmental welfare foundations are emerging at national and regional levels to provide social services (such as poverty relief, education and medical care) for poor people in both urban and rural areas. Finally, some international NGOs have also come in to provide welfare services and financial aid for local socio-economic development, mainly in the remote poverty-stricken regions.

One important feature should be noted about the government–NGO relationship. Although the NGOs have been permitted, or even strongly encouraged, to provide welfare services, public financial resources are still controlled by the government. Unlike their counterparts in many other countries which are usually funded by government financial sources, non-governmental social services in China are now scarcely financed by the government. One of the government's main considerations in permitting and encouraging NGOs is to hope them increase their financial contributions to the welfare system, or help reduce the government's budget by their independent financial sources, rather than just delivering services using government financial resources.

Urban employers

Traditionally, urban employers, called employment units (*Dan Wei*), including enterprises, governmental departments and social service organizations (in education, health care, etc.), took responsibility for welfare provision along with their main commercial business. Welfare projects ranged from social security to various services for employees and their families. Since the reform, however, urban enterprises have reduced their welfare responsibilities, while government departments and social organizations have retained them to a large extent. The enterprises' role in welfare provision has changed, for two reasons: First, as a result of economic reform, the financial nexus between government and the state enterprises has been cut, and thus all welfare expenditures (if the welfare projects remain) have to be paid for by the enterprises themselves. At the same time, the government has relaxed the enterprises' compulsory obligation to provide welfare services, except in respect of the basic social insurance contribution (for pension, medical care, unemployment, occupational injury, etc.) for their employees. Second, the state enterprises were criticised from the early 1980s for being too 'multi-functional' – i.e. they had taken on too many social functions, including the provision of social welfare services, outside their main commercial business. Many researchers, both economists and social welfare researchers, insisted that enterprises should stick to their main business and convert their welfare functions into separate social organizations in order to increase economic efficiency. Provision of welfare by state enterprises is, apart from social insurance, now a matter they decide for themselves, many enterprises have therefore reduced their welfare provision (Zheng 1996).

In the light of the above, we can see that, so far as the principal actors are concerned, Chinese social policy has been moving away from the traditional 'state welfare' model, though it has not so far arrived at a 'private welfare' model. Through 'societization' of welfare provision, the state has passed some of the welfare responsibility to individuals, enterprises and NGOs in urban areas, and collective welfare arrangements in rural areas have been weakened. Despite such changes, the NGOs are still very weak and lack the institutional infrastructure and financial resources to fill the gap left by the state and state enterprises in urban areas, and collective cooperatives in rural ones. However, the government is not pursuing a policy to privatize the whole welfare system. In fact, changes in the government's financial responsibility vary in different fields of social welfare, ranging from almost totally giving up financial responsibility (e.g. in urban housing policy), to totally keeping or even reinforcing financial responsibility (e.g. in urban social assistant programmes). In short, instead of a *privatization* approach, as in some other developing countries, the Chinese government prefers a *societalization* approach to welfare reform, in which the government still play a leading role in welfare administration and as the main financial provider, with more other actors participating in sharing financial responsibility. It is not yet clear, however, whether this approach is to be the final pattern, or just a mid-way stage in a longer-term process of gradual reform.

Trends in social expenditure since the economic reform

So far, there has been not a single indicator of 'social expenditure' in China's official statistics, but we can use the official indicator of 'government social, cultural and educational expenditure' as a rough counterpart of the 'social expenditure' indicator in many other countries. Table 10.2 and Figure 10.4 clearly show that government social expenditure declined in relative terms in the mid-1980s–mid-1990s.

Table 10.2 Government expenditure on social, cultural and educational services, as a percentage of total government expenditure, 1980–2000

Year	GDP (bn)	Government revenue		Government expenditure (bn Yuan)	Government expenditure on social, cultural and educational services	
		(bn Yuan)	(% of GDP)		(% of GDP)	(% of total government expenditure)
1980	451.78	115.99	25.7	122.88	4.4	16.2
1990	1,854.79	293.71	15.8	308.36	4.0	23.9
1995	5,847.81	624.22	10.7	682.37	3.0	25.7
2000	8,940.36	1,339.52	15.0	1,588.65	4.9	27.6

Source: Figures are from the websites of the Ministry of Finance of the People's Republic of China and originally from *Chinese Statistical Yearbooks* (relevant years), *http://www.mof.gov.cn/display/IColumnNews.jsp*, accessed on November 24, 2003.

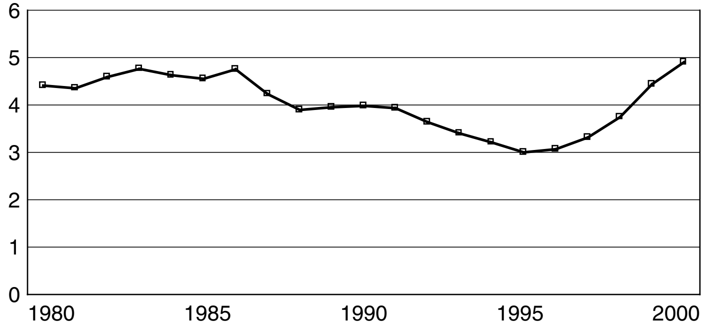

Figure 10.4 Changes in government social expenditure: social expenditure as a percentage of GDP, 1980–2000

Note: The 'social expenditure' indicator is the same as the 'Government expenditure on social, cultural and educational services' in Table 10.2.

Source: Drawn from figures on the websites of the Ministry of Finance of the People's Republic of China. *http://www.mof.gov.cn/display/IColumnNews.jsp*, accessed, on 23 March 2003.

From the mid-1980s to the mid-1990s, the rate of social expenditure to GDP went down, but rose again from the mid-1990s. This decade-long decline can be explained as a result of the changes in China's social policy. The figures in Table 10.3 show, respectively, government expenditures in education, health and social relief and welfare in the 1990s.

Table 10.3 shows the underlying factors that account for the U-shaped change in government social expenditure since the mid-1990s. First, expenditure on education and health in terms of proportion to GDP has increased since the mid-1990s, it is, however, worth noting that their shares in government total expenditure went down throughout the 1990s. The figures lead to a conclusion that the upward trend in social expenditure since the mid-1990s should be accounted for more by the enlargement of the government's total fiscal capacity than by any increase of social welfare's importance in the government agenda.

Secondly, government expenditure on social relief and welfare went up in terms both of the share of GDP and of total government expenditure throughout the 1990s. As we discussed above, the market transition in the economic system caused a lot of social problems and the emergency social relief and some ad hoc welfare provision had to be increased. We therefore observe the growing importance of means-tested benefits of social assistance for the poor. The rapid development of means-tested benefits targeted directly at poverty alleviation, a reversal of the trend of comprehensive relative decline in universal welfare provisions, is a significant transition in China's social policy from the traditional universal model to a selective model.

However, it is necessary to interpret the statistical figures with caution. The costs in the state workers' pensions, free medical care and housing, paid for by state enterprises before the reform and shared by both enterprises and individual workers afterwards, for example, are not included in the statistics of government social expenditure. If these expenditures were included, the decline in social expenditure would be much more marked.

Concluding remarks: from the traditional universal model to a more selective welfare system

To conclude, two decades of social policy reform can be summarized as a transition from the traditional state enterprises model to a 'societalized' model, from a pure welfare service system to a marketization service model and from a universal welfare to a selective welfare model. The new system has four main characteristics.

Societalization and commercialization of social services

In some fields the government reduced or even ceased its financial responsibility altogether and in the process of welfare societalization converted

Table 10.3 Government expenditure on education, health and social relief and welfare, 1991–2000

Year	GDP (Yuan)	% of GFR[a] to GDP	Government education expenditure		Government health expenditure		Social relief and welfare[c] expenditure	
			(% of GDP)	(% of total GTE[b])	(% of GDP)	(% of total GTE[b])	(% of GDP)	(% of total GTE[b])
1991	2,161.78	14.6	2.46	13.96	0.94	6.0	0.061	0.39
1992	2,663.81	13.1	2.33	14.16	–	–	0.053	0.38
1993	3,463.44	12.6	2.18	14.28	–	–	0.049	0.37
1994	4,675.94	11.2	2.19	16.17	–	–	0.043	0.35
1995	5,847.81	10.7	2.05	15.54	0.65	5.6	0.041	0.35
1996	6,788.46	10.9	2.09	15.24	–	–	0.043	0.37
1997	7,446.26	11.6	2.08	13.86	0.75	5.7	0.049	0.40
1998	7,834.52	12.6	2.17	13.13	0.75	5.4	0.045	0.33
1999	8,206.75	13.9	2.35	12.71	0.78	4.9	0.059	0.37
2000	8,940.36	15.0	2.44	12.48	0.79	4.5	0.067	0.38

Notes:
[a] GFR: government fiscal revenue.
[b] GTE: government total expenditure.
[c] Here the term 'welfare' indicates mainly personal services and benefits for the elderly, disabled and children, etc.
Source: Figures are from the websites of the Ministries of Education, Health, Civil Affairs and Labour and Social Securities, and originally *Chinese Statistical Yearbooks* (relevant years).

traditional government welfare services into commercial or quasi-commercial services. Typical examples are the changes in urban housing policy and, to a less extent, in health services, higher education and personal services.

Beneficiaries responsibility

In those services in which the basic welfare principle still remains, beneficiaries are required to pay a part of the costs for services, and there is stronger personal responsibility for their benefits (i.e. a closer personal contribution–benefit connection and less public funding and social pooling than that before the reform). Such changes can be seen in social insurance (pensions, medical care and unemployment insurance), higher education and many personal services. In these fields, the government is still treating the services as 'welfare' by nature, but has nonetheless reduced expenditure and required beneficiaries to share the expense. The basic philosophy here is that, instead of relying on the government, individuals should take responsibility, at least in part, according to their ability (Chen 1996; Guo and Ge 1998).

Market mechanisms

In many welfare areas, some market mechanisms have been introduced into service providers. Some kind of 'social service market' has been formed, in which there are more service providers who are in some sense competitive, and beneficiaries who are becoming 'customers'. Through these market mechanisms, service providers are expected to perform with higher efficiency, and service recipients thus have more freedom to choose a service provider and enjoy better services.

Selective model

While there has been a notable decline in universal welfare services, we have observed a relative increase in social welfare financed by government in specific areas of social assistance, manifesting the government's strategic policy change: instead of maintaining a high-level social welfare provision in all areas of social policy, the government uses welfare programmes that target a particular section of the population in order to tackle social problems. In light of this, the strategy adopted by China is close to that of the selective strand of the developmental welfare state which used to be the main model of social welfare before the social policy reforms after the Asian Financial Crisis. One explanation is that China, with its huge labour force, had to develop labour-intensive sectors in a trade-led economic strategy, for domestic employment and economic growth, which is more sensitive to welfare costs. This is one of the main reasons, although not openly stated, why government had to reform its social policy. Nevertheless, although China, in most of the 1990s, observed a relative decline in social expenditure in terms of its percentage of GDP, including government expenditure in education, from the late 1990s the government social expenditure has been growing, especially in the education field. China's social policy shows clear signs of approaching the 'developmental welfare state' model in which such areas as education receive more investment. This will favour China's ability in international competition and economic development, while total welfare expenditure will still be controlled.

The social policy transition in China happened in a complex manner and has been effected by several internal and external factors. First, it happened in an era of globalization, the government's social policy making was obviously affected by severe international economic competition. To increase economic competitiveness, the government did not respond to all welfare demands. Secondly, social welfare development coincided with a change in economic and political goals. To achieve economic development, the universal welfare expense should be contained, but for political stability social welfare decline cannot go too far, and needs to be strengthened in some specific fields. In other words, social policy reform in China has hardly been a one-way process but was rather carried out under the twin pressures of economic development and political stability. We have seen a slowing down in welfare reduction and even some policy reversal after the late 1990s. Given the continuity of the political system and economic framework, it is fair to say that social policy reform will be carried out under the same rationale, perhaps at a slower pace.

Notes

1. The 'Three Nos' are those who have no working ability, no family support and no income source, and who are entitled to means-tested benefits by urban government. 'Five Guarantee Households' are the counterparts of the 'Three Nos' in rural areas, guaranteed by collective organizations to be provided with food, clothing, housing, medical care and funeral expense or education for the young orphan.
2. The total number urban residents was 455.9 million in the 2000s Census.
3. In fact, urban *community services* include both commercial services and welfare (non-profit) services in practice, although the initial aim, defined by the government, is to provide welfare services to local residents.

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11
Challenges of Implementing Universal Health Care in Thailand

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Introduction

The landslide victory of the *Thai Rak Thai* Party on 6 January 2001 was a milestone in the country's progress towards universal health care for the Thai people. To deliver its campaign promises, the newly elected government guaranteed a policy of '30 Baht for Treating Every Illness', under which all Thais would be eligible for medical services at a flat charge of 30 Baht per visit. Although previous governments had offered full or partial health welfare schemes to various segments of the population, the 30 Baht scheme was a bold initiative in implementing universal coverage (UC) of public health insurance, especially in view of the economic turmoil within which it was implemented. Unlike Japan, Korea and Taiwan, which extended health care coverage in a favourable economic environment, Thailand introduced the UC amid an economic downturn.

In the decades before the 2001 election, sporadic efforts had been made to reform the health service system. It was only in 1997, when the new Constitution was implemented, that such initiatives began to result in public sector reform. Decentralization and bottom-up budgeting were encouraged[2] and the education system remodelled towards achieving a twelve-year basic education. While previous Constitutions had endorsed the right to health, the new Constitution, for the first time in Thai history, affirmed the right to health care for all Thais.

The goal of the UC is to ensure all citizens with adequate and equal access to quality health care, which the government finances through general tax revenues and mandatory contributions. The UC eases the financial burden of medical expenses and radically solves the financial burdens arising from severe illness. The Ministry of Public Health, together with other public agencies, is the major health service provider financed through taxes. The current health system, however, faces persistent problems such as inefficiency, since increase in health expenditure is matched with only limited corresponding health outcomes for the Thai people. The range of health care is still limited within the health system; inequity is still persistent in terms of access to standard care and in terms of public subsidy to each group of the insured. In addition, the poor distribution of all health resources, especially physicians and health personnel, is skewed towards Bangkok and the urban areas. Since the UC has been in place for a little over three years, it will take some time to assess its full impacts. This chapter reviews the health and social welfare schemes in place before 2002 and the political and technical factors leading to the implementation of the UC. We also review the impact of the UC, and identify the problems that have persisted after implementation.

The social welfare system in Thailand: developments before 2001

The current social welfare system in Thailand, as in many other countries, combines social protection, social assistance and social services. Health care programmes against financial risks and ill health are prominent. Most other social protection schemes are targeted at civil servants and their direct dependants, state enterprise employees and private employees. All these schemes, though achieving universal coverage for the formal labour sector in such countries as South Korea and Taiwan (Chen 2003; Wong 2003; Yi and Lee 2003), provide social insurance for approximately 25 per cent of the total labour force in Thailand.[3] The most vulnerable groups, such as informal sector labourers and farmers, have no access to such publicly provided protection.

Thai society has traditionally relied on the family and community to take care of vulnerable members of society, but the transformation of family structure from an extended to a nuclear one, brought changes in socio-economic circumstances and lifestyles. The family is no longer able so well to handle the needs of vulnerable groups. The government established a safety net to assist disabled persons, orphans, elderly poor, and people living with HIV/AIDS in 1995, but coverage is minimal compared to the potential number of persons requiring public assistance. In 1995–6, the government, under the Ministry of Labour and Social Welfare, changed its approach to this challenge. Instead of providing institutional care, the government began to involve families and the community in the care of disadvantaged groups, tasks such as support for the elderly and people suffering from HIV/AIDS have been transferred to local authorities and communities, while central government remains as a funding source.

The government first assumed a dominant role in social services in the 1970s, when it issued explicit national policies in the Third Five-Year Plan

(1972–6). In the early stages, emphasis was placed upon equitable access to education and health. By the early 1980s, primary schools had been established every 3 km throughout the country, including subsidized religious schools that also provided formal education. In the latter half of the 1980s, health centres were set up in every sub-district. Even when the economic slowdowns in the early 1980s and in 1997 forced the country to tighten fiscal policies, public spending on education and health remained at a steady level or was slightly increased to maintain all core functions. As stipulated in the 1997 Constitution and the 1999 National Education Act, the government gradually began to extend basic education to a future goal of twelve years of basic education, and compulsory education was extended from six to nine years. The debate regarding administrative design continues, it is the health system rather than the education system, however, that has seen comparatively more progress in achieving universal coverage.

The government, especially in the 1980s and early 1990s, instituted a health development policy to establish and expand health facilities. As a result, public health developed into a system financed by taxes through supply-side subsidies. Geographical coverage of health service infrastructure, as of 1999, is comprehensive: a health centre staffed by three–four paramedics covers 5,000 population; a district hospital (usually thirty beds, staffed by two–six qualified physicians, one–two dentists, two–four pharmacists and twenty–forty professional nurses) covers some 20,000–100,000 population in every district throughout the country. There are ninety-two provincial hospitals in seventy-five provinces. Most private hospitals provide services in the capital, provincial cities and large districts.

Health welfare schemes before 2002

Private health insurance has existed in Thailand as part of the life insurance system for many years, but only the wealthy were able to afford the high premiums. Prior to 2002, the government fully or partially subsidized four health welfare schemes – the Civil Servant Medical Benefit Scheme (CSMBS), the Social Security Scheme, the Low Income Health Card and the Voluntary Health Card. Each scheme targeted different segments of the population and developed at different paces. It should be noted that the government partially financed the health needs of the formal labour sector and some disadvantaged groups, but disadvantaged groups received a lower subsidy.

CSMBS

In 1963, government employees became the first group of formal sector employees to gain employment-based health insurance (Gongtan *et al.* 1999). It was not until 1978, however, that the scheme was moved from the

control of the Ministry of Finance and promulgated under a Royal Decree, which granted the scheme a more permanent status.
Two milestones are worth mentioning:

- **1978**: The civil servant medical benefit scheme was promulgated under a Royal Decree. Prior to 1978, regulations were issued under the Ministry of Finance, which could change them at will.
- **1998**: In response to fiscal constraints during the 1997 Asian Financial Crisis, the terms of reimbursement were reformed; co-payment was required for prescribed drugs outside the national essential list, for private rooms and for board beyond thirteen days.

Social security

Under the Social Security Act, formal sector employees also have health insurance. This act was promulgated in 1954, based on a tripartite contribution concept. However, politics and the economic climate prevented this law from being implemented. In 1974, a workmen's compensation scheme, as a form of an employer's liability scheme, was initiated to cover formal sector employees for work-related injuries, illnesses, disability and death, although it took several years to cover the whole country. After the 1990 Social Security Act was promulgated, the Social Security Scheme (SSS) was fully implemented in April of the following year. The scheme has a mandatory tripartite contribution, but medical benefits do not cover insurers' dependants (spouse or children) except for maternity care. The following are the six milestones in the progress of protection against the costs of ill health for formal sector employees:

- **1954**: The first Social Security Act was promulgated but not enforced. The SSS could not be established.
- **1974**: The Workmen's Compensation was established, to suppress labour unions' demand for social security.
- **1990**: The Social Security Act was promulgated, compelling private firms with more than twenty employees to join the SSS.
- **1994**: The SSS was extended to cover private establishments with more than ten employees.
- **2001**: The SSS was extended to cover private establishments with more than five employees.
- **2002**: The SSS was extended to cover private establishments with more than one employees.

Protecting vulnerable groups

Groups such as informal sector labourers, farmers, those in small enterprises and the poor were uninsured against severe illness. For informal sector labourers, the policy of charging for drugs and medical services in public sector health facilities was instituted in the Thai health system in 1945 through voluntary donations. An informal exemption mechanism for the poor, at the discretion of the health worker, was implemented in parallel with user charges. Informal exemption has gradually evolved into a systematic means-tested exemption scheme.

In 1975, the Thai government began to provide additional subsidies to hospitals, especially those under the supervision of the Ministry of Public Health, for treating low-income households. Initially, the director and social welfare workers of a hospital determined which patient should be granted exemptions from medical fees. In 1981, low-income health cards were issued to households where the monthly income was lower than 2,800 Baht, entitling all family member to free health care for three years. The scheme expanded coverage to those over sixty years old, children under twelve years and other socially disadvantaged groups. In financing the scheme, the government, through the Ministry of Public Health, allocated a budget according to the size of the target population in each province. In 1998, after the Asian Financial Crisis, the Ministry retained 10 per cent of the scheme's budget to compensate for the higher cost of care and inter-provincial services.

Four milestones in expanding health welfare for the poor are:

- **1975**: The government subsidized hospital practices in providing health care to the poor.
- **1981**: Low Income Cards were given to 10.9 million people (23 per cent of total population), where monthly family income was less than 2,800 Baht.
- **1992**: The government extended free health care to the elderly.
- **1994**: Free health care was extended to children under twelve years.

Voluntary health card scheme

In 1983, voluntary community-based health insurance schemes were established and managed by village committees. Initially aiming to mobilize community resources to finance maternal and child health services, the scheme later added other health care services. Each household was charged 300 Baht per card. In 1991, the scheme evolved into a voluntary health card scheme, managed by the provincial health office to ensure standards of services and pool resources. In financing this scheme, each household had the option of buying a card for 500 Baht that covered every member of the household, up to a total of four members. In 1994, the government began contributing an equal amount to the scheme, except during the Asian Financial Crisis, when the government doubled its contribution. Nevertheless, the scheme was not financially sustainable. Instead of a pool of healthy and non-healthy members, most health card buyers were households whose member had high health risks.

Four milestones in the voluntary health card scheme are:

- **1983**: Phase I: Community Health Insurance covered only mother and child services and was managed by village committees.
- **1984**: Phase II: Community Health Insurance was extended to cover additional health care services for other family members.
- **1991**: Phase III: Voluntary health insurance was established.
- **1994**: Phase IV: The government contributed an equal amount, or subsidized 59 per cent of the scheme, and fully subsidized local leaders and health volunteers.

Table 11.1 classifies various health insurance schemes into four groups, according to their nature and main objectives. This was prior to October 2001, when Thailand achieved universal coverage. Table 11.2 demonstrates the gradual increase in population coverage by health insurance in 1991, 1996, 2000 and 2002.

Health care financing

This section describes how the health care system is financed, and identifies key constraints in ensuring adequate access by all households to necessary medical and health services and the capacity of each health insurance scheme to expand its coverage.

In 2000, Thailand spent 3.37 per cent of the GDP on health. *Per capita* expenditure was 2,672 Baht (US$64). Prior to the mid-1997 Asian Financial Crisis, *per capita* spending on health increased from 2,186 Baht in 1994 to 2,858 Baht in 1996, mainly because of the introduction of luxury, hotel-style services. With the economic crisis, spending on health decreased, especially household out-of-pocket payments, because of limited affordability and a shift from high-cost private services to cheaper public sector services, especially among the middle classes.

After the 1997 crisis, despite fiscal constraints, the government maintained its health budget to provide an adequate health safety net for all. As a result, the private domination of the health expenditure profile was offset by the increasing proportion of public sources of finance from 49 per cent in 1994 (Tangcharoensathien *et al*. 1999) to 61 per cent in 1998, and a slight drop to 57 per cent in 2000 (Table 11.3).

In 1996 and in 1998, personal health care consumed almost three-quarters of total spending (Table 11.4). Other spending, such as on public health programmes, health systems administration and capital investment, consumed more than a quarter. Thailand spent more on ambulatory care than on inpatient services, because the more frequent visits of ambulatory care services offset the costs on inpatient services.

Table 11.1 Characteristics of health insurance and welfare schemes, Thailand, 1999

Characteristics	**Social welfare scheme**	**CSMBS**	**SSS**	**WCS**	**Health card scheme**	**Private insurance**	**Uninsured persons**
1 Scheme **Nature** **Model**	Social welfare Public integrated model	Fringe benefit Public reimbursement model	Compulsory Public contracted model	Compulsory Public reimbursement model	Voluntary Voluntary integrated model	Voluntary Voluntary reimbursement model	Not applicable Voluntary out-of-pocket model
2 Population Coverage (1996)	Poor, elderly and children under 12 years	Government employees, pensioners and their dependants (parent, spouse, children)	Formal–sector private employees, >10-worker establishments	Formal–sector private employees, >10-worker establishments	Non-poor households mainly in rural areas not eligible for social welfare scheme	Better-off individuals	Urban, rural, marginal poor, traders, self-employed, employees in non-formal sectors
Population (million)	17.7	7.62	3.30		7.92	0.72	22.08
% of total population (1996)	29.5 (poor 12.3, elderly 3.5, children under 12 13.7%)	12.7 (CSMBS 11.3%, State enterprise 1.4%)	5.5	Same population as SSS (5.5)	13.2	1.2	36.8
3 Benefit Package							
Ambulatory services	Only public designated	Public only	Public and private	Public and private	Public (MOPH)	Generally not covered	–

Table 11.1 (Continued)

Characteristics	Social welfare scheme	CSMBS	SSS	WCS	Health card scheme	Private insurance	Uninsured persons
Inpatient services	Public only	Public and private	Public and private	Public and private	Public (MOPH)	Mainly private hospitals chosen	–
Choice of provider	Referral line	Free	Contracted hospital or its network	Free	Referral line	Free choice	Free choice
Cash benefit	No	No	Yes	Yes	No	No	No
Conditions included	All	All	Non-work-related illness, injuries	Work-related illness, injuries	All	Depends on premium	–
Conditions excluded	No	No	15 conditions	No	No	Severe disease, pre-existing conditions	–
Maternity benefits	Yes	Yes	Yes	No	Yes	Possible	–
Annual physical check-up	No	Yes	No	No	Possible	Possible	–
Prevention, health promotion	Very limited	Yes	Health education, immunization	No	Possible	No	–
Services not covered	Private bed, special nurse, glasses	Special nurse	Private bed, special nurse	No	Private bed	Depends on package	–

4 Financing							
Source of funds	General taxation	General taxation	Tripartite (government, employers and employees each pay 1.5% of payroll)	Employer, 0.2–2% of payroll with experience rating	Household 500 Baht + tax 500 Baht	Household	Households
Financing body	MOPH	Ministry of Finance	SSO	SSO	MOPH	Private insurance companies	–
Payment mechanism	Global budget	Fee-for-service	Capitation	Fee-for-service	Limited fee-for-service	Fee-for-service with ceiling	Fee-for-service at point of service
Co-payment	No	Yes: IP at private hospitals	Maternity, emergency services	Yes if beyond the ceiling of 30,000 Baht	No	Yes if beyond the ceiling	–
Expenditure *per capita* 1996 (Baht)	>280 + additional cross-subsidy by public hospitals	1,778	1,428	182	534+(additional subsidy by public hospitals)	–	–
Tax subsidy *per capita* (1996)	280	1,778	476	Admin. cost of WCS office	125	0	Through subsidized prices in public hospitals, magnitude unknown

Source: National Statistical Office (1996).
Note: SSO = Social Security Office.
IP = inpatient.

Table 11.2 Population coverage and trends, 1991, 1996, 2000, 2002

Scheme	1991[1]	1996[1]	2000[2]	2002[2]
Social welfare scheme	13.6	30.6	37	79
Government employee scheme	15.3	12.7	11	11
Workman's and Social Security Scheme	0	5.5	9	10
Voluntary Health Card	1.4	13.2	12	0
Private insurance	3.1	1.2	10	10
Uninsured	66.6	36.8	30	0
Population (million)	55.2	60.1	61.5	62.3

Note: Data starts in 1991, the first year available under the SSS.
Sources:
1. National Statistical Office, *Health and Welfare Survey* (1991, 1996).
2. National Statistical Office, *Household Socio-Economic Survey* (2000, 2002).

Table 11.3 National health expenditure profiles, Thailand, 1994–2000 (current year price)

Items	1994	1996	1998	2000
Total health expenditure (Baht)	128,305	171,471	179,689	165,317
Health expenditure, *per capita* (Baht)	2,186	2,858	2,924	2,672
USD *per capita*	87	114	71	64
% GDP	3.56	3.72	3.84	3.37
Public source	49%	53%	61%	57%
Private source	51%	47%	39%	43%

Note: Exchange rate Baht per USD was 25 in 1994 and 1996, 41 in 1998 and 42 in 2000.
Source: Pongpanich (2000); (Tangcharoensathien, 1999, 2003).

Table 11.4 Health spending profiles, 1996 and 1998

Use of finance (per cent)	1996	1998
I. Personal health care	73.5	71.2
1. Inpatient care (IP)	40.9	42.8
IP public	68.0	73.7
IP private	32.0	26.3
2. Ambulatory care (OP)	59.1	57.2
OP public	66.9	67.1
OP private	33.1	32.9
II. Other health expenditures	26.5	28.8

Source: Pongpanich, S. *et al.* (2000).

An overview of health insurance

Civil servant medical benefit scheme (CSMBS). The CSMBS generously covers those currently holding public office and their direct dependants, including parents, spouses and up to three children under twenty years old. It also covers retired employees and their direct dependants, also limited to up to three children under twenty years old, and provides a generous package of comprehensive services including ambulatory and inpatient care with no co-payment if ambulatory care is sought in a public hospitals. Admission to private hospitals requires about 50 per cent co-payment (Tangcharoensathien, Nittayaramphong and Bennett 1993).

In 1998, during the economic downturn, the scheme introduced a number of measures that required co-payment from users for prescribed drugs not included in the essential drug list, such as the use of a private room for inpatient care and board for hospital stays beyond thirteen days. Reimbursement for private inpatient care was also terminated except for life-threatening accidents and emergencies (Secretary of the Cabinet 1998).

Health expenditures of civil servants rose rapidly per annum between 1988 and 1997, 14 per cent in real terms. In addition, these beneficiary groups claimed the highest health expenditure *per capita* at 3,000 Baht in 2002 (Figure 11.1), at a time when the number of government employees had not grown and average household size had decreased slightly.

Three major and interrelated problems are identified in the CSMBS: inefficiency, cost escalation and inequity. Costs have escalated considerably, a 14 per cent

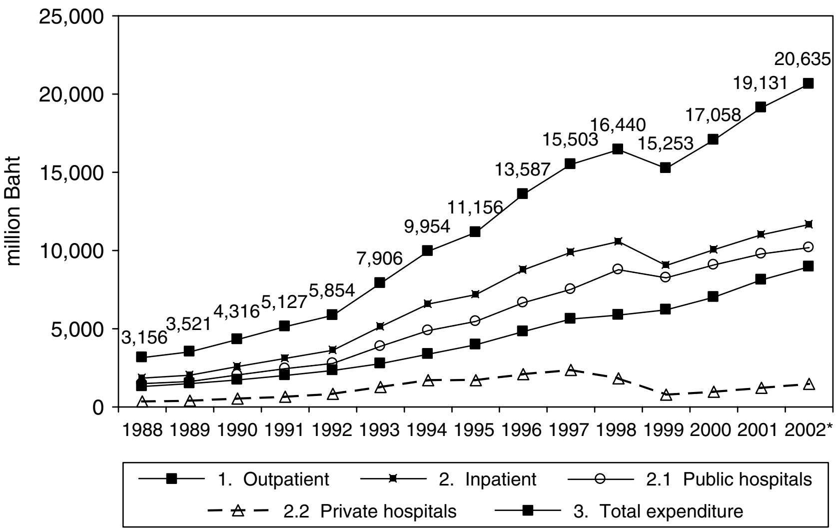

Figure 11.1 Expenditure profiles, CSMBS, 1988–2002 million Baht, current year price
Note:* Estimated.

real increase in expenditure per annum between 1988 and 1997. The CSMBS is totally financed by general tax revenues, using a fee-for-service reimbursement model, without any contribution from beneficiaries, who have historically viewed the CSMBS health benefits as implicit compensation for their low pay scales. The high costs, however, are caused by all players. Public hospitals have the incentive to overcharge to cross-subsidize patients under the Low Income Scheme, which is underfinanced. Private hospitals have profit motives. Beneficiaries, facing no price tag, have no need to be cost-conscious. Weak monitoring and auditing systems encourage the lack of cost-consciousness; studies show that public hospitals prescribe unnecessary and expensive brand-name drugs and recommend longer hospital stays than they do for general patients. At the same time, private hospitals abuse the system by overcharging and false claims, for example, re-classifying non-reimbursable ambulatory care as reimbursable inpatient care (Tangcharoensathien, Nittayaramphong and Bennett 1993).

Because the scheme is financed by taxes, some health reform advocates cite the CSMBS as an example of inequity in government spending by comparing its 3,000 Baht *per capita* subsidy (in 2002) with the 590 Baht for the Low Income Scheme (in 2001).

Health welfare scheme for low-income groups. In 1975, a health welfare scheme for low-income groups was established to ensure that poor families had access to health care. Initially, the government allocated a budget to public hospitals to provide free care, at the staff's discretion, for households whose monthly income *per capita* was below 1,000 Baht. After one year as a pilot project, the Low Income Card (LIC) was officially issued in 1981. It was valid for three years and was renewable depending on the income level of the holder. Generally, the comprehensive health benefit package covered by the scheme offered both ambulatory and admission services with a few exclusions, such as infertility treatment, organ transplantation, cosmetic surgery, dentures (except acrylic dentures), similar to the stipulations in the SSS and the Health Card Project. For entitlement to such free care, beneficiaries were required to register at a public facility, customarily a health centre or district hospital in their district.

The scheme was financed by an annual budget allocated to hospitals and health centres. The total budget for the scheme increased steadily from 2,500 million Baht in 1992 to 8,841 million Baht in 1999 and to 9,356.6 million Baht in 2001,[4] at the same time that the budget subsidy *per capita* increased from 280 Baht in 1996 to approximately 590 Baht in 2001[5] (Bureau of Budget 1991; National Economic and Social Development Board 2002).

Significant problems were observed. For example, at the implementation level there was difficulty in targeting the poor and excluding the non-poor, using specified means-tested or even a community-nominating process. In addition, the procedure for allowing a non-card holder full or partial exemption from medical bills was considered too subjective, since it was determined by hospital social workers: without definite criteria, decisions varied from hospital to hospital. Moreover, the scheme was perceived by concerned parties, especially health economists, as underfunded when compared with CSMBS. Evaluations consistently reflected the marginal effectiveness of the scheme, for example, a socio-economic survey in 2000 showed that only 23.4 per cent of the Low Income Card holders were classified as poor. A survey of card holders showed no evidence of low consumer satisfaction, however, probably owing to the lower expectations of the poor (Office of Health Insurance 2000).

Health card scheme for the marginal poor. Initiated in 1983, the Health Card Scheme for the Marginal Poor has gone through several transformations. Initially a community-financing scheme linking curative care with maternal and child health, the scheme then added other primary health care objectives such as immunization and use of essential drugs, and then moved towards a national-level public-subsidized voluntary health insurance fund in 1992 (Singkaew 1993). A household could enrol in this scheme by purchasing a 500 Baht health card, which guaranteed health benefits up to four family members yearly. The government subsidized another 500 Baht per card to the scheme through general tax revenues. In 1994, free health cards were given to community leaders and village health volunteers in compensation for their contributions to the community.

The card was initially perceived as a promising start towards universal coverage since it targeted the population who were not eligible for Low Income Cards. The benefit package was similar to the Low Income Scheme. A referral system was enforced, but the first contact could be either with the health centre or district hospital. The design of the Health Card Scheme was expected to fit into the 'voluntary integrated model' of coverage in terms of the OECD (1994) classification. Evidence showed, however, that its potential for expansion was limited and that its financial viability questionable. Because of its voluntary nature, the healthy opted out, while the sick joined the membership.

Social security scheme for formal sector employees. The social security scheme (SSS) aims to provide health security for formal private sector employees, especially for illness, maternity, invalidity and death, including cash benefits for sick and maternity leave. The scheme is financed through equal contributions from the employee, the employer and the government. Dependants are excluded from the health benefit package, except for maternity coverage for the spouses of male workers. Various qualifying periods of contribution to the fund are enforced, and a grace period for workers who leave employment is also granted. By April 2002, the scheme had expanded its coverage to workplaces with one or more employees. Private employees are protected through the SSS, which was expanded to cover all private establishments with one employee or more. Other schemes that provide social security to the formal labour sector are the Workmen's Compensation Scheme, the Cooperative Fund for Labour and the Employee Assistance Fund.

It had originally been planned that illness benefits should cover only hospitalization and should be based on fee-for-service reimbursement, as in the Workmen's Compensation Scheme. However, during the drafting of the Social Security Act in 1990, political pressure led to the extension of illness benefits to include ambulatory care, without a change in the level of contributions. This, together with the Social Security Fund's inability to cope with rising medical expenditures under fee-for-service arrangements, and experience with the lower administrative costs under capitation, led to the adoption of capitation by the fund (Tangcharoensathien and Walee-Ittikul 1991). Single-rate capitation covers both ambulatory and inpatient services. Public and private providers are invited to provide services for registered workers. The capitation fee is applied to all contractor hospitals, both public and private. An initial capitation fee[6] was set at 700 Baht (US$28) in 1991, then increased to the current 1,250 Baht in 2002. A comprehensive service package, including ambulatory and inpatient care, is provided at the registered provider. A similar exclusion list to that of the Social Welfare Scheme applies. Recently, workers have been given access to haemodialysis for end-stage renal failure.

The scheme employs a 'compulsory capitation contract model'. There is no co-payment at the point of service. This model offers considerable potential for achieving efficiency by combining consumer-led competition, the development of suitable incentives and formal contracts between the Social Security Office and providers (Tangcharoensathien and Pitayarang Sarit 2001). Some OECD countries follow a similar model.

Since the strength of the SSS lies in its capacity for cost containment, the cost–quality trade-off has subsequently become a significant problem, especially when workers do not exercise their right to choose the health care provider with which they register (Mills A. *et al.* 2000). Insurance coverage is linked with employment and terminates when employment ceases. This problem became evident during the Asian Financial Crisis in mid-1997, when many workers were laid off. The inability to carry over insurance coverage became the main obstacle to sustainable universal coverage, even among formal sector private employees.

Problems in health care financing

Prior to the UC scheme. Health insurance before 2002 was fragmented and diverse in both design and financing. Despite the experience of two decades, targeting the poor through means-testing did not function properly in the Low Income Scheme; in addition, the scheme was underfunded. The CSMBS suffered inherent problems with the fee-for-service reimbursement model, such as cost escalation, frivolous use of health care resources, unnecessary admission and longer stays, all exacerbated by lack of effective monitoring or an evaluation mechanism. The Voluntary Health Card Scheme was not financially sustainable because of its voluntary nature and potential for adverse selection (Pannarunothai *et al.* 2000). The three public schemes (CSMBS, SSS and Low Income Scheme) faced inequities in terms of government subsidies and *per capita* expenditures, benefit packages and enforcement of referrals in some schemes. Government subsidies *per capita* were affected by the use of the CSMBS as a cross-subsidy for the Low Income Scheme, in which CSMBS services were overcharged to make up for the underfunding of the Low Income Scheme, the usual practice in public health offices. Government spending on the CSMBS was also increased by irrational prescriptions of brand-name drugs as well as by overinvestigation of medical actions.

Despite government efforts to expand health insurance coverage – such as ensuring that the elderly and children under twelve had free care, introducing the Health Card Scheme for the non-poor group and gradually extending enforcement of the SSS in the private sector – by 2001, 28.97 per cent of Thais were not covered by any scheme. Almost 74 per cent of the uninsured were of working age (fifteen to fifty-nine years), while 20 per cent were below fourteen years. In addition, slightly more than half of the uninsured (52.3 per cent) resided in rural areas (National Statistical Office 2002).

Means lacking to safeguard against the financial risks of severe illness. In 1994, 3.7 per cent of Thai households devoted more than 30 per cent of their non-food consumption expenditure to health care, while another 7.4 per cent spent 15–30 per cent of their non-food expenditure on health (Table 11.5). The situation gradually improved since non-food expenditure was used to reflect household capacity to pay when food, the most essential item, was safeguarded. The 30 per cent uninsured of the population was the most vulnerable in the event of severe illness. For-profit private hospitals sometimes rejected them for treatment, and prior to 1994, when the No-fault

Table 11.5 Percentage of households classified by percentage of non-food expenditure on health, 1994–2002

Non-food expenditure on health %	1994	1996	1998	2000	2002
0–1	36.9	39.8	41.6	42.5	61.5
1–5	31.6	30.2	30.4	30.4	23.0
5–15	20.4	19.7	18.5	18.2	10.4
15–30	7.4	6.7	6.7	6.3	3.4
More than 30	3.7	3.6	2.9	2.6	1.7
Total	100.0	100.0	100.0	100.0	100.0

Source: National Statistical Office, *Socio-Economic Survey* (1994–2002).

Traffic Accident Act was implemented, victims of traffic accidents who could not secure the financial resources to settle medical bills before admission were rejected by private hospitals, or referred to public hospitals, regardless of distance or urgency of treatment.

In general, mechanisms were ineffective in protecting households against large health expenditures, especially when a household member suffered a serious illness or injury. Households that faced financial ruin usually coped by borrowing from moneylenders and were easily trapped into debt when their financial resources were depleted.

Means testing: good policy but poor implementation. Since 1975, low-income households were exempt from paying fees-for-service at the discretion of the hospital director and social welfare worker. Such practices evolved into a formal exemption mechanism (the Low Income Card) in 1981. Means-testing assessed all sources of household income; the mechanism was evidence-based and should have worked well in theory, but the scheme always faced eligibility problems in targeting the poor. Although the local village committee was involved in identifying poor households whose income fell below the poverty line, nepotism practised by local leaders was the major drawback. The scheme did not adequately cover the poor and was ineffective in excluding the non-poor from enjoying the health benefits of the scheme. For example, a household socio-economic survey in 2000 shows that the poorest income quintile accounted for 38.2 per cent of total Low Income Card holders. More than one-tenth of Low Income Card holders were in the fourth richest income quintile and 2.5 per cent of the richest income quintile held Low Income Health Cards. Hence, only one-fifth of the poorest income quintile had access to financial protection against severe illness under the Low Income Health Card Scheme. The same situation was observed for the Voluntary Health Card Scheme. It should be noted that 45 per cent of the poorest income quintile were insured under this scheme, and that the two schemes combined provided health insurance for two-thirds of the poorest income quintile (Table 11.6).

Implementing universal coverage

Under the UC, the Low Income Card, the Voluntary Health Card and the approximately 30 per cent uninsured were consolidated under one scheme funded by general tax revenues. In November 2002, a National Health Security Act was promulgated. Currently, two public insurance schemes (CSMBS and SSS) cover public and formal private employees. The rest of the population, who are engaged in the informal sector or are self-employed, are covered by the UC scheme. Five factors accelerated the adoption of the UC.

Table 11.6 Accessibility to Low-Income Health Card and Voluntary Health Card Schemes, 2000

Income quintile	**of Eligible pop. LIHC %**	**Share of LIHC %**	**of Eligible pop. VHC %**	**Share VHC %**
Poorest	21.46	38.20	45.01	25.24
Second	16.43	29.19	48.96	27.41
Third	10.54	18.77	44.44	24.93
Fourth	6.37	11.33	28.79	16.13
Richest	1.41	2.52	11.22	6.29
Total	n.a.	100.00	n.a.	100.00

Notes:
LIHC = Low Income Health Card.
VHC = Voluntary Health Card.
n.a. = not availance.

Political commitment

The political environment was conducive to reform. Since one of the three major policies of the *Thai Rak Thai's* campaign platform aimed at easing households' medical expenses, the UC was very warmly welcomed by people of all economic backgrounds. In the general election of 2001, *Thai Rak Thai* received an overwhelming majority, which had never occurred before in Thai politics. To honour its political commitments, the government, in response to public demand, launched the UC in four pilot provinces, then implemented it nationwide, including Bangkok, by October 2002, the start of FY2003. It should be noted that Bangkok subsidizes its public health services through local tax revenues.

Technical capacity

For more than a decade, Thailand had been preparing human resources and accumulating a body of knowledge regarding the health system and health care financing. The Ministry of Public Health regularly sent staff overseas to continue their education in health economics and train in health system reform, including joint collaborations and participation in forums. Several international institutes, especially from Europe and Canada, provided technical assistance. The Ministry also commissioned operation research focusing on health administrative reform, health financing reform and health manpower resource management. Reformists, those directly involved and pushing forward the reform process, formed an informal network with international scholars for the continuous exchange of experience in health system reform.

Through regulations, the government encouraged higher standards of health care. The Office of Hospital Accreditation, for instance, was set up in

1995–6 with a pilot project involving thirty-seven public hospitals. The 1998 Hospital Act encouraged hospital accreditation, on a voluntary basis, for all hospitals, in 2002, all hospitals registering for social security had to pass hospital accreditation. According to records of the Hospital Accreditation Office, the Health Systems Research Institute and the MOPH, as of June 2003, 488 hospitals were in one of the three stages in the process of accreditation, and fifty-one hospitals had been accredited.

A compilation of the national health account provides valuable information regarding resource flows in the health system and sources of financing. A study of the fairness of health financial contributions demonstrates that out-of-pocket payment is slightly regressive, while the prepayment component (including government spending on health and social insurance contributions) is slightly progressive. Prepayment has a greater proportion than out-of-pocket spending in financing health care in all deciles except the poorest (Tangcharoensathien and Pitayarangsarit 2001). Research on the strengths and weaknesses of existing insurance schemes (Mills *et al.* 2000; Pitayarangsarit, Tangcharoensathien and Aniwan 1999) has also been carried out, including the pros and cons of different methods of paying health-care providers and responses by providers, as observed by the WHO (WHO 2000). In addition, health system reform and universal coverage were on the policy agenda since 1995 (Mills 1998; Nitayarumphong and Pannarunothai 1998). All technical capacity and knowledge gained provides evidence for basing policy decisions on the direction and approach that Thailand should adopt for the UC.

Close relationship between research and policy making

A crucial element that fostered political will and political commitment for undertaking the bold initiative towards the UC was the close relationship and continuous interaction between politicians, healthcare reformists and researchers. At the same time, the reformists also held ongoing dialogues with the public, which helped to strengthen civil society for health. Thai experience gradually accumulated in knowledge management, especially that concerning the interface between research and policy making. The Health Systems Research Institute, an independent research institute, and its networks in the bureaucracy and universities, played a crucial role in commissioning research and designing the UC system.

Health service infrastructure

At the same time, the country gradually improved health infrastructure and extended health service delivery to remote areas. By 1999, it took 60 per cent of rural villagers less than half an hour to reach their nearest health service facility, 33 per cent an hour, and only 7 per cent more than an hour. The readiness of health infrastructure, both public and private, facilitated the application of a capitation-contract model, the UC financing scheme.

Public sector reform environment

As a result of political reform and the stipulations in the current Constitution, the political will was strong for public sector reform towards good governance, active public participation, decentralization and a change in government role. The Devolution Act 1999 stipulated a transitional plan to transfer central government responsibility (social services, notably health and education, and financial devolution) to local governments. The Public Organization Act 1999 granted public hospitals, government universities and other social services independent status their own governing body, local people were made members of the supervisory board and the staff were government employees but not civil servants. Although the government provided funding, it had no power over the governors. However, Banphaeo is the first and only autonomous hospital in Thailand. The UC design has also to take ongoing public sector reform into account.

Achievements of universal coverage and future trends

Legislation of the UC policy

Implementation of the UC (the 30 Baht scheme) had been fully accomplished by April 2002, using administrative measures. The legislative process then followed. It was not until November 2002 that the National Health Security Act was promulgated by the House of Representatives and the Senate. Since the UC could be described as a 'Big Bang' approach to reform, it faced serious resistance from bureaucrats, at both provincial and senior levels in the Ministry of Public Health; but the Prime Minister, the Minister of Public Health and the Deputy Minister of Public Health withstood these challenges.

The UC design and systems configuration

The scheme was piloted in six provinces in March 2001, and expanded to twenty-one provinces by June 2001. Political decisions dictated a nationwide expansion by October 2001, except for the capital. By October 2002, three public schemes covered the whole population.

Taking fiscal constraints into consideration, the UC is financed by a capitation contract, as this model had positive results on cost containment in the SSS (Mills *et al.* 2000), despite the cost–quality tradeoff problem. Capitation follows registration by beneficiaries; a typical district health system (including five–ten health centres and a district hospital for 50,000 population) serves as a primary care contractor network. A single rate of capitation is used for all contractor networks. The rate was 1,202 Baht in FY 2002, 1,414 Baht in FY2003 and 1,447 Baht in FY 2004 (Tangcharoensathien, Teerawathananon and Prakongsai 2001; Prakongsai *et al.* 2002; Vasavit, Tisayaticom and Tangcharoensathien 2003). Beneficiaries are required to co-pay 30 Baht per visit or admission (the poor are exempt).

Such capitation is used for budget allocation by the multiplying 1,202 Baht by the total number of beneficiaries in each province. In the first year of implementation, the total amount was split into two parts, one for ambulatory care, prevention and promotion services, which was paid out on a capitation base to the primary care contractor network. The rest was held at the provincial level as a global budget to pay for inpatient services based on the relative weight of case mixes provided by each hospital using a Diagnostic Related Group. Practices varied from province to province. In addition, there was also a contingency fund at central level to facilitate health system adjustment in provinces experiencing budget reductions. However, the contingency fund was dissolved in the second year.

The benefit package now consists of ambulatory care, admission, personal prevention and health promotion services and dental services. Only two conditions are excluded: renal replacement therapy for end-stage renal diseases (such as haemodialysis and kidney transplantation); and triple combination therapy (anti-retroviral drugs) for people living with AIDS, because of the high cost and long-term financial implications. Before the UC policy, prevention of mother-to-child HIV transmission came under a national scheme.

Figure 11.2 depicts the systems configuration of three major public health insurance schemes in Thailand in place after the implementation of the UC.

Consequences for health systems reform

Capitation and registration with primary care stimulates the development of cost-effective 'close to client (CTC)' primary care services while the Medical Council have developed a new curriculum for training physicians in family care. CTC primary care is a strategic hub fostering comprehensive, continued holistic care including curative, preventative and health promotion services at the household and community level. Clear budget allocation to the CTC was observed in all provinces until this practice was discontinued at the end of FY2002.

Capitation drastically reorients the continued inequitable budget and health resource allocation. Prior to the UC, budget allocation was supply-side incremental budgeting, more affluent areas having higher infrastructure (population-bed ratio), more professional staff and used to get more budget subsidy. The reverse was the case in poorer populous areas. Budgeting based on capitation reverses such trends; poorer populous areas received more budget subsidy. Redistribution of health personnel to rural areas was also observed, as salary has been included as integral part of capitation.

Expected outcomes of the UC

We can consider three here:

- *Shaping providers' behaviour* Long-term cost containment and overall systems efficiency can be expected, since capitation encourages cost efficiency since health care providers have to manage within the capitation

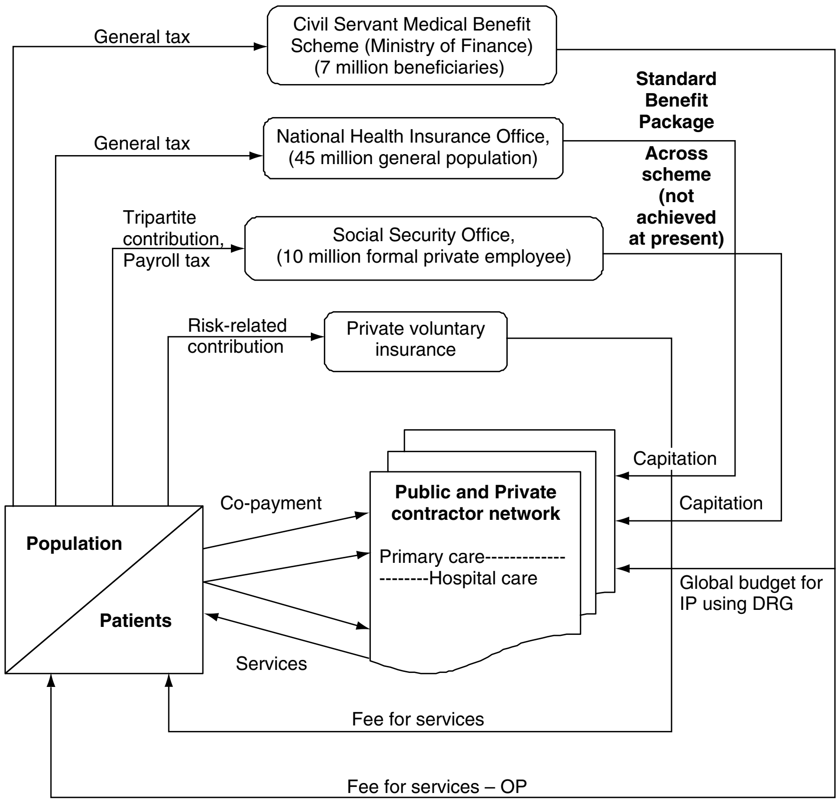

Figure 11.2 Model of health insurance system, Thailand, 2002
Notes: OP = Out Patients.
IP = In Patient.
DRG = Diagnosis Related Group.
Source: Tangcharoensathien (2002).

budget. Regulatory bodies also expect rational use of drugs and increased use of quality generic drugs to be practised throughout.

- *Ensuring adequacy of quality services* The National Health Insurance Office is now in a position, as the major purchaser of health services for 45 million people, to exploit its monopolistic position to ensure adequacy of quality services at reasonable prices.
- *Reducing the household financial burden* The UC has resulted in significantly easing the financial burden of households. As shown in Table 11.5, the percentage of households spending more than 30 per cent of their non-food expenditure on health has been reduced from 2.6 per cent in 2000 (the period before the introduction of the UC) to 1.7 per cent in 2002 (after the UC implementation).

Conclusion: future challenges of health security

Several major challenges arose after the introduction of the UC, in both health financing and health utilization. Policy recommendations based on existing problems are now made, as well as both supporting and sluggish factors contributing to the efficient UC.

Change in financing practice and financial sustainability

In the public sector, the government usually finances the health system by allocating a budget to public health centres, which in turn charge users a fee-for-service. The UC charges users a fixed rate of 30 Baht (US$0.75), with the remaining cost of health expenditure financed by tax revenues, using a capitation contract model. In FY2002 and FY2003, the capitation rate was assessed at only 1,202 Baht. In addition, a contingency fund was set up for 2002. Since no funds were set aside for 2003, some health providers might face difficulties in managing with such financial constraints, while some quietly oppose such financing practices and thus also oppose the UC.

Apart from these health providers, others in the public health sector as well as members of the public are concerned that the UC may cause an excessive fiscal burden. However, a study on the Medium Term Economic Framework, which forecasts expenditures on the UC and the two other public schemes, argues that the financial burden arising from all three schemes is within the government's fiscal capacity at least in the medium term (Tangcharoensathien, Pityarangsarit and Vasarid 2002).

Although capitation facilitates cost containment and controls the undesirable behaviour of providers, upward trends in health expenditure, which may arise from the increasing cost of medical technology and patented drugs, prompt examination of possible alternatives. A mandatory contribution by the UC users might be introduced, or Article 39 of the National Health Security Act 2002, which an individual in the work force in the informal and agricultural sectors to enrol voluntarily, could be enforced in conjunction with seeking additional finance from the sub-district administrations and municipalities, as stipulated by Article 39(2) of the National Health Security Act (Secretary of the Cabinet 2002). It is difficult, however, to collect contributions from these groups and quite costly in administration and enforcement.

A preliminary benefit incidence study by Hanvoravongchai *et al.* (2003) demonstrates that services in district health systems provide more benefits to the poor than to the rich, while at tertiary provincial and teaching hospitals, the opposite occurs. If benefit incidence (National Statistical Office 2003) demonstrates that the scheme benefits the more affluent quintile, it prompts two policy implications. First, either a contribution or co-payment at point of service should be introduced. Advocacy of contributions is more desirable than co-payment as it shares the risk among a larger population base. Second, a higher co-payment should be introduced at the tertiary care level as it is more geographically accessible by the affluent groups. As for equity enhancement, there is a need to focus on investment in primary care services in district health systems, including ensuring adequate referral of the poor to tertiary care services.

It is argued that the UC's capitation payment possibly results in under-provision of services, a cost–quality tradeoff and poor consumer satisfaction (Pannarunothai, Srithansongsawat and Khongswat 2000). A poll conducted in June 2003 indicated that 66.8 per cent of consumers were satisfied with the UC, while 29.9 per cent were rather satisfied (Assumption University 2002). Stringent quality assurance systems should thus be well in place and enforced as part of annual contract reviews to ensure that grievance mechanisms are functioning properly.

Effective utilization of health service

To ensure competition between public and private providers, the Ministry of Public Health (MOPH) allows beneficiaries to choose which provider they want. In a typical district health system, the public sub-district health centres and the district hospital in the vicinity are practically the only choice of contractor network. Though there are ample private clinics at district level, they are not full-time and are not keen to provide preventive care, promotion services and home visits, as stipulated in the benefit package. Perceived poor quality of care is a major determinant in bypassing the primary care contractor for tertiary hospitals for health conditions that could be treated by primary physicians. Instead of promoting competition in the district health system, which can be partially valid in urban areas, the policy challenge is to invest more in quality care to gain the confidence of beneficiaries.

Starting in 2003, the MOPH and the National Statistical Office are to conduct a Health and Welfare Survey every two years (instead of every five years, as was done previously). The survey questionnaire is to be modified linking household income and health care utilization. These alterations will more precisely reflect benefit incidence and utilization of health services and levels of household income and thus provide more clearly-defined data for policy analysis and amendments to ensure equity of access to care and financing of health services. In 2004, the National Statistical Office agreed with the request from the International Health Policy Programme and to conduct an annual Health and Welfare Survey for five consecutive years between 2003–2007, to provide a strong foundation for projection of utilization rates among the UC members and to facilitate capitation estimation and actuarial projections.

Introducing the UC has encouraged behavioural change in all related stakeholders, especially when related to the loss of authority to command financial resources. Since the inception of the scheme, frequent newspaper reports have reflected misunderstanding, resentment and resistance, especially from those directly affected by the changes in financing practices. However, obvious problems have arisen from the partial funding in 2003 of 1,202 Baht *per* *capita* (instead of 1,414 Baht), resulting from actuarial calculations. The most important argument is based on the evidence that compliance of the UC card holders is 59 per cent for ambulatory care and 69 per cent for admission (Pannarunothai, Srithamrongsawar and Khongswat 2002). Although compliance did not reach 100 per cent, it justified partial funding for FY2003. When taking into consideration consequences of underfunding, however, the situation may generate a cycle that results in reduced service quality.

Thailand has gradually recovered from the 1997 Asian Financial Crisis, as shown by the increase in real GDP from 1998 (GDP growth -10.5 per cent), to 2002 (5.3 per cent). Public debt also declined slightly, from 54.2 per cent in 1999 and 57.3 per cent of GDP in 2000 to 50.5 per cent of GDP in the first quarter of 2003.

Alongside the country's increased economic stability, the UC scheme, which aims to guarantee all Thais accessibility to health care, has now been in place for slightly over three years. Political will, a health care infrastructure that continues to gain in strength, experience and knowledge and the close relationship between research and policy all continue to support the UC. Problems remain, however. Some practices, holdovers from the previous schemes and detrimental to the aims of the UC, persist. To ensure not only health care but also high-quality, cost-efficient health care for all Thais, the UC implementation has required radical change within the health system. Stakeholders have yet to adjust to the less subjective, more equitable approach that the UC demands. There remains a great deal of confrontation and unease, even among health personnel themselves, in coping with such changes. Since health care is a crucial component of basic needs, the provision of adequate health services should be a government priority. These services, however, are not assured to all people, the UC remains an unfinished agenda.

Notes

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2. This, eventually, will lead to re-deployment of personnel to local authorities.
3. 6.9 million private employees were covered under the SSS and 1 million government employees.
4. Including a World Bank loan of 108.4 million Baht.
5. Calculated by dividing total budget expenditure (2001) with total number of beneficiaries of approximately 15.8 million persons.
6. Calculation based on three ambulatory visits and 0.5 hospitalization days *per capita* per year, and average costs of 150 Baht per outpatient visit and 600 Baht per hospital day (Tangcharoensathien and Walee-Ittikul 1991).

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Index

Notes: f = figure; n = note; t = table; **bold** = extended discussion or heading emphasized in main text

advocacy coalitions 14–15, 16, 19, **27–49**
affirmative action **110–13**
aged *see* elderly people
Aged Society NGO Association (*Korei Shakai NGO Rengo Kyogikai*) 91–2
ageing population 16, 17, 74, 75, 81, 82, 85, 86, 87, 89, 93, 124, 199, 258
agenda-setting (Taiwan) **60–1**
Aid to Families with Dependent Children Programme (AFDC, USA, 1988–) 146
Angel Plan (child care, Japan, 1994–) 83, **84–5**, 89
annuities 192, 194, 196, 198
Anwar Ibrahim 113
Asian Financial Crisis (1997–8) 1, 7, 10, 11, 17, 133, 165, 185
  HKSAR 118, 119, **126–30**, 136, 209, 210
  Korea 3–4, 13, 15, 27, 29–31, 41, 42, 44–7, 143, 144, 149, 162, 183
  Malaysia 111, 113, 203
  PRC 254
  Singapore 105, **108–9**
  Taiwan 183
  Thailand 19, 260, 261, 262, 267, 270, 280
Association of Social Security Studies (Korea) 38
authoritarianism 6, 8, 9, 14, 27, 30, 46, 61, 67, 68, 102, 114, 133, 165

Bangsa Malaysia (Malaysian Race) concept 113
Barisan Alternatif (Alternative Front) 113
Barisan Nasional (BN, National Front, Malaysia) 101, 112, 113
Barisan Sosialis (Socialist Front, Singapore) 101
Basic Medical Insurance (BMI, PRC) 243, 244f
Basic Social Welfare Law (Japan, 1951) 78
benefit trap 161
big business 152
Bismarck, O. von 5
Britain *see* United Kingdom
bubble economy (Japan) 82, 83, 85
Bumiputra 103, 204, 207
bureaucracy 6, 51, 57, 59, 65, 74, 86
BWIs *see* international financial institutions

cabinet (Taiwan) 62, 64, 65
capital 103, 104, 105, 110, 111, 115(n13), 171, 172, 204, 238
  international 9, 136
capital mobility 12, 173
capitalism 121
capitation 270, 276, 277f, 278, 279
capitation-contract model 274, 275–6
care homes, long-stay 218, 219, 223
carers 92, 161
caring work 187
cash benefits 264t, 269
Central Provident Fund (CPF, Singapore) 3, 4, 9, 11, 104–5, 109, 115(n10–11), **194–6**
  economic development **204–6**, 207
  Medisave Account (1984–) 195–6, **200–1**
  Ordinary Account 195, 196, **201–2**, 207
  Special Account 193, 195–6, 202
chaebol (Korean conglomerates) 8, 21(n5), 40, 42, 47(n4), 143, 156, 171
cheap labour 12, 165, 171, 237
chi'iki fukushi (community welfare policy) 74, **89–92**, 93
Chiang Ching-kuo 52, 57
Chiang Kai-shek 7
Chief Executive (HKSAR) 135–6, 137(n8), 216
child allowances 79, 80, 84
child benefits 213
child care 17, 74, 78, 79, 83, **84–5**, 94(n5), 166(n1)
child labour 212

China, People's Republic of ('Beijing'; 'PRC') 1, 11, 15, 18, 20, 52, 56, 104, 108, 119, 126, 129, 133–5, 166(n1), 172, 185, 213, 222, 224
'open door' policy (1980s) 125
social expenditure **251–2**, 253t
China: social policy **231–56**
dual system 231
welfare arrangements (urban and rural areas) 234–5t
China: welfare reform **236–50**
Chinese Civil War 51
Chinese Communist Party (CCP) 232, 233, 237, 240
Central Committee 248
Twelfth Central Committee: Third Assembly (1984) 236
Chinese people
Hong Kong 123
Malaysia 18, 99–101, 110–13, 115(n5, n13–15)
Singapore 102, 106
Taiwan 54, 56
Chun Doo-hwan, General 35–8, 44, 148
Citizens' Coalition for Participatory Democracy 43, 44
citizenship 61, 80, 99, 105, 106, 107, 126, 135
Civil Servant Medical Benefit Scheme (CSMBS, Thailand, 1978–) 19, **259–60**, 263–5t, **267–8**, 269–72, 277f
expenditure profiles (1988–2002) 267f
problems 267–8
civil society 17, 19, 21(n4), 51, 59, 65–8, 73, 83, 85, **89–92**, 93, 102, 114, 126, **133–6**, 161, 186
co-payment 60, 69(n8), 80, 265t, 267, 270, 275, 277f, 278
coalition government (Japan) 86, 89, 93, 94(n8–9)
Coalition for Integration of National Health Insurance 43
Cold War 75, 232
collectivism 232, 234t, 246, 250
colonial rule 3, 10, 98, 101, 104, 115(n9), 121–2, 125–6, 194–5, 209–10, 212–13, 225
Hong Kong **119–20**
Committee for Social Security (CSS, Korea) 31–6, 38
abolition 36
communism/communists 100, 120
communitarianism 102, 115(n7)
Community Chest (Hong Kong) 215
Community Health Insurance (Thailand) 261, 262
community service 161
community-based services
discharged mental patients **222–4**
companies 2, 11, 186, 211
labour-intensive 183
large 15, 41, 173, 222
medium-sized 37
private 150, 152, 204
comparative advantage 7, 8
competitiveness 11, 19, 41, 104, 132, 143–4, 152, 154–5, 165, 170, 173, 238, 240, 255
Comprehensive Social Security Assistance Scheme (CSSA, HKSAR) 129
'Confucian welfare state' (Lee, E. W. Y.) 123, 125–6, 130
conglomerates 8, 21(n5)
Consumer Price Index (CPI) 152
contract employment system (PRC) 241
contributions 182, 191, 194, 195, 197, 198, 201–3, 205, 206, 240, 242, 254, 269, 270, 274, 278
mandatory 258
tripartite concept 260
Cooperative Fund for Labour (Thailand) 270
corruption 18, 85, 111
cost containment 65, **127–30**, 267–8, 270, 275, 278
cost-quality trade-off 270, 275, 279
coups dē tat 31, 35, 148
Cowperthwaite, Sir John 121
CPF *see* Central Provident Fund (Singapore)
'crisis and compensation' (Calder) 55, 56t, 58, 67
Cyberport (HKSAR) 131

Dan Wei (urban employment units, PRC) 249
Day Activity Centres (DACs) 222–3
decision-making 32, 33, 58, 59, 185
decolonization 10, 114
democracy 4, 68, 237
Democratic Action Party (DAP, Malaysia) 100, 101, 113
Democratic Party (HKSAR) 134
Democratic Party of Japan (DPJ) 92, 94(n9)
Democratic Progressive Party (DPP, Taiwan, 1986–) 13–14, 15–16, 57–9, 61, 63, 69, 70(n12), 133, 184, 186

democratization 3, 12, 15, 16, 19–20, 46–7, 47(n5), 66–7, 75, 80, 113–14, 125, 132, 133, 165–6, 170
demographic test 27, 47(n2)
demography 85, 87, 118, 199
developing countries 6, 20, 233
development strategies (Korea) **143–69**
'developmental social policy' (Korea) 12
developmental welfare state 21(n4), 73, 85, 232, 245
  authoritarian 54, 55, 67, 68
  Bismarckian 5, 6
  concept 3, 21(n3)
  definitions 6
  institutional dynamics 1, **141–228**
  politics 1, **25–139**
  selective **254–5**
  Scandinavian 5
  unified approach (Myrdal) 5
  see also welfare developmentalism
Diagnostic Related Group (DRG, Thailand) 276, 277f
disability 69(n1), 84, 200, 214, 221, 224, 260
disabled people 77, 78, 90, 94(n10), 120, 149, 166(n4), 185, 188(n1, n3), 210, 222, 224, 235t, 245, 247, 249, 258
district health system 279
division of labour 88, 171
DPP *see* Democratic Progressive Party

East Asia x, 1, 2, **16–19**, 21(n3)
'economic bubble' (Hong Kong) 125, 126
economic development x, 1, 2, 9, 20, 34, 46, 75, 103, 113, 137, 165, 170, 192, 193, 204, 206, 207, 211, 232, 233
  Japan **77–80**
economic growth 1, 3, 19, 45, 54, 68, 81, 103, 115(n14), 122, 124, 143, 148, 152, 156t, 164, 213, 224, 237, 240, 254
economic non-interventionism 121, 122, 123, 131–2, 135, 136
economic recession 6, 30, 78, 83, 109, 126–7, 146, 148, 151, 152, 195, 205, 214
economic restructuring **130–3**, 137(n1)
'economy first' paradigm 17, 28, 29, 45, 213
education 18, 41, 102, 108, 120, 126, 127, **128–9**, 131, 135, 149, 153f, 175, 192, 198, 213, 232, 250, 254–5, 255(n1), 257
  primary 212, 231, 234t, 259
  secondary 234t
  tertiary/higher 100, 111, 112, 128, 193, 212, 217, 240, 254
EIP *see* Employment Insurance Programme
elderly people/the aged 17, 37, 47(n2), 60, 65, 73–4, 77, 79, 82, 86–8, 90, 92–3, 94(n10), 115(n11), 120, 129, 149, 153f, 160, 188(n1), 196, 200, 206, 210, 214, 223, 224, 226(n1), 232, 235t, **245**, 247, 249, 258, 261, 263t, 271
  'old age' 53, 69, 69(n1), 88, 177–8, 199
  social care reform (Gold Plan, Japan, 1989–) **83–4**, 94(n6)
Elderly Welfare Scheme (Japan, 1963) 78
elections 13–16, 27, 37–8, 39, 43–5, 47(n3, n5), 52, 57, 58, 61, 64, 69(n2, n4), 78, 86, 94(n11), 100–2, 107, 112–14, 133, 134, 225, 257
elites 68, 74
emigration 193
empiricism 17, 50, 60, 87, 191
Employee Assistance Fund (Thailand) 270
Employee Health Insurance (Japan, 1939) 75
Employee Provident Fund (EPF, Malaysia, 1951–) **192–4**, 206–7
  Account I (retirement income) 193, 203
  Account II (housing, education) 193–4, **201**
  Account III (illness) 194, **201**
  economic development **203–4**, 207
employees 19, 27, 28, 32, 34, 37t, 37, 47(n1), 129, 152–3, 160, 193, 194, 205, 211, 236, 239f, 242–4, 250, 258, 263t, 275
  government 52, 69(n7)
  private sector 44, 59, 269, 280(n1)
  public sector 15, 44, 280(n1)
  salaried 31
  see also labour
Employees' Provident Fund (Malaysia) 3, 4
employers 11, 12, 32, 34, 40, 52, 75, 76, 81, 129, 146, 152–4, 156, 159, 160, 171, 173, 174, 181, 183, 184, 188(n1), 193, 194, 200, 205, 211, 221, 242–4, 265t, 269

employment 76, 81, 105, 212, 239, **241**, 246, 254, 270
  active policy 184–5
  informal 242
Employment Insurance Programme (EIP, Korea, 1995–) 4, 11–12, 13, 27–8, 29, 41, 42, 47(n5), 132, 143, 144, **152–5**, 166, 167(n5)
  changes 157
  coverage 155–6, 158t, 167(n7)
  Employability Development Programme (EDP) 153f, 153–4, 158–9, 159t, 162–3
  Employment Adjustment Subsidies (EAS) 159–60
  Employment Promotion Allowance 158t
  Employment Promotion Subsidies (EPS) 160, 165
  Employment Stabilization Programme (ESP) 153f, 153, 154, 159–60, 160t, 162, 165
  Unemployment Benefits Programme (UBP) 153
  Unemployment Insurance Benefits (UIB) 153f
Employment Insurance Programme (Taiwan, 1999–) 4, 14
Employment Promotion Allowance (EPA, Taiwan, 1999) 180t, 181, 183
Employment Promotion Subsidy (Taiwan 1999) 180t
employment services **182–3**, 184
Employment Stabilization Fund (Taiwan), 184
employment status 42, 42t
entrepôts 10, 11, 98
EPF *see* Employee Provident Fund (Malaysia)
(HK White Paper, 1995) 216
equities [shares] 203, 204
equity [fairness] 33, 34, 38, 40–1, 45, 46, 63, 64, 192, 194, 200, 237, 279
  by redistribution 39–40
Europe 6, 7, 273
European Economic Community (EEC) 212
Executive Yuan (Taiwan) 58
export-oriented industrialization 8, 9, 10, 98, 150, 170, **171–7**, 185

family 3, 8, 9, 21(n5), 47(n4), 77, 80, 93, 106, 108, 115(n11–12), 147, 166(n4), 182, **170–90**, 199, 201, 232, 234t, 245, 250, 255(n1), 258, 262, 276
family businesses 171
'family test' (Korea) 15, 27, 47(n2)
farmers 4, 14, 15, 16, 34, 37, 38, 46, 58, 231, 234, 247, 248, 258
Farmers' Insurance (FI, Taiwan, 1985–) 53, 55, 177
Federation of Korean Trade Unions (FKTU) 154
fee-for-service (FFS) 52, 60, 62, 240, 265t, 268, 272, 277f, 278
fertility (human) 17, 82, 85, 87, 88, 128
financial markets/capital markets 170, 192, 198, 203
First Year of Welfare (*Fukushi Gan'nen*) policy (1973) 79
first-time job-seekers 150, 151, 152, 164, 182
fiscal
  management 83
  policy 55, 259
Five Guarantee Households (*Wu Bao Hu*) system (PRC) 234t, 247, 255(n1)
Five-Year Development Plans
  Korea (1962–) 33, 34, 150
  Malaysia (1956–2000) 204
  Thailand 258–9
food 172, 173, 255(n1)
formal sector 19, 37
Four-Year Economic Plans (Taiwan, 1953–) 188t
full employment 3, 12, 77, 108, 118, 124, 126, 213, 233, 235t, 241
Fureai Machizukuri (Community Development Project) 90

gender 69, 74, 85, 87, 88, 93, 114, **170–90**
Gender Equal Employment Law (Taiwan, 2002) 185, 188t
Germany 5, 75, 84, 158
Gini coefficient 81, 122, 156t
globalization 1, 29–30, 47, 51, 68, 91, 118, 133, 136, 170, 183, 231, 237, 255
Goh Chok Tong ('the Prime Minister') 205
Gold Plan (Japanese elderly, 1989–) **83–4**, 94(n6)
government employee scheme (Thailand) 266t
Government Employees' Insurance (GEI, Taiwan, 1958–) 55, 177, 188t
Government Employees' Insurance Act (Taiwan, 1958) 51, 52, 53, 54, 56t
Great [Proletarian] Cultural Revolution (PRC) 239
group homes (for former mental patients) 218

Hadden-Cave, Sir Philip 121
half-way houses (for former mental patients) 215, 218–20, 223–5
Health Card Scheme for Marginal Poor (Thailand, 1983–) 263–5t, 268, **269**, 271
health care 14, 94(n4), 120, 135, 191, 193, 196, **200–1**, 206, 207, 232, 236, 240, 250
  'medical needs' 197
  tertiary 278–9
  universal (Thailand) **257–82**
health care financing (Thailand) **262**, 265t, 266t, **278–9**
  means testing 272, 273t
  universal coverage (UC) **272–7**
health care policy
  context (Taiwan) 57
health centres 275, 279
health insurance 9, 32
  private sector 65
  Thailand **267–72**, 277f
health service infrastructure **274**, 280
Health and Social Affairs Committee (Korea) 32
Health Systems Research Institute (Thailand) 257n
heavy industry 150, 151
Hindus 106
HIV/AIDS 258, 276
home ownership 191, 196, 202, 207
Home Ownership Scheme (HOS, HK/HKSAR, 1976–) 130
Hong Kong/Hong Kong Special Administrative Region (HKSAR) 1, 3, 7, 9, 10–11, 17, 19, 98, 109, 119, 125, 166(n1)
  economy 213
  handover (1997) 4, 16, 209, 210, 215, 217
  welfare mix **209–28**
Hong Kong Confederation of Trade Unions (CTU) 134
Hong Kong Council of Social Service 215
Hong Kong Federation of Trade Unions (FTU) 134
Hong Kong Hospital Authority 218
Hong Kong and Kowloon Trades Union Council (TUC) 134
'Hong Kong model of welfare' 213
Hosokawa, M. 86
Hospital Authority (HKSAR) 127–8
hospital care 195, 201, 211–12
households 211, 265t, 272, 279
  low-income 32, 59, 60, 198, 200, 261
  non-food consumption expenditure 271, 271t, 277
  rural 246
housing 41, 109, 114, 115(n9), 120, **130**, 192, 193, 195–8, **201–2**, 204–7, 212, 213, 233, 236, 239, 240, **244–5**, 252, 254, 255(n1)
  central to social policy 9–10
  upgrading 105, 106, **107–8**
Housing Development Board (HDB, Singapore, 1960–) 103–4, 105, 109, 202
human capital 54, 105, 132, 145, 146, 147, 149, 151, 154
human resources 128, 273
human rights 135

illness/sickness 177, 201, 260, 269, 270
illness benefits/sickness benefits 158t, 270
immigrants 99, 100
import-substitution industrialization 98, 171
income 234t, 255(n1)
  low-level 236
income distribution 18
income inequality 20
income maintenance **196–200**, 233
income protection 164
income security **147**, 163f, 166
income support 162
income tax 194, 200
Indians
  Malaysia 99, 115(n15)
  Singapore 106
individual accounts (PRC) 243f, 244f
individual retirement savings account (IRSA) 191, 203, 205
Indonesia 9
Industrial Accident Insurance (Korea, 1963–) 8, 32–3, 166–7(n5)
  see also No-Fault Traffic Accident Act (Thailand)
industrial restructuring 145–6, 170, **172–4**
industrialization 2, 3, 5, 7, 98, 136, 150, 152, 165, 205, 207, 232, 233
  authoritarian **31–6**
inequality 2, 5, 18, 21(n4), 54, 113, 123, 129, 132, 137(n1–2), 176, 187, 200
  income (Japan) 78
inflation 81, 246
  'inflationary pressures' 206
informal sector 16, 34, 37, 197, 258, 260
information technology (IT) 12, 131

infrastructure 2, 104, 115(n9), 121, 131, 204, 205, 245, 250, **274**, 276, 280
inpatients (IP) 61–2, 243, 244f, 262, 264–6t, 267–8, 270, 276, 277f
insurance (occupational) 241
insurance premiums 84
Internal Security Act (Singapore, 1958) 9–10, 102
international financial institutions (IFIs) 156, 166
  BWIs (Bretton Woods Institutions) 156
International Labour Organization (ILO) 76, 166(n1), 195
International Monetary Fund (IMF) 156
invalidity 177, 269
investment 104, 109, 112, 150, 192, 196, 203, 204, 205–6, 240
  'favourable environment' 237
  foreign 236
'iron rice-bowl' 241
Islam/Muslims 100, 102, 106, 113, 114(n4)

Japan 1, 3, 6, 17, 20, 55, 98, 104, 158, 223, 224, 257
Japan: Ministry of Health and Welfare 79, 87, 88–9, 94(n14)
Japan Ageing Sogo Kenkyu Centre (Tokyo) 95(n17)
Japan Communist Party 79
Japan Medical Association 80
Japan New Party 86, 94(n9)
Japan Renewal Party (JRP) 94(n9)
job capability 13, **146**, 147, **149–52**, 154, 159, 162–6
job creation 145, 148, 180t, **183–5**, 186, 221–2
job mobility 217
job opportunities/employment opportunities 99, **147–52**, 163f, 164, 165, 186
job security 13, 145, 146, 151, 152, 155, 160, 162, 163f, 164, 166, 241
Job Seeking Allowance (Korea) 153f, 157, 158t
job-seekers/job-seeking 154, 164, 175, 175t, 180t, **182–3**
Jockey Club (Hong Kong) 215
Joint Liaison Group (HKSAR) 210

Kim Dae-jung 13, 15, 40, 43, 44–5, 47, 132–3, 143, 156, 161
Kim Young-sam 13, 43, 44, 47(n5), 152, 154–5, 165
Kishi, N. 78
KMT *see* Kuomintang
knowledge-based economy 11, 127, 128–9, 130, 131–2
Komeito (Clean Government Party) 86, 94(n9)
Korea, Republic of (South Korea) 1, 6–13, 14t, 17–20, 54, 98, 122, 132, 171, 183, 185, 224, 257, 258
  Asian economic crisis (1997–8) 3–4
  reform of developmental welfare state **27–49**
Korea: Ministry of Health and Social Affairs (MoHS) 31, 34–6, 38–40
Korean Confederation of Trade Unions (KCTU) 13, 43, 154, 167(n6)
Korea Development Institute (KDI) 33, 34
  Health Policy Unit (1976–) 34
Korean Federation of Business 40
Korean Federation of Trade Unions 13, 43
Korean War 75
Kuomintang (KMT) 13, 15–16, **50–72**
  leadership crisis 64
  Sun Yat-Sen's 'principles' 54
Kyuhin Ho (poor relief) (Japan, 1929) 75, 77

labour 65, 67, 134
  skilled 146, 165, 173
  unskilled 121, 173, 174
  see also workers
labour costs/wage costs 12, 104, 152, 160, 173, 205, 236, 238
labour force 137(n1), 196–7, 240, 254, 258
  participation rate (Korea, 1996–2001) 156t
labour insurance 8–9, 181
Labour Insurance (LI) programme (Taiwan, 1950–) 51–5, 177, 188t
labour market 12, 41, 131, 149, 162, 163, 171
  flexibility/flexibilization 42–3, 152, 154, 156–8, 166
  structural reform 165–6
labour market policy
  active 5, 45, 77, 144, 145
  passive 145
labour mobility 177
labour-intensive industries 171, 172, 205
land 114, 204, 212
  farmland 231, 232, **246**

Land Acquisition Act (Singapore, 1966) 9–10
land reform 18, 54, 55
'late industrializers' x, 20–1(n2), 118
Latin America 30
LDP *see* Liberal Democratic Party
Lee Kuan Yew 115(n6), 125
Lee Teng-Hui 64
Legislative Yuan (Taiwan) 63, 65, 66, 69(n2, n6), 70(n12)
  Health and Welfare Committee 64
legislatures/parliaments 101
  Japan 74, 79, 85, 94(n11)
  Malaysia and Singapore 102–3
  provincial (Taiwan) 69(n2)
LI *see* Labour Insurance
Liberal Democratic Party (LDP) 17, 74, 77, 78, 79, 81, 85, 86, 89, 90, 92, 93
life expectancy 199, 233
life-long employment 11, 77, 152, 156
Livelihood Protection Programme (LPP, Korea) 148
living standards 54, 78, 129, 132–3, 214, 232, 237
local government/local authorities 90, 149, 181, 183–4, 237, 240, 247, 280n
  Japan 78, 79
  municipal 244
Long-Term Care Insurance (Japan, LTCI) 74, 83, 86, 88, 90, 93
  'Ten thousand citizens committee' 92
Low Income Health Card (LIC/LIHC, Thailand, 1981–) 259, **261, 268–9**, 269, 270, 271, 273t
LTCI *see* Long-Term Care Insurance

Macleod, H. 123
macroeconomic policy 54–5, 143, 144, 156, 192, 205, 207
Mahathir bin Mohamed, *Tun* 113
Malayan Chinese Association (MCA) 100
Malayan Communist Party (MCP) 100
Malayan Indian Congress (MIC) 100
Malayan Union (1946–8) 99
Malays 18, 99, 106, 110–14, 115(n5, n13–14)
  entrepreneurial class 112–13
  'special rights' (Malaysia) 100
  'special rights' (Singapore) 102
Malaysia 1, 3, 4, 9, 17, 19, **99–101, 110–13**, 114, 114(n3–4), 115 (n13–15), 224
  ethnic Chinese resentment 18
  provident fund **192–4, 196–200, 201, 203–4**, 206–7
  welfare developmentalism 98
male-breadwinner model 88
Mandatory Provident Fund (MPF, HKSAR, 2000–) 4, 11, 125, 129, 191
manufacturing 12, 134, 137(n1), 150, 174
market, the 211, 222
  'free market' 213
marketization 18, 63, 64, 66, 69(n11), 70(n12), 231, 252
martial law (Taiwan) 12, 57, 61
Master Plan for Tackling Unemployment (Korea) 13
Maternal and Child Welfare Scheme (Japan; reformed 1964) 78
maternity 69(n1), 177, 213, 260, 261–2, 264t, 265t, 269
  pregnancy 166(n4)
means-testing 244, 252, 255(n1), 270, 272, 273t
medical care 233, 235t, 247, 250, 252, 254, 255(n1)
medical insurance 58, 63, 69, 240, 243
medical services 238, 260
mental illness 209, 215
mental illness: social care policy in practice (HKSAR) **217–24**, 226(n2)
  accommodation 218–20
  community-based services 222–4
  social care services 218–24
  stigmatization 225
  vocational opportunities 220–2
Military Servicemen's Insurance (MSI, 1950–) 177, 188t
Minimum Living Security (MLS) system (PRC) 243–4, 247
Minimum Living Standard Guarantee (MLSG, Korea, 2000–) 4, 15, 27, 29, 132, 143, 155, 161, 162, 163, 165, 166
  five principles 44
MLSG *see* Minimum Living Standard Guarantee
Mongolia 166(n1)
multinational corporations (MNCs)/ transnational corporations 29–30, 104, 171
municipalities 69(n2), 278
Musashino City (Tokyo) 79
Myrdal, G. 5

nation-building 3, 98–9
National Assembly (Korea) 13, 15, 36, 40, 42–6

National Association of Social Welfare (*Zenkoku Shakai Fukushi Kyogikai*) 78
National Development Policy (Malaysia, 1990–2000) 101
National Health Insurance (NHI)
  contribution system 44
  integration reform (Korea) 28, 29, 31, 34–47
  Japan 75, 78
  Korea 3, 8, 14–15, 27, 28, 29, 132, 166–7(n5)
  Taiwan 3, 4, 15–16, 50, 51, 56, 133, 176, 188t
  universal 34–5, 38, 40
national identity 21(n4), 104, 125, 126
National Pension (Japan) 78
National Pension Programme (Korea, 1973–) 8, 27, 28, 166–7(n5)
National Statistical Office (Thailand) 279
neo-conservatism 80, 81, 83
neo-liberalism 1, 6, 29, 30, 83, 132, 136, 237
New Economic Policy (NEP, Malaysia, 1970–90) 3, 18, 99, 100–1, 103, **110–13**, 115(n13–15)
No-Fault Traffic Accident Act (Thailand)
  'implemented' (1994) 271–2
non-governmental organizations (NGOs) 90, 91, 92, 95(n16), 129, 130, 133, 134–5, 137, 183, 184, 186, 231, 240, 245, 250
non-profit social welfare organizations (*Shakai fukushi hojin*) 91
North Africa 21(n3)
Not-for-Profit Organizations (NPOs) 92, 95(n16), 118–19, 129–30, 245
nurses 259

occupational welfare programmes 8
OECD 172, 199, 269
orphans/orphanhood 75, 77, 235t, 245, 247, 255(n1), 258
outpatients (OP) 60, 61–2, 120, 218, 244f, 277f
  'ambulatory care' 262, 263t, 266t, 267, 267f, 268, 270, 276, 280, 280n

PAP *see* People's Action Party
parental leave 84, 89
parents 128, 176, 194, 223, 267
Park Chung-Hee, General 7, 8, **33–5**, 47(n3), 54, 148, 149–50, 166(n2)
Parti Islam Se-Malaysia (PAS) 100, 101, 113, 114(n4)
Parti Keadilan Nasional (National Justice Party) 113
patients 60, 62, 69(n10), 128, 243, 261, 268, 277f
patriarchy 187
patronage 111
Patten, C. 10, 16, 125, 210, 214–15, 216
pension funds 11, 198, 242
pensions 79, 80, 94(n4, n10), 179, 194, 233, 236, 238–40, 248, 250, 252, 254
  financial mechanisms (PRC) 243f
  'old-age allowances' 15, 177
  'old age benefit' (Taiwan) 53, 54, 188t
  'old age payments' 185, 188t
People's Action Party (PAP, 1954–) 9, **101–2**, 103, 107–8, 114, 115(n5–8), 195
People's Communes (PRC) 232, 234
plural society 99, 114(n2)
policy feedback 74, **89–92**
policy networks **66–7**
policy-making 59, 73, 74, 80, 86, 92, 93, **274**
political competition (Taiwan) **60–1**
political legitimacy/legitimation 8, 68, **102–3**, 107, 115(n7–8), 120, 132, 136, 149, 202, 209, 212, 213, 224, 237
  'government credibility' (Taiwan) 185
  Taiwan 52, 55, 56–7
political parties 21(n4), 39, 41, 43–4, 46, 86, 94(n11), 107, 115(n5), 133–4, 137, 156, 207
  opposition 36, 38, 40, 57, 61, 103, 154
political stability 16, 18, 232, 237, 238, 255
politics 7, 16, 68, 75, 78, 83, 100, 113
  welfare developmentalism **118–39**
  welfare state restructuring (Japan) 74
pollution 79, 213
pooling systems 239f, 239
poor relief (*Kyuhin Ho*) (Japan, 1929) 75, 77
population 21(n4), 98, 259, 263t, 277f, 278
  agricultural 33t
  Thailand (1991–2002) 266t
  transient (Hong Kong) 213
'positive non-interventionism' 121

poverty 20, 41, 75, 80, 100, 113, 120, 124, 143–4, 147–9, 161–3, 166(n3), 172, 176, 186, 199–200, 210, 232–3, 237–8, 249, 258, 260–1, 263t, 275, 276, 278
 relative concept **4**, 15, 133
 rural 247
 urban 38, 243
poverty alleviation 252
poverty line 27, 133, 148, 272
primary health care 269, 279
private sector 31, 34, 62–3, 92, 134, 183, 260, 271
privatization 13–14, 51, 62, 63, 64, 203, 241, 250
Productive Welfare initiatives (Korea, 1999–) 161
productivism 6, 27, 80, 81
productivity 9, 11, 89, 127, 152, 170, 185
provident funds (PF)
 lump-sum payments 198
 Malaysia and Singapore **191–208**
 pre-retirement withdrawals 198, 206–7
public assistance programme (Korea) 34, **147–9**, 163, 165
 reform **161–2**
public charity organizations (*koeki hojin*), 91
public expenditure 120, 121, 122, 124, 124t, 126, 127, 136, 137(n7), 150, 157, 194–5, 204, 241, 243, 248, **251–2**, 253t
public health 105, 262
public sector/state sector 31, 34, 136, 204, 241
public sector employees 55–6
public works 4, 13, 161, 162, 165, **147–9**

quality of living 145

race 99, 102, 103, 113, 114(n1), 114(n4), 135
 ethnicity 3, 77, 114(n1)
race riots (Malaysia, 1969) 18, 100
rational choice 39, 108
rationing 241
recommodification 127, 128–9
redistribution 39–40, 46, 55, 60, 77, 122, 133
Reformasi (Malaysia) 113
regionalism 20–1(n2)
research and development 131
retirement 191, 196, 198, 202
 inadequate income 197, 206
retirement income 192
Retirement Severance Allowance Scheme (Japan, 1936) 75
risk 206, 211, 241
risk-pooling 27, 28, 39, 40, 46, 53, 60
Roh Tae-woo 15, 38, 40
rural areas 166(n3), 231–3, 237, 239, 248–50, 255(n1), 263t, 271, 274, 276
 welfare arrangements (PRC) 234–5t
Rural Minimum Living Security (RMLS, PRC) 247
rural welfare system (PRC) **245–6**, 247

safety net 3, 120, 123, 127, 129, 133, 162–3, 165, 166, 238, 262
Sakigake (political party) 86
salaries 39, 40, 127, 200, 232, 276
sanitation 9, 105, 249
SARS (Severe Acute Respiratory Syndrome) 108, 248
savings 3, 179, 179t, 191, 192, 196, 197, 200, 203, 204–5
Scandinavia/Nordic countries 6, 19, 21(n3), 45
Seamen's Health Insurance (Japan, 1939) 75
self-employed 4, 14, 16, 27, 34, 37–40, 44, 47(n1), 53, 87, 195, 263t
seniority system 42
 seniority-based remuneration 11
service sector 127, 137(n1), 182
sheltered workshops 215, 220–1, 222
Singapore 1, 3, 4, 7, 9–11, 16–19, **101–2**, 113, 114, 115(n5–6), 224
 gross domestic savings (GDS) 204–5
 welfare developmentalism 98
single mothers 77, 78, 146–7
'single parasites' 74, 87
single parents 129
skills 41, 132, 149, 150, 151, 171, 183, 223
 secondary 182
small businesses/SMEs 8, 121, 171, 172, 173, 221, 260
social assistance 241, **243–4**, **247**
social care
 expansion (Japan, 1990s) **73–97**
 inclusive 73, 74
social care (Hong Kong/HKSAR) **209–28**
 funding **215–16**
 mental illness (case study) **217–24**, 226(n2)
 mix **213–17**
 subvention system 216–17

social class 37, 40, 44, 67, 106, 126, 129, 133, 134, 135, 136, 262
social contract 212
social control 177
Social Democratic Party of Japan (SDPJ) 86, 94(n9, n11)
social development x, 185, 213
social equality/inequality 237
social expenditure 236, 238, 254
social funds 243f, 244f
social inclusion x, 1, 20, 46, 68
social insurance 2, 5, 52, 67, 69(n3), 122, 147, 152, 156, 198, 246, 248, 250, 254, 274
  coverage 258, 259, 262, 263t, 266t
social justice 14, 35, 135, 136, 232
social policy 40, 54, 68, 113, 114, 187
  China **231–56**
  dual system (urban and rural) 18
  'inclusive' **12–16**, 46, 61
  principles (four) 5–6
  'productive' 41, 42, 47
  selective model (four main characteristics) **252**, **254–5**
  strategic selectivity (Taiwan) 55
  see also advocacy coalitions
social policy development **133–6**
'Social Policy in a Development Context' (UNRISD research project) xi,
social protection 20, 45, 69, 185, 231, 236, 237
social rights 7, 161, 170, 186
social security 234t, 250
social security expenditure (Japan) 79–80, 81, 82, 83, 94(n4–5)
Social Security Scheme (SSS, Thailand, 1990/1-) 19, 259, 263–5t, 268, **269–70**, 271, 272, 280(n1)
social services **129–30**, 240
social welfare **129**, 255
  expenditure (HKSAR) 217
  institutional changes 231
  reform (political logic) 50
social workers 216–18, 223, 269, 272
socialism 5, 37, 210, 231, 232–3, 237
Socialists (Japan) 78, 79
societalization **252**, **254**
South Africa 134
Special Economic Zones (SEZs) 237
SSS *see* Social Security Scheme (Thailand)
starvation 231, 232
state, the 2, 13, 18, 55, 63, 75, 81, 103, 133, 156, 161, 181, 209, 211, 212, 225–6, 236
  see also development state
state workers 233, 234, 242, 244f
state-owned enterprises (SOEs) 14, 231–3, 235t, 236, 241, 243f, 244f, 248, 252
statistics 251, 252
structural adjustment 30, 41
Sub-Saharan Africa 20–1(n2)
subsidies 8, 146, 153f, 160, 161, 180t, 181t, 183, 186, 234t, 235t, 236, 241, 246, 247, 258, 261, 265t, 271, 276
subsistence 200, 232, 237, **241**
Sun Yat-Sen 54
Sweden 145–6, 147, 199

Taiwan 1, 4, 6–13, 14t, 17–20, 98, 122, 132, 133, 257, 258
  central region 174
  democracy, development, and health **50–72**
  ethnic tensions 54
  health care reform (1950s–99) 68t
  social security systems and unemployment reform policies **177–85**
  unemployment (policy responses) **170–90**
  unemployment rate (1966–2002) 172f
Taiwan Labour Front 12
Taiwanese (ethnic) 54, 56, 57
Taiwanization 15, 57
tangwai ('outside the party') opposition movement 15, 57
tax benefits 222
tax exemptions 243
tax incentives 9, 104
tax revenues 257–8
taxation 33, 194, 246, 247, 258, 259, 265t
  local 273
  low-rate 121, 122, 136
  simple system 121, 122
Thai Rak Thai Party 19, 257, 273
Thailand 1, 18, 20
  health insurance system (2002) 277f
'Thirty Baht for Treating Every Illness' policy 19, 257
Three Nos (PRC) 234, 234t, 243, 255(n1)
trade unions 10–13, 37, 42, 43, 53, 78, 91, 101, 133, 134, 137, 149, 155–7, 165, 181t, 183, 186, 211, 260
  'labour movements' 8
Tripartite Committee (Korea, 1998) 156, 166, 167(n6)
  Employees–Employers–Government Committee (Korea) 13, 42, 43

tuition fees 149, 176, 245
Tung Chee-Hwa 125, 126, 130–1

UMNO *see* United Malays National Organization
underemployment 105, 144
unemployed people 37, 59, 129, 131, 153f, 166, 177, 188(n3), 249
  long-term 160
  short-term 181
unemployment 3, 4, 10t, 20, 42, 81, 105, 113, 126–7, 129, 132, 133, 220, 224, 233, 237, 238, 250
  long-term 174
unemployment benefits 12, 14, 41, 154–9, 162–4, 172, 179t, 184, 213, 240, **241–2**
unemployment insurance (UI) 7, 9, 12, 75, 76, 94(n3), 240, 254
  PRC (1986–) 241–2
  Taiwan (1999–) 179, 180t, 181–2, 188t, 188(n2)
United Kingdom 30, 81, 111, 122, 126, 158, 162, 199
United Malays National Organization (UMNO) **99–101**, 103, 111–13, 114(n3–4)
United Nations 52
United Nations Development Programme (UNDP) 6
United Nations Economic and Social Council 5
United Nations Research Institute for Social Development (UNRISD) x, xi, 1, 6, 20–1(n2), 257n
United States of America 34, 52, 75, 81, 111, 146, 162, 202
universal coverage (UC, Thailand)
  achievements and trends **275–7**
  public health insurance 257–8
  reducing household financial burden 277
UNRISD *see* United Nations Research Institute for Social Development
Upper House *Rengo*/DRP 94(n9)
urban areas 148, 166(n3), 184, 231, 233–4, 236–7, 239, 242, 245, 246, 248–50, 254, 255(n1–2), 258, 263t, 279
  welfare arrangements (PRC) 234–5t
urban community services 249, 255(n3)
urban welfare system (PRC) **241**
user fees 60, 65, 80

vaccination 120
vocational training 8, 145, 147, **149–52**, 153f, 154, 159, 161, 162, 164, 165, 166(n1), 179, 181t, **182–3**, 184
  're-training' 131
  'training' 12, 14, 15, 41, 78, 90, 108
Voluntary Health Card (VHC) scheme (Thailand, 1991–) 259, **261–2**, 266t, 271, 272, 273t
voluntary sector 86, 89, 91, 118, 120, 122, 134
vulnerable people 9, 52

wages 11, 12, 39, 40, 118, 124, 126, 133, 137(n1), 145, 152, 160, 165, 173, 174, 205, 212, 213, 217, 222
  'earnings' 147
Wednesday Group (Korea) 32
welfare beneficiaries
  responsibilities 240
welfare developmentalism
  'inclusive' 6, **12–16**, 17, 19, 20, 27, 29, 36, 40, 45, 47, **83–92**, 93, **224–5**
  institutional dynamics **141–228**
  principles 6
  'selective' 2, 6, 11, 12, 16, 17, 18, 20, 27, 36, 41, 50, **83–92**
  two strands (East Asia) **2–7**
  universal 28
  see also developmental welfare state
welfare mix (social care in Hong Kong) **209–28**
welfare models
  enterprise-statist 236, 239f, 240, 241
  societalization 240, 250, 252
welfare retrenchment 73
'welfare society' 149
welfare state 170
  institutional 4, 211
  residual 132, 136, 186, 211, 213
'welfare state crisis' 80
welfare state retrenchment 80–1
welfare system
  'socialist in the context of an underdeveloped economy' 233
  three-tier (PRC) 233
women 9, 17, 65, 74, 77, **81–2**, 86, **87–8**, 90, 91, 92, 94(n6, n11), 135, 160, 166(n4), 171, 175, 179, 182, 184–7, 224
  breadwinners 188(n3)
  labour participation rate 175, 176f
  'reserve army' of labour theory 175, 187

Women's Committee for the Improvement of an Ageing Society (WCIAS, Japan, 1983–) 81, 91
work ethic 9, 236
work–family harmonization 82, 85, 88
worker's compensation (Japan) 76
workers 32, 52, 77, 88, 152, 156, 166–7(n5), 182, 188(n3), 197, 202, 270
  agricultural 193
  casual 193, 195
  contract 195
  daily 42, 42t, 155, 158t, 167(n7)
  executive-level 197
  foreign 173, 174t, 174, 184, 188(n1), 193, 195, 197
  industrial 2, 8, 9
  informal sector 16, 34, 37
  low-paid 186
  manual 197
  older 195
  part-time 195
  productive 41
  regular 42t, 158t
  rural 246
  semi-skilled 174, 185
  short-term 43
  skilled 174
  temporary 28, 42, 42t, 155, 157, 158t
  unskilled 184, 185
  urban 241, 242, 243
  see also employees
Workers' Accident Insurance (Japan, 1931) 75
  see also accidents
Workers' Health Insurance/*Kenko Hoken Ho* (Japan, 1922–) 75, 94(n1)
workfare 15, 145, 154, 162
workforce compliance 9, 104
working ability 234t, 255(n1)
working hours 84, 89, 173
Workman's and Social Security Scheme (Thailand) 266t
Workmen's Compensation Scheme (WCS, Thailand, 1974–), 260, 263–5t, 265t, 270
World Bank 54, 156, 191, 280n
world economy 240
World Health Organization (WHO) 274
World Trade Organization (WTO) 127
Wu Bao Hu (Five Guarantee Households) system (PRC) 234t, 247, 255(n1)

Yongsemin (people living in poverty) 148
youth 88, 100, 108, 120, 171, 175, 226(n1), 239

zaibatsu 21(n5), 47(n4)