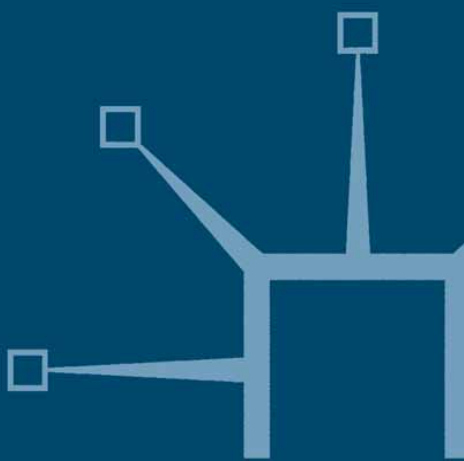


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# Social Welfare Development in East Asia

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Kwong-leung Tang



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# Social Welfare Development in East Asia

Kwong-leung Tang

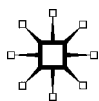
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# Preface

This book was conceived with two purposes in mind. One was to contribute to the growing literature on social welfare development of East Asian little tigers (Hong Kong, Singapore, South Korea, and Singapore) by locating their welfare development in the context of developmental states and developmental ideologies. The other was to fill in the gap left by comparative social policy analysis which has long neglected the rich economies in East Asia. While welfare state studies have attained a sophisticated level of development in terms of theory generation and policy analysis, the field has been weakened by a blatant neglect of economically rich East Asian little tigers. Although the literature on East Asian welfare development is growing rapidly, yet it is still over-represented by single-country studies whose conclusions and findings may not be generalizable to the neighbouring countries. The availability of research papers and book chapters partially meet the needs of readers interested in Asian welfare development. Nevertheless, the number of texts which attempt to compare and contrast welfare development in East Asia is meagre. Systematic, cross-national study of East Asian welfare development has long been overdue.

The book raises a number of central issues for those interested in comparative social policy. What is the present level of social welfare development in these four countries? What kinds of welfare institution have these countries established? What is the nature of these institutions? Given their economic might, why did these East Asian countries refuse to adopt western-style welfare states? What are some of the major determinants which would affect the future course of welfare development? Will their approach to social welfare be different after the onset of Asian economic crisis?

Unlike those welfare state studies which often pose the question 'what determines welfare state development?', the point of departure of this book is: why has social welfare development been underdeveloped in East Asia? Acknowledging a host of factors which explain their underdevelopment, this study puts emphasis on the role of the developmental states. In line with the current interest in state-centred analysis, the important role of the state in shaping the economic growth as well as social welfare will be explored and analysed. Such emphasis on state actions and policies does not preclude analysis of societal forces of



labour movement and business stances toward welfare. The concept of developmental states will also be used to explain the gradual but steady emergence of social welfare in these countries. We end our discussion on a sombre note. After five decades of development, the developmental states in East Asia are still averse to significant welfare institutions such as family allowance, well-articulated active labour market policies, and unemployment insurance. The concepts of social entitlement as right and redistributive justice are not embraced by political leaders in these states.

We hope the book will prove useful to students studying the role of the state, social welfare development in Asia, and government policy. It will also be useful to academics interested in East Asian welfare development. We hope anyone who has a strong interest in the interface of developmental states and social welfare will find it of value.

I must thank the Madam K. Li Memorial Fund for its funding, which allowed me to make several research trips to Hong Kong, Taiwan, Singapore, and Hawaii. Thanks are also due to Florence Cheung and Jacqueline Cheung, who have typed, read, and commented on various chapters. However, given the scope of the book, errors and omissions no doubt remain. My gratitude and respect goes to Sarah Barrett for her meticulous work. Finally, special thanks to Tim Farmiloe and Karen Brazier of Macmillan Press, who offered help and suggestions. The standard disclaimer applies: any remaining errors are the sole responsibility of the author.

# 1

## The Study of State Welfare in East Asia

### Introduction

Before the onset of the Asian economic crisis, the rapid economic growth of East and Southeast Asia has astonished the world. In particular, East Asia is considered as the most dynamic economic region in the world. Much of the growth was attributable to the achievements of Japan and the four tigers (Hong Kong, Singapore, South Korea, and Taiwan). These 'little tigers' have experienced very fast economic rate in the last three decades. Parallel to such phenomenal growth has been a big leap in per capita gross domestic product over a 30-year period. Hong Kong's per capita GDP increased from US \$2,422 in 1965 to US \$12,060 in 1994, while that for Singapore went up from US \$1,685 to US \$13,043. The other two tigers experienced very similar success in the same period: Taiwan (US \$267 to US \$11,629) and South Korea (US \$623 to US \$5,197). The world's highest per capita growth rate is found in Singapore (Ermisch & Huff, 1999). Per capita income in Hong Kong and Singapore has exceeded those of the United Kingdom, Australia, and Canada. In the same period, all the tigers attained an impressive record of full employment. Unemployment for the tigers was less than 3 per cent for most of the times. This was substantially below the structural unemployment rate in the other major industrialized countries, where it ranged from 5.8 to 10.6 per cent (OECD, 1996). According to the Organization for Economic Cooperation and Development, Asian tigers have formally achieved 'developed country' status (Enricht et al., 1997). When many of the developing countries fail to replicate the economic success of the advanced industrial countries, the economic miracle in the East Asian tigers carries an added significance. As a result, there has been massive literature published at their economic achievements, with researchers examining various aspects of their growth (Krueger, 1995).

Table 1.1 Economic indicators for East Asian little tigers

	Real GDP growth, 1990–97	GNP per capita (US \$), 1997	PPP GNP per capita (US \$), 1997	Unemployment rate, 1996
Hong Kong	5.3	25,200	24,350	2.8
Korea	7.2	10,550	13,430	2.6
Singapore	8.5	32,810	29,230	3.0
Taiwan*	6.4	13,198	–	2.0
Australia	3.6	20,650	22,010	8.6
Canada	2.2	19,640	21,750	10.0
Sweden	0.9	26,210	19,010	10.0
United Kingdom	2.0	20,870	20,710	7.0
United States	2.0	29,080	29,080	5.0

\* From *Asiaweek* (1999) for the period of 1990–95.

Sources: *The Economist* (1997); Asian Development Bank (1997); *Asiaweek* (1999); World Bank (1999).

Table 1.2 Social indicators for East Asian little tigers

	Mean years of schooling, 1992	Enrolment ratio for all levels, 1995	Adult literacy rate (%), 1995	Life expectancy at birth, 1997	Infant mortality rate	
					1970	1997
Hong Kong	7.2	67	92.2	79	20	4
Korea	9.3	83	98	72	19	5
Singapore	11.0	68	91.1	76	46	9
Taiwan*	–	86	89.8	75	44.7	6.7
Canada	12.2	100	99	79	19	6
Japan	10.8	78	99	80	13	4
Sweden	11.4	82	99	79	11	4

\* Data come from Asian Development Bank (1994–95) and *ROC Yearbook* (1998). Secondary school enrolment is 95% (highest among the tigers) while primary school enrolment is 101%. Infant mortality data are for 1952 and 1996.

Sources: Asian Development Bank (1994); UNDP (1998); World Bank (1999).

While Asian tigers have enjoyed very successful economic development in the last 30 years (World Bank, 1998), their levels of economic achievements vary. Singapore leads the pack, with Hong Kong not far behind (Table 1.1). Its average rate of growth between 1990 and 1997 was 8.5 per cent, the highest among the four tigers (Asian Development Bank, 1999). In terms of per capita income, Singapore ranks second in Asia, after Japan. All the Asian tigers have low unemployment, low inflation, and large foreign reserves. Juxtaposed with economic indicators

are social measures which could attest to their success. Because of their impressive growth record, standard social indicators of development in the tigers have improved significantly (Table 1.2). It can be seen that they compare rather well with other developed societies in terms of life expectancy, infant mortality, mean years of schooling, enrolment rate, and adult literacy rate.

A popular way to measure quality of life is the Human Development Index (HDI), which is created and developed by the United Nations Development Programme (UNDP) in 1990. It is based on three indicators of wellbeing at the national level – longevity, knowledge and standard of living. Longevity is measured by life expectancy. Knowledge is measured by a combination of adult literacy and mean years of schooling. Standard of living is measured by purchasing power, based on real GDP per capita adjusted for the local cost of living. The latest estimate of HDI for Asian tigers can be seen in Table 1.3. According to the UNDP (1999), Singapore ranked 22, ahead of Hong Kong (24) and Korea (30). All of them are classified as high human development countries. It can be seen that, using this measure, Singapore has come close to the industrialized countries. A trend analysis of the human development index from 1975 to 1997 indicates a continual improvement. The index was 0.737 in 1975, rising to 0.796 in 1985 and 0.834 in 1990. In 1997, it reached 0.888.

Undoubtedly, the states in Asian tigers would take satisfaction in their HDI ranking. While one could conclude that the quality of life has significantly improved in these countries, a note of caution is in order. These standard indicators do not capture all aspects of social development. Overemphasis on only a few social indicators would give us a biased picture. Many of these measures are closely linked to education and public health. With significant spending on these two areas since the 1960s, the Asian tigers would not surprise us when they do exceptionally well on these measures. Other indicators such as poverty,

Table 1.3 Human Development Index for Asian tigers, 1975–1997

	1975	1980	1985	1990	1997	HDI rank, 1997	Per capita rank, 1997
Singapore	0.737	0.767	0.796	0.834	0.888	22	4
Hong Kong	0.757	0.796	0.823	0.859	0.880	24	8
South Korea	0.680	0.716	0.761	0.804	0.852	30	33
Taiwan	NA	NA	NA	NA	NA	NA	NA

For 1997, HDI and per capita rank: highest rank is '1'. Lowest rank is '174'.

Source: UNDP (1999).

income inequality, and gender parity are equally important. The Asian tigers claim that they have effectively achieve a balance between growth and equity. International organizations such as World Bank have thrown their support behind their claim. Some scholars agree with this assessment. Thus, Root (1996) characterizes their approach to development as one of 'shared growth'. It is difficult to assess the validity of their claims. One could see a remarkable improvements in these measures over time. However, national reports on these indicators are either not updated or incomplete. Current estimates often do not make it to the country reports published by the International Monetary Fund (IMF), World Bank, and Asian Development Bank. The lack of credible updated data on these issues is disappointing, given their levels of affluence and the presence of an efficient bureaucracy.

Admittedly, the presence of these social and economic indicators of development gives credence to the claim of social betterment. Ideologically, they add support to the efficacy of their political regimes. As White (1998a; 1998b) points out, the experience of the 'rational authoritarian' of the Asian tigers is cited as evidence of a developmentally viable and politically appropriate kind of alternative to democratic governance. Likewise, in development literature, the East Asian economic model is 'preached' as a miracle of efficiency. Orthodox thinking in development economics explains economic growth by private enterprise, the economic benefits of trade liberalization, and a restricted role of the state. The neoclassical development perspective attributes the economic miracle to an unbridled capitalism, free of the restrictive measures of state intervention and organized labour. It attaches great significance to the market, and is anti-statist. Often, the United States is used as a model of development. Deyo (1987: 1) observes that 'as the hegemonic world power, the United States was the home of a widely held orthodoxy that the diffusion of (American) capital, development assistance, cultural values, and political and economic institutions would start the process of economic development'. However, this neoclassical development recipe does not work in many developing countries, many of which are mired in underdevelopment. The gap between the developing countries and advanced industrial countries has widened.

There is also a common perception among many analysts: economic success is in large part due to the absence of comprehensive state welfare in these countries. Western-style welfare states, in particular, have been successfully avoided by these states. To reinforce this belief, the political leaders of the tigers (Hong Kong and Singapore, in particular) have consistently argued that this is one of the key reasons for their

success. Thus, many academics 'write glowingly about an economic miracle and a sea change in international development, without saying much about social welfare' (Drover, 1996: 1).

There are some factors which explain this disinterest. This period of rapid economic growth in the Asian tigers corresponds to the time when the welfare states in the West are facing their own crisis, and a burgeoning literature focuses on this. The crisis has been so overwhelming that 'much of the basic thinking as to why the welfare state was constructed in the first place, is getting lost' (Oyen, 1986: 1). The crisis of the welfare state has generated heated debates among the academics in the last two decades. Thus, Esping-Andersen (1996) spoke of the 'After the Golden Age', a clear reference to the crisis. Believing that there is limited development in Asian social welfare, social policy analysts in advanced countries avoid this region while concentrating their efforts on understanding the nature and crisis of the welfare state.

There is another compounding factor. Some policy analysts have assumed that the study of the welfare state would be generalizable to the rest of the world. While the welfare state in the West has been subjected to critical appraisal, the underdevelopment of social welfare in Asian tigers is often taken for granted. Parallel to this, there is great optimism among those few academics who are interested in developing countries that lessons from the advanced industrialized countries will explain social welfare development in Asia. The belief in the universality of western experiences is untested and hence unfounded. This even approaches a form of academic ethnocentrism.

In the field of comparative social policy, the literature on social welfare in Asia is very much underdeveloped. Overall, comparative analyses on Asian welfare systems are limited. Those that are available are done by western scholars who are not able to use the indigenous sources. They put a strong emphasis on western-derived analytical tools (Goodman et al., 1998). A few of them are written by western and local scholars, with a view to introducing Asian welfare to the outside world. One notable example is John Dixon and Hyung-Shik Kim's *Social Welfare in Asia* (1985). These pioneering studies help us better to understand Asian welfare systems. The problem with them, however, is that they have failed to link social welfare in Asia with the theoretical and methodological debates currently going on in comparative social policy.

On the other hand, indigenous writings on social welfare development have been growing in the last decade. Local scholars in each of these tigers rightly see the necessity of understanding and explaining their social welfare development, with a view to bettering their own

systems. Though limited, active discourses and debates on welfare provisions have taken place. These analyses tend to be country-specific. Many of them are descriptive and analytical. They may be also prescriptive, their analysis replete with policy recommendations. A few of them are cross-national, either comparing their country with some advanced democracies or contrasting selected aspects of social policy in two or more of the Asian countries. Generally, these studies are inaccessible to outside world, since they are written in their own languages. In assessing the current state of knowledge about Asian welfare, Goodman & Peng (1996) are probably right to say that little is known outside the region about social welfare development in East Asia.

The low status of social welfare in these societies is another factor. In the four Asian tigers which could afford to incur higher social spending, social welfare development, no matter how extensive it is, has been marginalized. Social welfare ministries or departments in these countries, for instance, have been peripheral to the central decision-making process. Major decisions on welfare are often made by bureaucrats and politicians. Their decisions are often not backed by any needs analysis. The ministries are usually accorded low status in the bureaucracy. They are headed by top civil servants or ministers who have no training in social work or social welfare. The marginalization of social welfare has been fuelled in part by the marginal status of social workers in these countries. Social work education in the tigers has been hampered by insufficient resources and lack of support from the governments (Tang, 1996a, 1996b). Often, the professional status of social workers has not been recognized by the state. Parallel to the marginalization of social welfare is the marginalization of social welfare analyses in these countries. The field of social work or social welfare, often seen as an applied and professional discipline, generally does not occupy a high status in the universities of the Asian tigers.

In spite of these factors, two developments in the 1990s have served to draw people's attention to Asia and its social institutions. On the controversial issue of human right, political leaders and writers in the region are attempting to articulate a set of Asian values distinct from the West. They are averse to 'western' concepts of human rights, and insist that they do not apply to Asian contexts. During the Bangkok World Conference on Human Rights in 1993, some Asian countries, such as China and Singapore, challenged the universality of human rights, arguing instead for a context-bound definition of rights. Critics of this approach point out that the state-sponsored discourse of uniqueness is no more than a self-serving act of the Asian elites to legitimize

their rule and 'crony capitalism' (Deng, 1998). Linked to this challenge on the universality of human rights is the idea of 'Asian Century'. Backed by rapid and continuing growth rates in the four tigers, this idea portrays the Asian-Pacific region as supplanting the United States as the centre of gravity for world affairs (Lingle, 1998). In fact, prior to the Asian economic crisis, a number of publications heralded the imminent collapse of the economies and the culture of the West. These two developments have prompted heated debates. Consequently, various aspects of Asian development (economic, social, and moral, etc.) have been critically assessed.

More recently, Asian welfare systems have captured more attention in Europe and the United States. Rapid economic growth, enhanced international status, and rising quality of life in Asian tigers enchanted western politicians and scholars. For instance, the British prime minister, Tony Blair, gave a favourable assessment of the social welfare system in Asian tigers which relied on individual responsibility, limited government funding, and high personal savings (*Spectator*, 13 January, 1996). A case was put forward for the British to consider emulating the Asian welfare systems. In response to this development, academics like Goodman and his colleagues (1998) began to examine the idea of 'welfare orientalism', and asked whether there was an East Asian welfare model to emulate. On the other hand, American scholars, who are in search of alternatives to reform their social security system, have looked at countries like Singapore and raise the question whether an asset-based approach could be adopted (Midgley, 1996; 1997; Midgley & Sherraden, 1997). Most recently, the collapse of the Korean economy in 1998 caused worldwide jitters. This led to the intervention of the International Monetary Fund (IMF), which imposed a standard structural adjustments programme on the economy in exchange for a large financial bail-out. This line of approach was seriously questioned by some critics of the IMF and the Korean state. They argued that economic restructuring, massive lay-offs and a reduced government budget would bring much instability to Korea, whose unemployment rate had shot up very quickly. The IMF and the Korean state revised the bail-out packages, with allowance for an expanded unemployment insurance programme. Contending that unemployment problem and low growth are going to haunt the Asian tigers, the International Labour Organization endorsed this move on the part of the Korean state and urged other Asian tigers to consider setting up similar unemployment insurance programs. The Korean crisis has put social development and social institutions back on the development agenda.



## Research questions

All in all, social welfare<sup>1</sup> in East Asian tigers has long been taken for granted in comparative social policy, despite their great economic success. Notwithstanding the growth of social spending in these countries, the question of Asian welfare development has been insufficiently recognized and discussed. The neglect of social welfare development is surprising, given the fact that a common theme in the analysis of East Asia is the importance placed on quality of life. Much less is known about the crucial factors that guide these states' welfare development. Addressing these issues would enable us to understand their development and to draw some valuable lessons for other developing countries. Admittedly, when Asian NICs are carefully watching one another's development, comparative study of Asian tigers would serve to bring out unique as well as common features. Additionally, an examination of the dynamism and determinants of social welfare allows us to contribute to the debate about social welfare development cross-nationally. As Park (1990: 10) points out, the study of social welfare in Asia is 'useful for illuminating the limitations or lacunae in our existing knowledge, and therefore for providing a basis for improving [Western] theories'.

In an effort to enhance current understanding of East Asian social welfare development, this volume will review social welfare provisions in the tigers. Three research questions are at the heart of this book. First, how do these tigers fare as far as social welfare development is concerned? Can we identify some commonalities and differences in welfare development across these four countries? Are they striving for a caring society in which the needs of their people are met by the government? Second, what explains their social welfare (under)development? To what extent can we make use of comparative theories of social policy to explain the origin and development of social welfare in these countries? Are there some unique contextual factors which could explain their development? Third, what does the future hold for these countries? In particular, will we see any change in welfare focus after the Asian economic crisis? Answers to the last question will inevitably be speculative, as the events and policies affecting welfare provisions are still unfolding. It is hoped that the arguments and conclusion of this study will encourage further work in this field.

An important aim of this book is to study the development of social welfare in four Asian tigers and account for it using western theories and indigenous factors. A considerable portion of the book will look at some theoretical frameworks which explain the absence of western welfare

states in East Asia. Current comparative theories of the welfare state development which are based on the experiences of western industrialized countries will be used and applied to the Asian scene. All these theories claim to possess a cross-culturally valid objectivity. We shall conclude that no single theory of comparative social policy is comprehensive enough to account for welfare development in East Asia. Some indigenous factors and contexts which account for such slow and limited welfare development will be explored.

We would locate our study of Asian welfare in the context of developmental state and ideologies. We will argue that western-style welfare states do not come to Asia because of these authoritarian developmental/colonial states which have grown out of specific historical, economic, and geopolitical environments. Asian tigers are late starters in economic development as well as social welfare provisions. One common theme across the tigers can be seen: the need for prosperity and economic development in Taiwan, Hong Kong, Korea, and Singapore. This issue is crucial to the survival of their somewhat authoritarian political regimes. We would argue that, because of special historical circumstances, postwar Asian tigers (with the partial exception of the colonial state in Hong Kong) relentlessly seek growth and prosperity, and transform themselves into developing states by orchestrating their economic development. Their enthusiasm for economic growth has been strong. By gradualism, each of them has undertaken social initiatives on the basis of a variety of local and external factors. Social welfare becomes an indispensable part of the overall economic strategy. It stands to reason that welfare provisions would expand or contract as a result of changing social, economic, cultural, and political contexts. The responses of the state differ greatly from country to country. Consequently, their paths of social welfare development vary and they have their own unique ways of organizing welfare: compulsory savings plan in Singapore; social insurance programmes in Taiwan and Korea; and a mix of social welfare services in Hong Kong. Indigenous factors like development ideologies, colonial government, and cultural values play different roles in the process.

Using welfare standards adopted from the advanced industrial countries, we argue that the Asian tigers are not welfare states. This conclusion is in line with assessments made by social policy researchers in the Asian tigers themselves. According to political elites in these states, there is no welfare state in their countries. All four tigers except Korea openly attack the incorporation of western-type welfare systems. Despite this, selected services such as education and health are given high priority. Selected groups are privileged and they are able to access some forms of

social security. The development of labour welfare, housing, and social security have been haphazard, and reactive to significant societal changes. There is an absence of social objectives (welfare as entitlement and social justice), and existing welfare provisions are not designed to reflect these. Generally speaking, the state, devoid of vision and commonly shared social objectives, is not playing the role of a carer. Caring in many cases means caring for one's own welfare, given limited government support. This 'deficit' is often filled in by voluntary action as well as family support. Neither do the cared ask for more welfare, though people's attitude in Hong Kong and Taiwan toward social welfare is far from negative (Lu, 1995; Tam & Yeung, 1996; Wong, 1996).

We find a number of similarities in their welfare development. For instance, these tigers expanded their welfare provisions in times of crisis. The study supports the observations by Drover (1996: 3) that 'the slow progress in social welfare development is a by-product of rising standards, and partly a result of deeply held cultural beliefs. It is fundamentally a compromise between social stability and economic growth.' The future does not bode well for their people, as anti-welfarism is very strong in Hong Kong and Singapore. Financially, these two city-states have the means to develop a comprehensive welfare state along the line of advanced democracies. Yet the current financial turmoil in Asia will only serve to push back the frontier of social welfare in these two states. Welfare states are nowhere in sight in Asia in the foreseeable future.

This study examines the process of development of social welfare institutions in the four tigers. It relies on a case-study approach (Yin, 1994). The analysis of social welfare evolution is state-centric, locating the source of social policy initiation and changes in the developmental states and its ideology. It is suggested that this focus on developmental states and ideologies complements and deepens our current understanding of Asian welfare development. While the Asian tigers are developmental states, and there are some suggestions that Taiwan and Korea fall under 'Japan-style welfare state' (Goodman et al., 1998), each of them has its unique approach to development and welfare. This presupposes a country-based, historically specific approach which puts emphasis on relevant factors which are unique to a particular country. Theoretical approaches, with their emphasis on generalizability and universal application, are inappropriate for two reasons. First, western-derived theories are developed in their particular contexts, whose applicability and relevance to other parts of the world is very much in doubt. In this context, Midgley (1986) argues that welfare state conceptualizations have been formulated with reference to only a small number of western

industrialized countries. Recently, Harloe (1996: x) reiterates the same point when he comments that 'most of the pioneering work [in comparative social policy] has focussed on a relatively limited range of welfare states, especially those of Western Europe, North America and a few others'. Second, there is as yet no elaborate theoretical approach that is generated out of the Asian contexts. Some emerging perspectives attempt to account for social welfare development in East Asia; but despite this, analytical tools that are available for us to analyse non-western societies are limited. To remedy this deficiency, selected ideas and concepts from the comparative approach to welfare development will be examined. All in all, acknowledging the historical specificity of social welfare development promises a better way of understanding the complex reality in the four tigers.

### **The problem of definition**

How can we assess the development of social welfare in the four tigers? There are a number of approaches which are not mutually exclusive. First, we could use the established notions of welfare state that are generated from advanced industrialized countries. Second, we could follow the definition of 'welfare state' as it is applied to the Asian context by their own governments. Essentially, this entails the incorporation of Asian states' definitions of 'welfare state', which can be shifting and ambiguous at times. A third possible approach is to examine how local researchers have defined their welfare provisions. As a matter of fact, many researchers in Asia adopt one or more of the established notions of welfare state from western literature. There are not many local definitions derived from this approach. An interesting schema on welfare in Asia comes from Kim (1985). He identifies four directions in Asian welfare provisions: the recognition of social dimensions of development; an emphasis on the people, the powerless, and the disadvantaged; the fulfilment of basic needs; and an awareness of the costs of economic development.

Welfare state is rampant in advanced democracies. There are numerous definitions of the welfare state; and there is no agreement about what constitutes it. Different definitions emphasize selected aspects of the reality; it is impossible for us to identify the 'correct' one. Even the origin of the phrase 'welfare state' is the subject of dispute. The advice from Timmins (1995: 7) is well taken: 'As an entity, [welfare state] does not exist – it is a collection of services and policies and ideas whose boundaries expand and contract over time.' It would be a digression to centre the

discussion only on the question of definitions and their validity. A review of various definitions of the welfare state will be offered below to facilitate us in establishing some common standards against which welfare development in Asia could be measured. Some of the popular definitions on welfare state are examined here, with a view to identifying some key welfare provisions and objectives in the West.

First of all, Johnson (1987) observes that the term 'welfare state' came into more general use as a convenient shorthand way of referring to the social and economic policy changes in western communities. In the British context, there are three objectives: to extend the range of social services, to maintain full employment, and to nationalize some industries. The welfare state in Britain has been identified with the implementation of the recommendations of Beveridge's celebrated *Report on Social Insurance and Allied Services* (1942). This report examined the deficiencies of existing services and outlined a plan to attack the 'five giants' of idleness, ignorance, disease, squalor, and waste. The solution was based on a free national health service, family allowance, social insurance, social assistance, and government policies to maintain full employment. The result was intended to be a Britain without poverty or want.

Christopher Pierson (1991) notes that the Golden Age of the welfare state has brought about the following changes to the advanced industrialized countries, changes which would capture the essence of welfare states. First, rapid reforms led to the creation of a comprehensive and universal society based on the idea of shared citizenship. Second, there was a commitment to use resources towards the rapid expansion of breadth and coverage of extended social welfare. Third, there was a broad-based political consensus in favour of a mixed economy and a system of extended social welfare. Finally, there was a commitment to growth and full employment.

A narrower definition that is applicable to all advanced industrialized countries is suggested by Wilensky (1975: 6–7). He observes that the 'essence of the welfare state is government-protected minimum standards of income, nutrition, health, housing and education, assured to every citizen as a political right, not charity'. One might note the idea of right in his definition. Similarly, Bryson argues that 'the term welfare state is used when a nation has at least a minimum level of institutionalized provisions for meeting the basic economic and social requirements of its citizens' (Bryson, 1992: 36). Key components among such provisions would be a system of social security/income maintenance, education, health, social services and the near-universal provision of basic needs.

Some researchers have linked the notion of welfare state to capitalism, hoping to identify the *raison d'être* of state intervention. To some analysts such as Skocpol (1985; 1987; 1988) and Offe (1984), the dominant notion of the welfare state in both popular and academic representations has been constructed on the assumption of state control and state provision. Goodin (1988) argues that the welfare state is a modified form of capitalism. He says that the welfare state intervenes in a market economy to meet certain basic needs. The welfare state is distinguished from other modes of welfare provision because it is a system of compulsory, collective, and largely non-discretionary welfare provision. Earlier, Robson (1976) saw the welfare state as one that accepts a modified form of capitalism in which resource distribution is achieved through a market mechanism. Private property and the profit motive are retained. It is a compulsory and collective welfare system in which all the welfare receivers are treated according to bureaucratic regulations, and helped through relatively direct means.

An elaborate definition which incorporates the conflict between state intervention and market forces is put forth by Briggs (1967). To him (1967: 29),

a welfare state is a state in which organized power is deliberately used (through politics and administration) in an effort to modify the play of market forces in at least three directions – first, by guaranteeing individuals and families a minimum income irrespective of the market value of their work or their property; second, by narrowing the extent of insecurity by enabling individuals and families to meet certain 'social contingencies' (for example, sickness, old age and unemployment) which lead otherwise to individual and family crises and third, by ensuring that all citizens without distinction of status or class are offered the best standards available in relations to a certain agreed range of social services.

Finally, a comprehensive definition suggested by Mishra (1997) covers many of the crucial elements highlighted in other people's ideas. He identifies the following characteristics from the welfare state: a commitment to a national minimum standard of living; full employment policies; universal social programmes; progressive taxation; social protection as an entitlement; and promotion of national community and social solidarity. To him, the welfare state is more than a set of welfare institutions. The economic goals of full employment and fiscal policies should be included in the concept. Its vision should be underscored: the notion of

solidarity and public responsibility for the welfare of all citizens. The embodiment of the idea of right is equally important. Since Mishra's idea has captured some common themes in the definition of welfare state, it is this standard which we will be using in assessing the four Asian tigers.<sup>2</sup>

## Method of analysis

Methodologically, the initial thrust of comparative policy analysis has a very strong tendency to be concerned with issues for which comparable quantitative data are available (Castles, 1982; Alber, 1982; Bjorn, 1979; Brooks, 1983; Cameron, 1984; Swank, 1992; Ragin, 1994; Janoski & Hicks, 1994; Uusitalo, 1984). Sophisticated quantitative analyses of the determinants of welfare state development are conducted (Wong & Daley, 1990; Williamson & Pampel, 1993). The value of this kind of analysis is beyond doubt. As Cochrane (1993) puts it, the advantage of using aggregate data is that it is possible to identify broad trends and to reveal the existence of a correlation between various factors. This makes it possible to explore a range of hypotheses drawn from different theoretical perspectives.

Consistent with the traditional spirit of comparative social analysis, one would pursue a quantitative (pooled, cross-sectional/time-series) approach which would measure the impact of explanatory variables over time and across countries. A limited number of studies have followed this line of inquiry. In the case of Asian NICs, three recent studies using quantitative analyses deserve special mention. All of these are conducted with a view to testing the validity of comparative social policy paradigms in developing countries. The first pioneering study was by Lin (1991a), who examined Taiwan's social welfare development. He finds that neither the industrialism thesis nor the social democratic explanation can explain social welfare development in Taiwan. Industrialization is seen as a context which is conducive to economic growth. Tang's (1996a) study of Hong Kong follows a similar approach, and finds that the state theory is the better one in predicting social welfare provisions. The theories of industrialism and social democracy are rejected. Finally, Tang and Lee (1998) compared welfare development in Hong Kong and Korea, and came to the conclusion that Korean social welfare development cannot be explained either by the industrialism thesis or by social democratic theory.

While the above analyses merit our scrutiny, this does not mean that quantitative study is the only key to the understanding of the

development social welfare provisions. Moreover, two factors restrict the usefulness of the quantitative method: ideological and methodological. First, researchers have long lamented the gap between qualitative and quantitative approaches in comparative policy analysis (Kangas, 1992; Janoski & Hicks, 1994). In fact, the use of qualitative historical analysis in comparative social policy has not been accorded its due respect. A second objection centres on the quality of data. Quantitative analysis is an approach which could be used should there be a sufficient number of countries for analysis. More importantly, accurate country-level and time-line data is indispensable. This condition is not easy to fulfil even in the four tigers: important data are either missing or unavailable. A case in point is poverty estimate. National figures on this social issue in the tigers are invariably absent (for example, Hong Kong), underestimated (Taiwan) or conflicting (Singapore). Local census definitions are still used in some comparative analyses, and many of the data which have been collected are of questionable quality. There is also the problem of shifting definitions. For instance, the measurements of GNP over time in some developing countries have changed. Pending better data and a larger pool of countries in the future, it would be desirable to fall back on qualitative study (historical studies or case study approach). Such an approach would enable us to understand the relationships among social forces that have influenced the past and continue to influence the present (Berg, 1998). This allows us a deeper level of understanding of the reality. While a precise quantitative relationship may not be conclusively established, the location of potential explanatory factors is possible in such research.

## Chapter outline

In Chapter 2, we will discuss competing theories of comparative social policy. Here, we discuss six major theories: the industrialism thesis, the social democratic theory, the state-centred theory, the Marxist theory, the diffusion theory, and interest-group politics. This discussion will provide the theoretical materials for us to explain social welfare development in the four Asian countries. We are critical of relying *solely* on any one of this theory to explain Asian welfare development. We are also against the *sole* use of sophisticated quantitative methodology in the study of social welfare development. More important, we feel that applying these theories dogmatically to Asia would put us on the wrong track, because each of these theories is predicated on a research question that is central to the western welfare state: what explains their



development? In the Asian context, the starting-point should be different. We believe that any analysis of Asian social welfare should first explain social welfare underdevelopment. Several implications follow from this way of posing our question. We will recognize the historically specific nature of welfare in these countries. We also argue that indigenous and contextual factors grounded in Asia merits our scrutiny. These factors include the influence of Confucianism, the idea of social instrumentalism, the impact of colonialism, and above all, the developmental state.

Essentially, this study will anchor social welfare provisions in the context of developmental state. Since the 1980s, current development thinking has begun to underscore the role of the state in development. Drawing from the successful developments in the East Asian economies, developmental states are seen as very dynamic, and they are strongly committed to rapid economic development and industrialization. As Castells (1992: 55) puts it, the state 'establishes as its principle of legitimacy its ability to promote sustained development, understanding by development the steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy'.

Chapters 3–6 present four country-by-country studies. We argue that Singapore, Korea, and Taiwan are all authoritarian developmental states and pro-growth in orientation. The colonial state in Hong Kong also adopted a productivist orientation, which is not much different from the other developmental states. Immediately after World War II, all of them gave primacy to economic development and left major social provisions to the families and voluntary efforts. Due to their unique political structures (colonial, authoritarian, or one-party dominance), a residual social welfare policy was kept in place, though extensive social services such as housing, education, and health have been introduced in each Asian tiger. On the road to development, all these countries except Korea have ruled out the development of western-style welfare states, arguing that these create dependency and drain precious resources away from development.

Chapter 3 focuses on how the People's Action Party (PAP) has shaped social welfare development in Singapore. Economic development was the prime national goal. Social welfare provisions were intended to further this national development goal. The prime social programme is the Central Provident Fund, which is a work-based, contributory provident scheme closely supervised by the state. Along with public housing, education, and health services, it has been expanded considerably since its

inception in 1955 to cover many kinds of contingencies and needs. Social welfare in Singapore is primarily used as a policy to stimulate growth and maintain social stability, the latter function being crucial to enticing foreign investments to Singapore. Suppressing of trade unions activities is also critical to maintain social stability and guarantee a cheap source of labour. With growing affluence, the developmental state has been looking at ways to encourage people to use the private sector in meeting their social needs (health and education).

In Chapter 4, we argue that a 'survival mentality' seized hold of the ruling party (Kuomintang) in Taiwan when it was forced to flee to Taiwan in the wake of its defeat by Mao Tse-tung in mainland China. In its subsequent reconstruction, the party played a leading role: introducing social reforms, supporting the development of export-led industrialization, and suppressing the labour movement. Labour insurance was introduced to different constituencies, including military servicemen, teachers, and civil servants. It was based on social insurance principles. These work-based programmes have enhanced work incentives, though the developmental state's granting of welfare concessions to selected groups has also been criticized. Democratization in the late 1980s and interest-group politics triggered some growth in social welfare. The introduction of a universal national health programme in 1995 was a good example. Discussions of introducing national pension and unemployment insurance programmes are taking place. But uncertainties linger. Taiwan is beset by various political crises, which often result from its confrontation with China.

Chapter 5 examines social welfare in the developing state of Korea. Given constant military confrontations with North Korea, the military regime put a high priority on survival. And a 'production first' orientation was adopted by their military leaders. President Park Chung-hee was instrumental in orchestrating export-led industrialization in the 1960s. At about the same time, some social programmes were introduced. Often, because of lack of financial resources and strong family support, these programmes were not implemented. A good example is the national pension programme, which did not come into full effect until 1988. As in Taiwan, democratization in the 1980s led to social welfare expansion: the initiation of an employment insurance programme in 1995. This program has been important in assisting unemployed people to weather the Asian economic crisis. Korea differs from the other three Asian tigers in espousing the goal of a welfare state.

Chapter 6 looks at Hong Kong. There are two phases of development: colonial and postcolonial. Under the colonial state (1842–1997), social

welfare emerged in the 1950s when geopolitics made the British adopt a different role in East Asia. Though the colonial state did not actively guide economic development, it played a critical role in providing massive physical and social infrastructure development to facilitate capitalist development. There was a strong state–capitalist alliance. To this end, education, health, and housing were developed, and social security and social work services were not introduced until the early 1970s. An incremental social policy was kept in place until the transition in 1997. Limited democratization introduced since 1980s had limited impact on social welfare development. The postcolonial state has ruled Hong Kong for two years. Business is becoming ever more influential. The state is clearly interventionist in economic matters, and strongly anti-welfarist in orientation. A gradual process of recommodification of selected social welfare services (health and housing) is taking place.

Chapter 7 looks at some important indicators of policy outcomes in these tigers. Despite some favourable economic and social indicators, the Asian tigers are grappling with their developmental problems. The ills of capitalist development have befallen on them. We would emphasize the fact that the tigers are facing the persistent problems of poverty, income inequality, and gender inequity. These problems haunt all the tigers, including Taiwan and Korea, which historically have had a relatively equalitarian society. The final chapter will examine the prospects of social welfare in the Asian tigers. In particular, the impact of the current economic crisis on the Asian's welfare development will be tentatively assessed.

# 2

## East Asia and Theories of Comparative Social Policy

This chapter looks at some explanatory factors for social welfare development. The research question ‘why state welfare?’ has intrigued many researchers in western democracies, and there is no lack of explanations and theoretical frameworks for this phenomenon. In fact, pioneering studies of this question could be traced back to the early 1960s. Since then, competing theories have been proposed. There is some agreement among analysts that no single theory is comprehensive enough to explain the origin and development of state welfare in the advanced industrial countries. Specifically, these theories encounter difficulties when they are applied to former communist countries and the nations of the Third World (MacPherson & Midgley, 1987). There is as yet no systematic or coherent theory of welfare development which is uniquely rooted in non-western social contexts. Applying and testing these theories in non-western contexts is nevertheless desirable, as this would pave the way for future analysis. It is important, however, for any researcher who is analysing non-western societies to keep an open mind and to assess to what extent one particular theory could be used to explain welfare development in their societies. Contextual and indigenous factors should not be ruled out of the analysis.

### The study of state welfare

The field of comparative social policy has captured the attention of researchers from different disciplines. As Midgley (1997) points out, historians, sociologists, and political scientists have all studied the trend toward increased government in social welfare. Three different strands of inquiry may be discerned: (1) descriptive/analytic account of welfare programs across nations; (2) theoretical discussion of the determinants

of welfare development; and (3) evaluative work on the impact of the welfare state. These research questions have certainly enriched the whole field. But it is the second question which has generated a spate of studies in recent decades. In fact, the expansion of social welfare in advanced industrial countries has been the focus of heated controversy. Empirically, a great deal of research has been undertaken on the causes of social policy development. The method of choice is often quantitative analysis. These research activities are directed by several leading theories (logic of industrialism, social democracy theory, power mobilization model, etc.). No matter how coherent and convincing these comparative theories are, most analysts would agree that empirical validation of these theories is crucial if one is to decide their final applicability. However, some of these comparative social theories could not be amenable to empirical research. In the following section, six perspectives which have dominated the research agenda in comparative social policy are reviewed.

### **The logic of industrialism**

The earliest and most influential explanation is the logic of industrialism (the industrial society perspective) which relates industrialization to social welfare development (Tomasson, 1983). Wilensky (1975) argues that economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state in industrialized countries. In a comparative study of 60 countries using path analysis, he finds that a country's economic level is the major determinant of social security spending. This is mediated through two intervening variables: the proportion of elderly people in the population and the age of the social security system. In this model, the squared multiple correlation coefficient is 83 per cent, and Wilensky contends that there is not much variance left to explain. He sums up his argument as follows (1975: 27):

For this sixty-country study the primacy of economic level and its demographic and bureaucratic correlates is support for a convergence hypothesis; economic growth makes countries with contrasting cultural and political traditions more alike in their strategy for constructing the floor below which one sinks.

Wilensky then goes on to discount the political explanation. Further evidence of convergence of rich countries is the finding that authoritarian polities have no significant effects other than at the economic level, while the other two types of political system, liberal democracy and totalitarianism, have only a small independent influence on social security effort.

To him, the lesson is clear: the welfare arrangements of a country are determined by the stage of technological development that it has reached. Hence, as societies industrialize, they become more alike. Other variables like ideology, political systems, and military spending are not significant. Early comparative social policy research has provided much empirical evidence for this perspective (Cutright, 1965; Aaron, 1967; Pryor, 1968; Rimlinger, 1971; Mishra, 1973; Wilensky, 1975; 1981; Miller, 1976; Williamson & Weiss, 1979; Cnaan & Cnaan, 1987). For instance, Pryor (1968) observes that the proportion of the population over 65 increases as per capita rises, sparking the need for pensions. Likewise, Cnaan and Cnaan (1987) in their study of Israel welfare state comment that population size is one of the major determining factors of welfare spending.

### **The social democratic approach**

Despite the predominance of the logic of industrialism, many researchers in comparative policy do not accept the overriding role of economic forces. Instead, some stress the importance of political forces in shaping the development of welfare states. This social democratic approach, which is especially relevant for welfare development in western Europe, identifies both labour movements and political rule by social democratic parties as significant variables (Therborn et al., 1978; Stephens, 1979; Castles, 1982; Korpi, 1983; 1985; 1989). The dominance of social democratic parties in Scandinavian countries favours the development of public welfare.

A variant of this approach is the power mobilization model, which attributes welfare development to the historical strength of working-class forces (articulated through labour parties and trade union organizations) in their continuing struggle with the powers of capital (Shalev, 1983; Esping-Andersen, 1990; 1996). Empirical support for the 'politics matters' thesis is not lacking (Hewitt, 1977; Castles, 1982; Myles, 1988; Esping-Andersen, 1985; O'Connor, 1988; Korpi, 1989; O'Connor & Brym, 1988; Heidenheimer et al., 1990). For instance, Castles and McKinlay (1979) find in their study of 19 advanced countries that in the case of Scandinavia it is the strength of the working-class movements which has increased the demand for social welfare.

### **The state-centred theory**

The social democratic approach is not the only theory which openly questions the industrial society perspective. The latter has come under increasing criticism since the late 1970s. The second major challenge to the industrial society portrait rests on a revival of the state. Advocates of

state-centred theory claim that the industrial society perspective has neglected the truly important functions of the state in welfare development. They rely on a neo-Weberian conception of the state as an apparatus run by individuals who have very clear objectives and motivations and who possess technical knowledge relevant to the implementation of those objectives or interests. Historical evidence has indicated that the state bureaucracy often has its own interest in the promotion of social policy. All in all, the state is now conceptualized as either an autonomous or partially autonomous actor, and as a consequential structure and set of policies. Spurred by this theory, recent scholarship on welfare state development has focused on the comparative development of institutions and the determining role of political structures (DeViney, 1983; 1984; 1987; Skocpol, 1985; 1987; 1988; Melling, 1991; Williamson & Pampel, 1993; Tang, 1993; Midgley, 1997).

The nature of the state is examined in depth by Pusic (1987). Over time, the state grows as an organization and differentiates both as an organization and as an interest complex. The growth of the state as an organization can be seen in the percentage of the total labour force working in its various units and the growth of its share of the total resources of the community. As a result, it has increased both its power and its relative autonomy from the society it dominates. Generally, 'the larger and more complex a state, the greater its potential independence of any social group, however influential in the community otherwise, and the stronger its tendency to develop interest-positions of its own' (Pusic, 1987: 151–2).

To Pusic, the second main dimension of the state's development is its differentiation. The state has a 'monopoly of violence which is used to insure the preferential satisfaction of minority interests – in the beginning the interests of the social groups controlling the state, and later increasing the interests generated within the state system itself' (p. 152). The social environments resent and resist this lopsided distribution of entitlement on the part of the ruling elites, and demands some redistributive changes in favour of the majority of citizens. The state must then tackle this problem of legitimacy.

### **The Marxist analysis**

This perspective sees state welfare as a weapon of social and political control over the working class to prevent a proletarian revolution. The welfare state operates in three ways: to reduce working class antagonism to the capitalist society; to increase efficiency of the capitalist economy; and to underwrite many of the costs that capitalists would have

shouldered (Mullaly, 1998). In particular, this perspective stresses the point that state welfare programmes promote the interests of capitalism and ensure its smooth functioning (Midgley, 1997). The welfare state is seen as a means to socialize production and moderate the excesses of capitalism (Offe, 1984, 1996). Other Marxist thinkers like Gough (1979) believe that state welfare assists the reproduction of labour. That is to say, capitalism requires a skilled, healthy and educated workforce. The working class which is exploited by the capitalists struggle to bring pressure on the state for the provision of education, health and social services. These twin needs drive the state into the provision of social welfare services. On the other hand, O'Connor (1973) argues that capitalist state needs two requirements to survive: accumulation and legitimation. To assist capitalist in the accumulation of profits, the state intervenes in social provisions. This would reduce the costs of capitalist production and promote legitimacy for the state and the capitalist system. But these two functions are in contradiction, and crisis would be provoked by expanding social welfare and the persistent pursuit of profits on the part of capitalists.

### **Interest-group politics**

This perspective challenges the Marxist class theory. Power does not just rest with the capitalists; different groups in society exert their pressure on the political regime. This perspective contends that the welfare state emerges in an environment of pluralism. The role of organized pressure groups in society is of importance to the generation of state welfare. The evolution of social welfare is shaped by interest-group dynamics. State welfare often emerges when different interest groups vie for electoral success. This puts pressure on the ruling party, or the party which comes to power, to expand social programmes (Mishra, 1984; Williamson & Pampel, 1993).

### **Diffusion theory**

This theory attempts to explain the nature of social welfare development in developing countries by emphasizing the role of international linkages (Midgley, 1984b, c, 1997; Tang, 1996a; 1996b). This theory presupposes constant interactions between countries. Diffusion is seen as 'the development of social welfare institutions through the exchange on information and views between policy makers or the adoption of the welfare policies or practices of one country by policy makers in another' (Midgley, 1984c: 170). The importation of western social institutions and ideas have been identified as integral to this dynamic. Western



social work and social security programmes were introduced into Third World nations during colonial and postcolonial times because they were considered as superior and worthy of emulation (Midgley, 1997). The developing countries are seen as replicating the institutions and values of other countries. This has led to the inappropriate adoption of western welfare systems.

The 'false paradigm model' in development economics is used to explain the inappropriateness of western influence (Todaro, 1994). There has been faulty and inappropriate advice provided by well-meaning but often uninformed international 'expert' advisers from the industrial countries, consulting agencies and multinational donor organizations. A good example comes from the impact of neoliberalism in developing countries. Glennerster (1991) links the spread of neoliberalism with the United States, a country that has embraced neoliberal ideas in the 1980s. He finds that the more economically dependent a country is on the United States, the more likely it is to adopt radical right ideas. In the era of globalization, this dynamic becomes more complex. Since there is constant international flow of capital from one part of the world to another, businesses exert increasing influence on the developing countries.

## **Empirical validation of comparative theories**

While these competing theories vie for dominance by highlighting a particular aspect of the reality, it is important for us to examine their empirical relevance. In other words, what is the state of knowledge with regard to the field of comparative social policy? In brief, the literature on empirical validation of these major perspectives has yielded a very mixed picture. Each perspective identifies relevant empirical research to prove its universal applicability. Each of these perspectives has been influential at different times. From the 1950s to the 1970s, the research agenda was dominated by the industrial society perspective. There was a shift to the social democracy approach in the late 1970s, while the state-centred theory attracted more studies in the late 1980s. A few studies along the lines suggested by the interest group politics thesis have been carried out since the late 1970s.

A few observations can be made about the overall empirical findings. First, there is no conclusive empirical evidence to establish the superiority of a particular comparative social theory. The search for a theory (along with predictive variables) that is universally applicable has proved fruitless: empirical findings conflict one another (Shalev, 1983; Uusitalo,

1984; Skocpol & Amenta, 1986). Such inconsistencies could be attributed to a number of factors. Some studies have tended to focus only on selected variables that are generated by one particular theory when testing that theory's relevance. Moreover, in many cases, only proxy measures of certain concepts generated by these theories could be fashioned. A case in point is the concept of 'welfare effort' which has used social spending as proportion of GDP. Obviously, this represents a rather rough measure of the welfare effort within any country (Wilensky, 1975). Despite the problem of inconsistent findings and the difficulties pertaining to the operationalization of concepts, empirical studies using quantitative designs have been productive and illuminating with respect to the social policy development of some industrialized countries.

Second, some research efforts have been directed at finding common ground in these studies. In order to reconcile such inconsistent findings, these researchers look for contextual variables which impact on the economic, political or social determinants of social spending. A case in point is the institutional environments which are found to be very significant, and are accordingly emphasized in some studies. Hence, Williamson and Pampel (1993), in their study of state retirement pensions in developing and developed countries, argue that they have found each perspective (including the logic of industrialism thesis, social democratic approach, and state-centred theory) to be useful in accounting for some developments of social security in these countries. They further contend that what has been neglected by other researchers are the institutional contexts (including corporatism and democracy) which condition the impact of variations in class formation, age structure and age and class resources on social security policy.

Third, these comparative theories share many similarities. Some of them are deterministic because causational forces located in wider social processes are present. This amounts to a mode of positivism where the search for causes is a primary activity (Midgley, 1997). Furthermore, some of these theories reflect a sense of historical inevitability. They (the functionalist industrialism thesis and Marxist theories) explain the emergence of state welfare 'in terms of an evolutionary, historical process, and most stress the role of social and political forces in directing the process in predetermined ways' (Midgley, 1997: 97).

With a few exceptions, there is a general neglect of developing and non-western countries in these analyses. A review of major comparative studies is done by the author (Tang, 1993). It is found that some 50 comparative empirical studies had been conducted between 1960 and 1990. Except for a few historical studies, the overwhelming majority of

studies were conducted using quantitative analysis. The overriding mode of analysis is either cross-sectional or time-line regressions. The average number of countries under study is around 18. They are western democracies. One prominent finding emerges: since Wilensky's early study of social expenditure growth in 1965, which covers both developed and developing countries, almost no other study has included developing countries in its research. Given such countries' low level of social spending in the 1960s, this would be reasonable. What is unsatisfactory, however, is that many later studies consistently ignore the developing countries. In the study of advanced industrial countries, analysts like Anderson (1993) rightly question whether even Japan could neatly fit into western patterns of welfare policy. It is rather perplexing to know that the Asian tigers (even with their miraculous growth, growing social expenditures, and high per capita GDP) are often excluded from these analyses. This again raises the question whether these comparative findings are universally applicable.

The field of comparative social policy will remain unsatisfactory if comparative analysis continues to ignore rapidly growing non-western economies. In particular, the Asian tigers are worthy of study. These states have constantly argued that the key to their success is the undermining of state welfare in order to save more resources for growth. Looking closely at these countries, however, one could find extensive social welfare services in these countries. Most of these have been developed in the last three decades by their authoritarian political regimes. These different paths of development under the auspices of different key players probably set East Asia apart from other industrial countries. This in turn requires a different mind set on the part of researchers when they approach East Asian welfare. As the Asian tigers' advanced economies continue to develop (along with their membership in the OECD), more researchers will be prompted to link their social welfare provisions with those of other western industrial countries.

### **A shift in focus**

This short review of comparative social policy calls for a shift in focus if one is to conduct a comparative analysis on non-western countries. Two possible shifts are worthy of our attention. First, in the context of developing countries, it would be important to look at relevant local, contextual, and indigenous factors affecting welfare development. For instance, Johnson (1982), in his study of Japan, has identified the encompassing context for its economic development. There are situational

imperatives which affect the decisions of the Japanese state: lateness of economic development, lack of resources, constraints imposed by the international environment, growing population, and the need for open trade. By extension, such context would affect welfare development.

Since social welfare development starts late in these countries (including East Asian NICs), there has not been much research into this area in the 1970s and 1980s. Empirical research of social welfare development Asian tigers is emerging. In the last decade, a number of studies have attempted to test the extent of applicability or otherwise of the comparative social theories to the Asian societies. These studies (Fu, 1990; Park, 1990; Li, 1994; Lin, 1991a; 1999; Tang, 1993; Wang, 1994; Chan, 1996; Ku, 1997; Wang, 1997; Kwon, 1999) cover Hong Kong, Taiwan, Japan, and China. Often, they are single-country studies. These studies identify the importance of specific local and situational factors (culture, civil service bureaucracy, interest group politics, authoritarian clientism, etc.) in accounting for welfare development. These studies provide the basis on which future theoretical frameworks can be built. In the context of Asian NICs, no coherent theory backed by empirical research has evolved which attempts to deal with welfare development. Some interesting perspectives have emerged in the last decade. They have brought in local or indigenous explanatory factors which account for a state's action in development. It stands to reason that research work on social welfare development of non-western countries will gather momentum with the continuing expansion of social welfare in the region. It is possible that integrative approaches based on the historical, social, and cultural specificity of Asia and on some predictive factors drawn from western theories would be used by researchers in comparative social policy.

A second direction involves the location of inhibiting factors. Since Asian countries do not have the same array of welfare institutions as other advanced industrialized countries, it stands to reason that one credible approach is to look at some factors which inhibit social welfare development. This practically reverses the traditional theoretical point of departure adopted by most analysts in this area. Instead of looking at social determinants of state welfare, we must examine the impediments to social welfare. In this respect, some pioneering studies done in the West are illuminating. Castles and McKinlay (1979) test the hypothesis that the level of public welfare decreases with the size of the vote for the major party of the right in nineteen advanced industrialized countries. The hypothesis is confirmed in their study. They caution that the mere absence of the rightist party will not guarantee social welfare development. Earlier, Wilensky (1975) identifies some inhibiting factors. Anti-welfarism

is likely to emerge in societies with easy access to education and high occupational mobility. In times of affluence, such an attitude would be fostered. Also, the more numerous the self-employed and the greater the availability of private welfare benefits, the more aversion there is to social welfare. Consistent with the spirit of emphasizing inhibiting factors, their starting-point is to explain why social welfare remains underdeveloped.

Four perspectives are reviewed here. Along with major explanatory variables drawn from the dominant comparative theories, they will be used to analyse social welfare development in the four tigers in the following chapters.

### **Trickle-down development**

All postwar developing countries were grappling with the question of development. The most influential approach is the modernization theory, which sees developing countries as social systems undergoing social changes consequent upon the impact of technological/western institutions. A well-known conception of the process is given by Rostow (1960), who views development as a linear process of economic growth passing through five stages, from the 'traditional' to the 'mass consumption' society. He claims that economic growth raises incomes and improves levels of welfare in a given society.

Thus, the main thrust of development theory after World War II was focused on the dynamics of national income growth, often indexed by GNP per capita or change in GNP over some specifiable period of time. The policy was on infrastructure development, in the expectation that benefits would flow throughout the population in the developing countries. Some theorists contended that the benefits of continuing economic growth will eventually 'trickle down' to even the poorest people. There was a strong conviction that economic planning would raise incomes through real growth. Government intervention to meet social needs would be unnecessary: social needs would be met by rising national income. East Asian states are ardent followers of this doctrine. They have often defended their low levels of spending in social services using this perspective. This developmental perspective has been challenged by some empirical studies in the last two decades. Patterns observed longitudinally in particular countries do not bear out the predictions of trickle-down theory (Evans, 1979; 1994; 1997; Goulet, 1977; Adelman & Morris, 1984). In the context of Asia, Donnison (1997) has challenged this view, arguing that the hardships of poverty are only tolerated when the economy is growing so fast that people have hope in the future. In effect, hope for many people fades as they fail to improve their incomes.

## **The developmental states**

Closely linked to the state-centred approach is the concept of the developmental state generated by a group of scholars interested in the developmental paradigms of East Asia. As noted, the miraculous economic development of the NICs eludes researchers and call for fuller explanations. Yet the classical neoliberal theory in development economics emphasizing the role of markets has failed to explain the unique economic development of the four tigers and Japan, where the state is seen heavily involved in the process of development. In response, Chalmers Johnson (1982) formulates the concept of the 'developmental state' in the context of Japan, and applied it to Korea, Taiwan, and other Asian states. To him, the 'developmental state' is characterized by a clearly defined division of labour between political elites and bureaucrats overseeing the economy.

A growing literature on the role of the Asian states follows from Johnson's analysis. This developmental state literature is fundamentally institutional in its logic (Fields, 1995). These Asian states have institutions or machinery to accumulate capital, provide entrepreneurship, to discipline and respond to private business, and to insulate themselves from societal interests. Generally, this perspective analyses the postwar Asian economic development and attributes it to state leadership. The Asian NICs are able to catch up economically because of active state intervention in the development agenda. Leftwich (1995) identifies six characteristics of the developmental states: a determined developmental elite; relative state autonomy; a powerful and insulated bureaucracy; a weak civil society; the effective management of non-state economic interests; and repression, legitimacy, and performance.

Like the state-centred approach, the developmental state is conceived as the most dominant independent variable in the development formula. It is autonomous in that it is above class and interest groups. Concepts like 'strong state' and 'state-business alliance' are used to characterize the nature of developmental states. Strong developmental states are seen to have the capacity to control all the socio-political forces (industrial bourgeoisie, industrial workers, etc.) so that the national agenda of development is not undermined. Colonial legacy, social and economic reforms furthering the national goals are emphasized in other studies (Gold, 1986, 1993).

Some scholars (e.g. Tran, 1995) emphasize two necessary conditions for the developmental state to function well: state capacity and state autonomy. The former condition is dependent on a well-developed bureaucratic apparatus to implement state policies; state-owned enterprises

which can implement policies; a combination of centralization and decentralization by having a coherent policy implemented by its bureaucracy and state-owned enterprises. An autonomous state is capable of independently formulating its own goals, apart from class interests, and relying on its apparatus to implement these goals to achieve societal interests. If the developmental state is autonomous with regard to key social classes in the society, it has a great capacity to plan and push through its developmental agenda. In practice, the degree of autonomy could range from absolute to relative. Additionally, the developmental state must establish hegemonic ideology so that all citizens in the state follow and make their contribution. In sum, this statist view in development literature emphasizes the active role of the state and the following variables: domestic authoritarian state; weaknesses of labour movement; effective economic institutions; economic crisis induced by external factors; and external political alliances (Deyo, 1989; Haggard, 1990).

Johnson's idea of the developmental state has sparked intense debates in development literature. There have been further refinements of the developmental state perspective. Some analysts (Huff, 1999) identify more conditions for the formation of the developmental states. Other academics have adopted a more society-centred approach in the analysis of development in East Asia (Chan et al., 1998).<sup>1</sup> A case in point is Abelmann's analysis (1996) of social movement in South Korea, which demonstrates that state action could be tempered. A variant of this theory sees the interdependence between state and dominant business class (Kim, 1997), which adds some degree of dialectics to the theory. To Kim, the developmental state of Korea is no longer seen as autonomous. The autonomous state has its own inherent contradictions. Rather, its role and influences are more limited once the economy has developed. In the process, business influences grow rapidly and are able to override the state in important matters. As the state attains economic development, its nature changes from a comprehensive developmental state to a more limited one.

The evolution of Asian developmental states is linked to the underdevelopment of social welfare. Thus one can argue that Asian developmental states at the end of World War II purposefully marginalized social welfare by not putting social welfare in the national agenda. Overall, the residual role of social welfare has not been accorded much significance in the literature of developmental states. This residual view of social welfare has been modified steadily since these states realized that welfare is functional. Several lines of reasoning have been developed by scholars to explain the expanding role of social welfare. Deyo (1981, 1992) argues that the East Asian developmental states have made use of social welfare

as a means to further their national goals. Castells and his associates (1990) believe that the course of capitalist development in East Asia inevitably made the states invest in social infrastructure to guarantee the reproduction of labour. Other researchers take note of the importance of the geopolitics faced by these Asian countries. This serves to link the analysis of the developmental states with the role of social welfare in the development process. With regard to the attention paid to shared growth in Asia, Root (1996: 2) observes: 'Geopolitics are the driving force behind the behaviour of East Asian politicians. With Maoist China and the former Soviet Union at their back door, rulers in Hong Kong, Korea, Singapore and Taiwan could not afford to ignore the dangers of unrest leading to insurgency among the less fortunate members of the society.'

Recently, the link between the developmental state and welfare has been further explored in Anderson's (1993) study of Japanese social welfare, which attempts 'to explore beyond the developmental state, past merely administrative functions that tailor policies for economic growth to welfare needs... make new sense of societal interests that abandon universal social ideals for specific nonuniversal guarantees' (p. 1). Instead of merely going beyond the developmental state, one could argue that we should first situate state welfare in the context of developmental state. Economic policies are inseparable from social policies. To assume that the economic role of a developmental state is distinct from its social development role could be erroneous. These different areas should be conceived as a whole entity.

As far as this argument goes, the developmental state thesis brings out the process of economic transformation of the Asian states. But it is incomplete in that it only looks at political alliance, business dominance, geopolitical changes, institutional contexts, and state capacity, without paying sufficient heed to social welfare institutions. While the statist view in development economics tends to the role of social institutions, the instrument of social policy is used by the elites of developmental states in various stages of development in response to external and internal crises. The strong political overtones (political stability and public consensus for authoritarian rule in the Asian tigers) behind the introduction of specific social policy programmes cannot be overemphasized. Moreover, the development of social policy is partly fuelled by the civil service bureaucracy which has much stake in the outcome. Without some development in social welfare, it is inconceivable that social groups would be behind the state and willingly acquiesce in the dominance of state-business alliance (Hong Kong, Taiwan, and Korea) or the one-party political regime (Singapore).



## Hong Kong: a developmental state?

Unlike the other three Asian tigers, Hong Kong was not a developmental state under British rule. It had the freest market economy in Asia. Ideologically, it believed in economic and social non-interventionism. When export-led industrialization began in the 1950s, it was mainly initiated by Chinese entrepreneurs who fled to Hong Kong from Shanghai, bringing with them capital and expertise. This industrialization was not state-directed. The colonial state's role was a limited one: the maintenance of law and order and the fostering of a climate which was conducive to economic investments. It carried out massive physical infrastructural projects (roads, railways, airport and harbour) and developed a number of new towns which supplied cheap labour to the nearby industrial sites.

At first glance, the strong tradition of *laissez-faire* policy adopted by the colonial state seems to preclude application of this statist view. But development theorists in the statist tradition explain this by underscoring the role of 'peak developmentalist organizations' (i.e. the big banks and large trading companies) in Hong Kong. Thus, Deyo (1989) argues that such peak organizations are important in investment capitalization, penetration of foreign markets, and so forth. He draws our attention to the cohesiveness and unity of commercial, financial, and industrial leaders, on the one hand, and colonial authorities, on the other. Thus power, wealth and social status converge on a tiny colonial elite that commands substantial power to direct the economy. This cohesion among colonial leaders and business and financial leaders is cemented through membership of exclusive social clubs, educational ties, and intermarriage. They have shared assumptions regarding the needs of the colony and the development strategies. As Deyo (1989: 244) has put it:

both the generation and the implementation of these (developmental) strategies are politically insulated from the demands of small business, organized labour, and other nonestablishment interests groups by an exclusionary, authoritarian colonial state...sanctioned by a greater China whose economic interests it serves.<sup>2</sup>

Furthermore, Hong Kong shares a number of important characteristics of these developmental states. First, there are many instances when the colonial state became interventionist. These took place toward the end of colonial rule. Responding to mounting loss of confidence, the colonial state introduced the fixed exchange rate, pegging Hong Kong dollars to US dollars in 1984. It took over some poorly run banks in the

1980s to prevent social instability. Second, the political capacity of the state to implement its policies 'places Hong Kong squarely in the East Asian pattern' (Haggard, 1990: 125). Socially, we would argue in the following discussion that the colonial state has introduced extensive education, housing, and health services in the last four decades. Such comprehensive and universal social welfare services enabled the citizens to receive cheap and affordable education, housing, and health. Additionally, an educated and healthy labour force was an essential condition for the economic development of Hong Kong. More importantly, the colonial state acquired a developmental orientation over time, ready to give full support to businesses in order to foster rapid growth.

Recently, the change from a colony to a special administrative region has provided a context for Hong Kong state to undertake a more interventionist role. The ability to intervene in society and economy is predicated on a strong executive-led state. The power of the state is more and more centralized. The new popularly elected Legislative Council's influence is waning after the new electoral arrangements, which effectively prevent the dominance of the opposition party, the Democratic Party, in the legislature.<sup>3</sup> Their influences have been much reduced and their views are becoming inconsequential. The pattern of state-business alliance has lingered after the 1997 transfer of sovereignty. The dominance of British business has waned and the postcolonial state is forging an alliance with business and property tycoons, most of whom are Chinese. Given these developments and in the face of Asian economic crisis, the postcolonial state has undertaken interventionist economic measures (loans to small enterprises; the HK \$5 billion information and technology fund; the setting up of high-tech hub; massive purchases of stocks in 1998) and social initiatives (the planned annual construction of 85,000 new housing units) which resemble those of other tigers. In other words, it is approaching a developmental state. It might be appropriate to call the Hong Kong Special Administrative Region a 'quasi-developmental state'.

## Social instrumentalism

This perspective comes from the study of the developmental state in Japan. Unlike advanced industrialized countries, Japan and the four Asian tigers are late industrializers. Eager to catch up with the advanced industrialized countries and rebuild their war-shattered economies, these states are production-oriented. Hence, they do not need to justify the state's intervention in contravention of the *laissez-faire* doctrine. The principle of individual responsibility is not prevalent in Asia. Lee (1987)

argues that because of different timing of industrialization, the role of the state has differed in the developing countries. She observes that the welfare state in Japan developed in a unique context which has some bearing on other non-western countries. She comments (p. 244):

In the states which were late to industrialize, like Japan, on the other hand, it was the state itself that led the industrialization drive. Japan's successful surge as one of the most powerful nations in the world before and after the Second World War was in large part attributable to the government's developmental efforts to direct the fearful and wrenching thrust of industrialization. The Japanese never relied upon the invisible hand of market forces. Instead they depended upon the very visible hand of the centralized authoritarian government.

She then links the development of the welfare state with the paternalistic state. The welfare programme becomes an integral part of the national development agenda. She argues (p. 245):

In this context, the historical implication of the welfare state differs greatly from that of early industrialized societies. First of all, it does not involve a fundamental discontinuity in social and economic ideology. Since the right of the state to intervene in the lives of individuals was already taken for granted, legitimization of state intervention, or the rejection of laissez-faire was not necessary. In fact the paternalistic government is predisposed to the idea of social protection . . .

However, the Japanese state believes in nation-building, and the ideology of traditional family support for individual members is used to counter calls for welfare expansion. All social policies are formulated in relation to this overarching national agenda. The dominant criterion is whether these policies are deemed useful or instrumental to the national goals.

### **The Confucian welfare state**

To explain the economic success in the four tigers, some researchers have used cultural variables. These traditional values, which are still held by many Chinese, include: loyalty to a good leader; respect for authority; preference for order; hard work; thrift; and emphasis on education. Social policy researchers have expanded this line of analysis to the growth of social welfare in these 'Confucian' societies. In this regard, the most comprehensive treatment of this approach is by Catherine

Jones (1990a; 1990b; 1993), who argues that these four Asian societies have their 'own brand' of welfare states, which revolves around Confucianism. With strong familial cohesion, their welfare systems have some strengths.

Confucian welfare states are built on a foundation which cherishes the values mentioned above. Consequently, Chinese and western traditions are sharply at odds. Rejecting western 'individualism', the Asian tigers have a deep Confucian tradition. Central to Confucianism is the idea of continuity (Jones, 1990b; 1993). Without it, there can be no due order. Thus the Confucian family is the key social institution. Every person has his or her place and corresponding responsibilities in the family. By extension, every family has its place and corresponding duties within the political regime. The emperor is considered as the 'fatherly' head of the regime. There are no individual rights, only duties and obligations. The concept of equality of relationship is missing from this moral schema. In summary, Jones (1993: 214) identifies the following salient characteristics of the 'Confucian welfare state': 'Conservative corporatism without (Western-style) worker participation; subsidiarity without the Church; solidarity without equality; laissez-faire without libertarianism.'

Critics of this approach raise some objections to this analysis. First, they consider that the cultural explanation is only an ideological discourse, devoid of real meaning. Second, they pose the question: why do other Asian countries which are not influenced by Confucianism display the same disregard for welfare provisions as the Asian tigers? Finally, with the modernization of traditional societies, critics begin to query how strong Confucianism is in these Asian countries.

After reviewing the various strands behind the idea of orientalism (i.e. the view that Asian states display a different culture which could then be used to explain social behaviour), White and Goodman (1998: 15–16) challenge the validity of such 'cultural' perspectives which emphasize some form of social orientalism: these explanations are 'essentialist' since they identify certain basic features of East Asian societies and imbue them with a sense of timelessness; they have a static quality which makes it difficult to deal with the dynamics of social change and conflict; they tend to operate at an abstract level, 'setting up an ideal type and then drawing selectively on data which support it or imposing it like blancmange mould on a recalcitrant reality'. Moreover, they tend to set up a dichotomy between hypothetical opposites (i.e. 'East' and 'West'), which obscures the complex ways in which societies interact and social values are constantly being reshaped by this interaction. Finally, they tend to homogenize regions and societies, positing some

basic 'East Asian' identity common to the region and some shared consensus underlying social diversity.

While some of these criticisms are undoubtedly valid, the Confucian welfare state perspective underscores the lasting impact of Asian culture on people's attitude and behaviour. More important, this approach allows us to see how political elites are able to use Confucian values to their advantage (through encouraging hard work and loyalty of people to the states and capitalists). Finally, researchers such as Park (1990) have argued that the strong kinship network and filial piety is prevalent in countries like China, Japan, and Korea. Such cultural influences has effectively postponed the enactment of social welfare legislation dealing with social problems such as the aged and industrial risks.

### **A recapitulation**

We have cautioned against any dogmatic application of theories of comparative social policy to non-western societies. The relevance and applicability of these comparative theories have not been thoroughly tested in non-western contexts. Whether they can credibly be applied to developing countries is an empirical question. It cannot be overemphasized that researchers must keep an open and unbiased mind in their analysis. This is not to belittle the potential of these theories. Comparative studies have established the fact that 'reaching a full understanding of developments in any particular country is only possible if its experience is set in the context of those of other countries' (Cochrane, 1993: 1). As a matter of fact, comparative studies of western welfare states have much to offer. Important insights may be obtained by highlighting the different sets of forces which determine social policy development in different countries. There is a clear benefit to be gained from testing the relevance of western theories, since they could serve as a useful aid to the interpretation of social policy development in developing countries. The availability of existing theoretical frameworks drawn from comparative analyses would help researchers to zero in on a number of factors in their national analyses. This could provide some useful guides in the study of social welfare development. This might prove to be a two-way learning process. Welfare analysis of specific advanced economies in Asia might engender new ideas, which could be used to refine existing welfare state theories.

On the other hand, some scholars of comparative social policy have singled out the importance of national and historical environments. Lee (1999) rightly reminds us that the welfare state can take many different

institutional forms, which vary from nation to nation. Admittedly, no one would doubt that the credibility of the major comparative theories on social policy development outlined above might well depend on national, cultural, and historical contexts. While the context is important, its impact on different countries would vary. A methodological implication of accepting this view is the need to incorporate historical studies of national development into the analysis of social policy development of different societies.

Avoiding generalizations and specific theories with universal applicability, some theorists have paid more attention to contextual factors in explaining the development of state welfare. For example, Esping-Andersen (1996) singles out global competition as the context which puts influence on state development in different countries. He contends that social policy-making in various countries is now constrained by factors such as employment and growth objectives, political and institutional mechanisms of interest representation, and political consensus-building.

# 3

## The Capital Investment State of Singapore

To understand social welfare development in this city-state, it is essential to examine the ideology and practices of the ruling People's Action Party (PAP), which has been in power since its independence. As Foster-Carter (1995) argues, in the case of East Asia, the world's most dynamic capitalist economies are also the most interventionist. This is especially true for Singapore, where the ruling party is indeed omnipresent. The developmental state in Singapore provides assistance in the form of physical infrastructure (utilities, communications, media, industrial estates, port and airport services) and assumes a major role in domestic capital market (Tremewan, 1998). With the aid of generous tax credits, Singapore has attracted and thus depended on foreign capital as a centre of international finance. In actuality, it has immersed itself into the world capitalist system by bringing in multinational firms and exporting its manufactured products. Socially, the state is the dominant player, orchestrating welfare development in the service of national development. In the course of nation-building, social welfare is not only made inferior to economic development. The objective of social welfare spending is to increase savings and investments. The social welfare system as exemplified by the Central Provident Fund (CPF) is a policy tool for social stability as well as social control. In this chapter, we ask: What is the nature of welfare system in Singapore? What factors explain its development? We argue that the PAP's reliance on the CPF turn Singapore into a capital investment state<sup>1</sup> which promotes personal savings and social investments as well as the fulfilment of social needs through the private market. There is little redistributive effect on the part of CPF, and the main beneficiaries of the system have been the affluent and the workforce.

## **The developmental state**

Not long after independence in 1965 and with little economic endowments, the PAP began orchestrating an export-led, industrial-based economy in the pursuit of material wellbeing and growth. A developmental state, Singapore has a strong commitment to growth and its recipe is to foster an open, private-enterprise economy through attracting foreign investment. It has now been identified as a free, competitive and economically developed city-nation. This city-state has received some highly positive comments from the world organizations. The economy of Singapore was rated the second most competitive in the 1997 IMD *World Competitiveness Yearbook* and the second freest economy by the conservative Heritage Foundation based in Washington, DC. Concomitant to attracting foreign capital, the developmental state has sought to design its social welfare system consistent with rapid economic growth (White, 1998) and to maintain a disciplined, healthy, well-housed, and educated workforce (Tremewen, 1998).

The PAP has ruled Singapore over the last 40 years. Its latest election victory, in 1998, gave little surprise to anyone, as it still enjoyed some public support as a result of the improved quality of life and material success. For a long time, there were no strong oppositional forces, although public support for the party as reflected in various elections has suffered a decline in the last 20 years. Opposition parties were only able to obtain a limited number of parliamentary seats in the recent elections. The presence of this authoritarian but strong state belied the fact that the road to power was not an easy one for the PAP.

The PAP faced a formidable task of survival in its early reign. Survival meant political legitimation and public endorsement and economic development. On 3 June 1959, Singapore became a self-governing state. All sovereign power, other than for defence and foreign affairs, was vested in a parliament elected on the basis of universal adult suffrage. An anti-colonial movement, spearheaded by the Chinese-educated left, forced the British to grant self-government to Singapore. The situation was very tense and delicate. The PAP, led by Lee Kuan Yew, won the elections on 31 May 1959 and formed the government. It was able to win the election because Lee Kuan Yew and other moderates were able to forge a partnership with the pro-Communist faction in his party to form a united front against the British colonial overlord. Soon after, the two uneasy allies split up and the moderates under Lee took full control of the party. The ensuing struggle between the PAP leadership and the left-wing faction was bitter and intense. Strikes and violent demonstrations



were common. Due to some tactical mistakes, the left-wing faction was weakened considerably when it decided to give up its seats in the parliament. In addition, Lee was able to neutralize his opponents with a combination of repression and achievement-oriented policies (Huff, 1995).

A series of crises hit this city-state. Singapore merged temporarily with Malaysia in 1963, which triggered Indonesian indignation and a termination of the entrepot trade. The situation worsened, becoming tense when Singapore was expelled in 1965 from the Malaysian union. Since then, there had been constant conflicts between Malaysia and Singapore. In 1968, the British announced their withdrawal east of the Suez Canal, closing their military base in Singapore, which accounted for about one-fifth of the island's GDP and employment respectively (Low, 1998). This provoked a crisis of confidence (Haggard & Cheng, 1987).

Internally, when Singapore became independent from Britain, social infrastructure was undeveloped and housing conditions were very poor. The existence of different ethnic groups (Chinese, Malay, Indians, etc.) complicated the picture; ethnic tensions were running high. Obviously, they did not share any common purpose, and ethnic conflicts frequently broke out. As Chew and Chew (1995) report, the economy was plagued with the problem of widespread unemployment and serious industrial unrest. The PAP recognized these social problems early and promised to eradicate them in its election platform in 1957, which consisted of a number of social initiatives: the promotion of vocational schools, building more schools, constructing a low-cost housing programme, and recognizing the special status of Malay and women (Fong, 1970).

As a result of these crises, a 'survival instinct' pervaded the PAP leaders. To overcome these economic and social problems, the party embarked on a strategy of export-led industrialization by attracting foreign investments through the provision of tax incentives, development of physical infrastructure, and the institutionalization of laws to promote industrial relations. Thus the initiation of export-led industrialization took place in the context of political uncertainty and social stagnation. Soon afterwards, the need for a well-disciplined and low-cost labour force made the PAP expand the CPF and the provision of public housing. In turn, the public-sector investment in housing and physical infrastructure provided stimuli for the economy.

The PAP had an effective monopoly of state power after it defeated the left-wing section of its party (Rodan, 1996). It maintains a single-party state by posing as the champion of economic growth. To consolidate its power, it has used various tactics: rewarding by political advantages those people who voted for the party, changing electoral rules to diminish

the influence of its opponents, and harassing its political opponents by suing them for libel. It is thus politically autonomous. Further, the party claimed that it was the only party that could understand and define the people's needs: 'The masses of the people are not interested in political theory and ideology. They want and have the right to expect a better life' (Petir, 1957, quoted in Bellows, 1970). Such ideological campaigns have persisted since the party's control of the state.

Academics like Chua (1995) and Huff (1995) have argued that the developmental state in Singapore was highly autonomous. There were two important reasons: (a) the PAP state had formed a partnership with labour prior to coming to power, and (b) there was a lack of strong industrial, intellectual or landed bourgeoisie. Economically, the state was powerful in that it controlled 75 per cent of the land (Tremewen, 1998) and kept a close watch on the wage determination system by forming the Wage Council. It depoliticized the labour movement, and there were no significant non-government trade unions (Huff, 1995). Ideologically it was anti-Communist, and fostered the Confucian values of respect for authority and family support to build social solidarity.

Some other factors augmented the autonomy of the PAP. Singapore inherited a centralized and efficient administration from the British (Haggard & Cheng, 1987). Over time, it prided itself on having a corruption-free administration. The leadership was of high calibre, and they realized the need for sound economic planning. When it took over in 1959, the PAP launched a development plan that was meant to tackle widespread unemployment and to promote industrialization. By 1961, the split with the left wing of the party further convinced the PAP core leaders to adopt a pragmatic policy of creating a favourable investment climate while providing infrastructure, social services, and housing. Soon, tax cuts were carried out for certain industries and an economic development board was established to make loans and buy equity in private businesses.

## **Dominant ideology of the PAP**

Material success, meritocracy, the work ethic, and a general sense of pragmatism are core components of the ethos in Singapore. When Singapore adopted an export-oriented industrialization strategy, its dependence on international capital substantially increased. For instance, multinational companies dominated its manufacturing industries. In 1972, wholly owned foreign subsidiaries accounted for 57 per cent of manufactured products. At present, some 7,000 foreign corporations are based there.

In order to integrate itself into the world capitalist order, the city-state had to make sure the foreign capital would stay. A healthy and educated workforce was an essential for capitalist development (Tremewan, 1998). The control of its labour was indispensable so that the costs of production would not drive foreign investors away. Above all, the maintenance of social stability was crucial. The remodelling of the CPF was done to further these goals. The fulfilment of workers' needs were tied tightly to the interests of the ruling party.

The economic liberalism adhered to by the ruling party extended to social welfare. Parallel to the values of responsibility and work ethic, there has been a marked antipathy towards social spending in order to bring about a higher standard of living. A strong conviction that the rewards of rapid economic development will spread through the population supports the view that the state should not intervene and undermine the working of the market. Not surprisingly, the rising quality of life is attributed wholly to improved economic performance by the state. In particular, welfare state development has been frowned upon by the PAP. The ruling party has taken every opportunity to diminish the institution of the welfare state, and uses Great Britain, its former colonial master, as an example of the welfare state having proved untenable. To this effect, the PAP in its 1998 budget reasserted its anti-welfare ideology and the importance of voluntarism: 'We believe that extensive welfare programmes damage the fabric of our society as they discourage individual responsibility, self reliance, community support and the work ethic.' The state then continues to reaffirm its own style of social policy: 'Our approach is one of many helping hands, with co-funding from Government and public donations and services rendered by volunteers and members of the community.'

Looking at the history of social welfare development in Singapore, one can find ample instances that empirically validate this anti-welfare position. First and foremost, Singapore has not established a comprehensive social safety net for its disadvantaged. The public assistance programme has been small and ungenerous. Some 2,000 recipients are receiving benefits from this system, and the level of support is characteristically low. The family allowance is not found. Unemployment insurance, another mainstay of the welfare state, is absent. Even though this institution has been discussed or recently implemented in other tigers like Hong Kong and South Korea, countries which are also known for their anti-welfare stance, there has been a total lack of debate on unemployment insurance in Singapore. However, if social policy is defined more broadly to include social security, education, housing, and

health, and if one looks closely at the reality, the ruling PAP has actively engaged in various aspects of social policy, most notably the Central Provident Fund, public housing, and education. Arguably, had the state not intervened in these areas, the quality of life currently enjoyed by the people would not have been attained. But a note of caution is needed. It is argued here that the state does intervene in providing social programmes, but there is a limit which it is not willing to cross, in light of which it continually and actively plays down its role in social intervention. It is important to look at some of the major social institutions and programmes set up by the state.

### **The Central Provident Fund**

This is the centrepiece of the welfare system in Singapore. Both the employer and employee contribute to the fund. In 1999, the total contribution rates are 30 per cent of wages for employees aged 55 years and below, 16.5 per cent for those in the 'above 55 to 60 years' age group, 9.5 per cent for those in the 'above 60 to 65 years' age group, and 7 per cent for those over 65 years old. Employees aged 55 years and below contribute 20 per cent, while employers contribute 10 per cent. A ceiling on contributions is imposed: monthly contributions are subject to a maximum of S \$600 for the employer and S \$1,200 for the employee, based on a salary ceiling of S \$6,000 a month, beyond which no CPF is payable. The CPF scheme was extended to all self-employed persons earning a net trade income of more than S \$2,400 a year in July 1992. By contributing 6–8 per cent (depending on age) to the Medisave Account, the self-employed are able to enjoy health care benefits as other members. There is no income tax on contributions, interest or withdrawals.

There are three accounts for each contributing member: the Ordinary, Medisave, and Special Accounts. The most important is the Ordinary Account, where savings can be used for housing, approved investments, insurance, education and transfers to top up parents' Retirement Accounts. Medisave Account savings are for meeting hospitalisation expenses and certain approved outpatient treatments such as Hepatitis-B vaccinations, renal dialysis and chemotherapy. It can also be used to buy MediShield/MediShield Plus and approved private medical insurance under Private Medical Insurance Scheme (PMIS). Savings in the Special Account are reserved for old age and contingency purposes.

Of the total contribution rate of 30 per cent, 24 percentage points are for the member's Ordinary Account, and 6 percentage points for his

Medisave Account. Since 1 January 1999, the contribution to the Special Account has been reduced from 4 per cent to nil. For members aged 35–44 years, the Medisave Account receives 7 percentage points, and for those aged 45 and above, it receives 8 percentage points, with a corresponding decrease in the Ordinary Account. There is also a Retirement Account for members who, after withdrawing their CPF savings at 55, need to set aside a Minimum Sum in the account for their old age.

Established by the British colonial state in 1955, four years before self-government in Singapore, this provident welfare system was an obvious deviation from the social insurance which was established in some other British colonies. A number of reasons could explain this institution. Kwon (1998) argues that the establishment of the CPF signified an honourable retreat of the British empire. Another plausible explanation is offered by Low and Aw (1997), who contend that the colonial state was committed not to be financially burdened with the social insurance plans of the colonies. Moreover, provident funds were found in many other British colonies; they too had proved to be a cheap and reliable source of income for the state to develop its economy, and they were administratively convenient. Considering the historical context of Singapore's merger with Malaysia, the setting up of the CPF would be a good choice, since this would pave the way for final integration of the two systems. While social insurance (with contributions from state, employers, and employees) is the model of choice for many other developed and developing nations, which has led to some degree of income redistribution, Singapore has steadfastly held onto this kind of provident fund.

There are a number of features of the CPF. First, it is an attempt by the developmental state of Singapore to use earmarked forced savings to finance social goods such as provision for old age, housing, and medical care (Asher, 1985). This programme is an embodiment of individual responsibility, allowing working people to save their earnings and invest them in a wide range of programmes (public housing, investments, insurance, hospital expenses and retirement, etc.). In other words, the CPF ensures that the retirement needs of the workers will not become a burden on the state.

Second, although contributions from employees and employers constitute the primary source of savings for this programme, it is centrally administered. The CPF Board which administers the fund is a statutory body. Despite the independent nature of these statutory bodies, the state is able to wield considerable influence over the policy and structure of the fund. Third, at its inception, the CPF was not designed to cover so many contingencies. When the PAP saw the merits in retreating from

the social market and pursued a policy of progressive privatization, the CPF programme was re-engineered to meet a number of contingencies (Table 3.1). This process was incremental, and there was no evidence of any overall planning. As Low and Aw (1997) put it, the various CPF schemes have arisen largely from exigencies and opportunities rather than premeditated grand design.

Fourth, the CPF contributions on the part of the employers represent, in some ways, one form of hidden wage for the workers. Revisions of employers' contributions could greatly affect the level of savings in the account. This allows the state to wield its influence to adjust the level of contribution in accordance with the needs of the circumstances. In time of economic recession, the PAP showed no hesitation in reducing the financial burden of the employers. The PAP has twice reduced employers' contributions in order to reduce labour costs – during the 1985 recession and during the recent Asian economic crisis. A cut in CPF payments was a key move by the state to help slash business costs to keep Singapore

*Table 3.1* Major extensions of the CPF in Singapore, 1968–1998

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1968	Available for purchase of housing units from Housing and Development Board
1978	Available for investing in Singapore Bus Service Ltd shares scheme
1981	Private housing can be purchased
1982	Available for home insurance to settle mortgage should a family member be permanently disabled or die
1984	Medisave established
1986	Available for investing in commercial properties and some other approved investment schemes
1987	Minimum sum created
1989	Borrowing from accounts allowed for education for oneself and children
	For life insurance covering against death or permanent disability
1990	Medishield created (medical insurance covering major illnesses of immediate family members)
1992	Basic Investment Scheme/Enhanced Investment Scheme created
1993	Grants available for purchase shares of government-owned company
	Medifund introduced to help the poor
	Pay for medical expenses
1994	Edusave was created (annual sum for educational expenses for children age 6–16)
1997	Basic Investment Scheme and Enhanced Investment Scheme merged
1998	Individuals allowed to invest savings in approved unit trusts made up of foreign stocks and shares

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*Sources:* Low and Aw (1997); homepage of Central Provident Fund (Singapore).

competitive. In 1998, the contribution from employers was reduced from 20 per cent to 10 per cent, though the Confederation of Industries wanted to cut employers' contributions further, from 20 per cent to 5 per cent (*Asiaweek*, 13 November 1998). Inevitably, this makes the system vulnerable. Lower employers' contributions for a prolonged period of time are a wage cut in disguise, and could seriously undermine the financial capacity of each member to meet his social needs. As Castells and his associates (1990) observe, wage restraints and cuts in the CPF contribution rates turn home ownership into a burden to many people.

Fifth, the CPF system can be conceived of as a weapon of ideology for the PAP in its promotion of self-help and responsibility. Filial piety and family support is fostered when the state allows members of CPF to withdraw money to help family members. For example, Medisave can be used to pay for members' own or their dependants' hospitalization expenses.

In hindsight, the adoption of this kind of funded programme was politically shrewd, considering that many Asian countries have very high savings rate and such savings are conducive to infra-structural developments. Singapore ranks particularly high in national savings. According to the Asian Development Bank (1999a), savings as a proportion of GDP for Singapore amounted to 47 per cent in 1990–95, the highest rate among the four tigers (Hong Kong, 33.6 per cent, Korea, 35.6 per cent, and Taiwan, 26.9 per cent). With the rise of neoliberal ideas in the last two decades for private provision of welfare in many advanced industrial countries, there has been discussion of turning present social insurance schemes into provident fund-like programmes in order to instill an element of individual responsibility for society's welfare, along the model used by Singapore (White & Goodman, 1998). In this regard, Singapore is the primer of this policy. The United States provides a good example of how a social insurance welfare state has been gradually transformed into a 'capital investment welfare state' in recent years (Quadagno, 1999). A capital investment state serves to 'restore market forces to areas of social life that have been displaced by the growth of the state' and to transfer the responsibility of social welfare needs from the government to the individual (p. 8).

There are clearly some positive aspects of this programme. In the short history of the CPF, the developmental state in Singapore has brought about a very high rate of national savings, which have been used for development purposes. Moreover, for the individual, the purchase of public housing was made possible when in 1968 the state allowed people to withdraw money from the CPF to buy flats. Home-ownership has been the PAP's philosophy since 1964. The professed goal is to have

100 per cent home-ownership. The Minister for National Development, Mr Lim Hng Kiang, was quoted as saying that 'our objective is to make Singapore a home-owning society' (*Straits Times*, 6 June 1999).

This policy has resulted in an extremely high home-ownership rate which in turn contributes to social stability in Singaporean society. The PAP party has gained much credit for this policy, and this has inevitably enhanced its political legitimacy. Thus, Tremewen (1998: 91) observed: 'the provision of almost universal public housing of an increasingly high standard and cost has reconstituted Singapore society in consonance with the industrialization strategy and has endowed the governing party with a high degree of ideological hegemony'.

However, the provision of a comprehensive social programme could be a double-edged sword. The original purpose of the programme is to provide for old-age needs. It was diluted by state pragmatism in opening up the scheme for other social and economic ends. The scheme has evolved over time, and is being used to pay for housing, medical needs, education, and investment purposes. For example, the state mandated every worker to save 6–8 per cent of their wages for their in-patient hospital and expensive out-patient procedures, and the amount is deposited into an individual's savings account (Medisave). Back in 1986, Prime Minister Goh urged people to keep a prudent balance in the fund (*Economist*, 13 January, 1996).

The drive toward complete home ownership is aggressive but not problem-free. In mid-1999, the Housing Board unveiled a scheme (the Rent and Purchase Scheme) to help low-income families own their homes.<sup>2</sup> It first rented these three-room flats to low-income families, and increased the rent every two years to nudge them towards buying the flats eventually. The objective was to encourage these lower-income families to buy the flats. The target group would be small: between 500 and 1,000 families are expected to apply to the scheme each year. Initial responses to this programme was not encouraging. A poll by the *Straits Times* found that many respondents (usually contract workers) were worried about the rising rents. With unstable jobs and insufficient CPF accounts, many feared that they would never be able to own the flats (*Straits Times*, 6 June 1999). Most of these people were paying a modest rent of S \$50 per month, but many of the families were working poor (i.e. family income below S \$1,000). They did not even have television sets or telephones. If they joined the scheme, they would find themselves paying between S \$110 and S \$180 a month if their household incomes were between S \$800 and S \$1,000, and between S \$170 and S \$270 if it was between S \$1,001 and S \$1,500.



On the downside, there are a number of outstanding issues: adequacy, access, and redistribution. First and foremost is the question of adequacy. Since the programme is linked not just to retirement but to a number of other contingencies (insurance, health, etc.), its level of accumulation has always been problematic. The original aim of the CPF was to provide 40 per cent of average needs of people after their retirement. But many people have used a large portion of their CPF savings to buy their homes.

Recent studies by local scholars have found that the balances of the vast majority of contributors are low, making it necessary for them to look for other sources of income for social security purposes. According to statistics on CPF contributors, 45.6 per cent of wage earners earn less than S \$1,000 per month. This increases to 80.3 per cent if a wage level of S \$2,000 is applied (Asher, 1991; 1993), including many of those who are close to retirement. CPF figures show that the average cash balance in the accounts of people aged 50–55 at the end of 1997 was S \$46,800. A rough calculation showed that if this were invested in a lifetime annuity at age 55, it would yield less than S \$400 a month from the retirement age of 62. In a recent survey, the average Singaporean said he needed a retirement income of S \$2,500 a month (*Straits Times*, 4 June 1999).

This concern is partially validated by a recent study conducted by Singapore Press Holdings (*Straits Times*, 7 April 1998) in which 30 per cent of the respondents expressed anxiety that they might not have enough savings for their retirement and there would be no one to look after them. The extent of concern was the same between the two main groups – those aged 20–34 and those aged 35 years and above. Of those who were not worried, only 28 per cent felt that the state would take care of their retirement needs.

This issue was acknowledged by the state (*Straits Times*, 4 June 1999). A working group under the auspices of the inter-ministry committee on the elderly was formed to study this problem, and issued a preliminary assessment in early June. The question was asked: 'Can the CPF fulfil its original goal of looking after us in our old age to some extent, with an acceptable level of financial security?' It concluded: 'Singaporeans are emerging asset-rich but cash-poor by the time they pull out their CPF funds at the age of 55.' This working group seriously considered proposals like changing Medisave from a fixed cash sum to a combination of cash and insurance coverage, and providing tax incentives to encourage people to put more of their salary into CPF savings to ease the problems. Further, the group felt that there may be a need to prioritize the uses of

CPF funds, with old-age needs, housing, and medical needs topping the list and less set aside for education and investment. The mechanics have yet to be worked out, but one way is to increase the cash amount in the special account. At present, S \$39,000 of the S \$55,000 in the account can be pledged towards property, and only S \$16,000 has to be cash.

Earlier, some steps were taken to alleviate this problem. The creation of a minimum sum in CPF is one way to solve this problem. Under this plan, a person withdrawing his CPF savings at 55 has to set aside a sum to meet his basic retirement needs. Initially, the level starts at S \$40,000, and it will be raised gradually by S \$5,000 a year until it reaches S \$80,000 in 2003. The minimum sum need not be cash. There are three options available for the worker to invest his minimum sum: to buy a life annuity from an approved insurance company; to deposit it with an approved bank; or to keep it in the Retirement Account with the CPF Board.

The extent of coverage is always an issue. The very nature of a provident fund, centralized or otherwise, means that only those who are working will benefit, while those who are not in the workforce (housewives, the disabled and the unemployed, etc.) are excluded. It is estimated that only 75 per cent of the workforce is under the protection of the CPF. From a social policy perspective, this form of social security can be problematic in that its redistributive impact is inherently weak (Midgley, 1984a). It is not designed as a weapon of income redistribution. Worse still, the developmental state of Singapore exacerbates inequality by making CPF contributions non-taxable (Asher, 1991, 1993). A number of researchers (e.g. Tyabji, 1993) agree with this conclusion, noting the regressive nature of this arrangement. Obviously, those who contribute more will reap the greater benefits from this tax policy. In other words, benefits under an asset-based retirement scheme are skewed toward the affluent under the CPF arrangements. One study estimates that such 'invisible subsidies' amounted to some 20 per cent of personal and corporate taxes in 1987 (Deutsch & Zowall, 1988). In early 1998, there was much talk of privatizing the whole system (allowing individuals to make their own investment decisions), which, if implemented, would render the system even more powerless as a tool for income distribution and might widen further the gap between the rich and poor.

## **Housing, education, and health**

The CPF is not the only institution established to meet social needs. The developmental state is involved in the provision of housing, education,

and health. Most notable of all the social services is housing, which is almost universal. Singapore's investments in public housing are unequalled in the developing societies. At present, over 85 per cent of Singaporeans live in public housing. These apartments are located in housing estates which are self-contained towns, and they are built and maintained by the Housing and Development Board, which is a statutory body. The home-ownership rate now stands at 90 per cent, the highest in the world (Government of Singapore, 1995). By orchestrating the demand and supply of land and housing, the developmental state has successfully alleviated the urban housing crisis, which in turn brings about social stability. As noted, this is made possible by the redesigning of the CPF in 1968 which allowed people to withdraw people from their accounts to buy housing units.

The political implication of public housing cannot be missed by anyone. Prime Minister Goh has indicated that 'public housing is where the centre of gravity of [Singapore] society will always be'. The symbolic power of public housing is crucial to the state. As noted by Chua (1995: 139), 'the overwhelming presence of more than half a million completed dwelling units is a constant reminder to the population of the PAP state's achievement'. Specifically, Clammer (1997: 141) argues that home-ownership would foster political stability, induce public support for the state, and 'encourage embourgeoisification in a mostly working-class immigrant population'.

Additionally, the small city-state has extensive public education and health services. Wong (1997) notes that much has been achieved in providing 'equity access' to meet parents' demand for children's education. On the other hand, education receives the top priority from the state. Its spending in education is higher than health. Cross-nationally, Singapore has lagged behind Taiwan and Korea in educational spending (Table 3.2) and fared not too well in comparison with other advanced industrialized countries. According to the 1998 budget, 4 per cent of GDP was to be devoted to education, indicating increasing commitment on the part of the state.

The PAP state has always regarded education as an investment in human capital (Deyo, 1992; Chua, 1995; Republic of Singapore, 1997), an important condition if Singapore was to attract foreign capital and maintain competitiveness. With a strong emphasis on economic growth, an educated workforce is deemed indispensable for economic growth by the ruling party. However, even in this important area, some form of privatization has crept in. The state has asked individuals to contribute toward educational spending through the setting of the Education Scheme

Table 3.2 Educational spending in the four little tigers, 1980 and 1996

	1980	1996
Hong Kong	2.4	2.9
Korea	3.7	3.7
Singapore	2.8	3.0
Taiwan*	–	5.5
Japan	5.8	5.4
Canada	6.9	7.0
United Kingdom	5.6	5.4
United States	6.7	5.4

\*Data for Taiwan is 1991.

Source: World Bank (1999); *The Economist* (1992).

Table 3.3 Health spending in the four little tigers, 1990–1997

	Private	Public	Total
Hong Kong	2.8	2.3	5.0
Korea	1.7	2.0	3.7
Singapore	1.9	1.5	3.3
Taiwan	1.9	3.3	5.2
Japan	1.7	5.7	7.3
Canada	2.9	6.3	9.2
United Kingdom	1.0	5.7	6.7
United States	7.5	6.6	14.1

\*Taiwan data is for 1995.

Source: World Bank (1999); Taiwan Department of Health homepage.

in 1989, whereby they are able to get loans for their children to complete tertiary education. Moreover, as evidenced by some outcome indicators, there is much room for improvement. A case in point is the educational level of workers. According to Wong (1997), the educational levels of the workforce in Singapore lags behind those of other tigers. In 1989, less than 16 per cent of Singapore's workforce had post-secondary and tertiary-level education. Comparable figures for other tigers are higher: Hong Kong (40 per cent), Korea (50 per cent) and Taiwan (40 per cent).

Like education, health is important to national development. In the budget of 1998, the developmental state announced that 3 per cent of the GDP had been allocated to health services. This is slightly less than the total health spending from 1990–97 (Table 3.3). This level of funding is at best modest, and has been subject to some criticism. Financing for health services, according to social scientists in Singapore (Asher, 1991),

has been decreasing. Toh and Low (quoted in Asher, 1991) estimate that health spending has been diminishing over the years: 3.9 per cent of GDP in 1960, 3.5 per cent in 1970 and 3 per cent in 1988. Needless to say, this level of health spending is considerably lower than in other industrial countries which have the same level of GDP per capita. Both the United States and Canada, for instance, were spending over 6 per cent of their GNP on health services as early as the 1970s.

To counterbalance governmental retreat, several changes (i.e. the introduction of Medisave and MediShield) have been made to the CPF so that people can withdraw money from their accounts to pay for their own health and hospital expenses. In actuality, this represents some form of progressive privatization which puts the financial burden on the users who are able to save for their health needs. Not surprisingly, withdrawals from Medisave have grown. In this respect, Singapore is credited with the first country to establish an applied medical savings account programme integrated with its health financing structure (Nichols et al., 1997; Phua, 1997). For those who are on a low income, there is the Medifund (introduced in 1993), a means-tested safety net to meet their health needs.

Given the dwindling support for health spending on the part of the state, it is not surprising to find that, in some health indicators, Singapore was not performing as well as less developed countries like South Korea, which is not as economically developed. A case in point is the number of doctors and nurses. According to the United Nations Development Programme (1998), Singapore had 147 (per 100,000) doctors and 416 (per 100,000) nurses in 1993, which was lower than Korea (127 doctors and 232 nurses). At present, there are some 5,000 doctors in Singapore. A shortage of doctors in public service has been a concern in the past. More than 100 specialists and medical officers leave government service for private practice each year. This represents about 7 per cent of specialists and 8 per cent of medical officers in public hospitals and clinics. In 1998, 62 government specialists quit to go into private practice, compared to 76 the year before. For medical officers, 75 moved into private practice in 1998, compared to 86 in 1997 (*Straits Times*, 29 June 1999).

With an ageing population, higher incidences of chronic diseases, and the escalating costs of health services, it seems that the CPF cannot be relied upon to meet all health needs. In response, and to ensure that every citizen has access to basic health services, the public hospitals divide their wards into classes A, B and C. The cost of C ward services are heavily funded by state, with patients paying the remainder (Harvard Health Team, 1999). It is not surprising that health expenditures in the last few years have hovered around 3 per cent of the GDP.

The example of health spending demonstrates the unwillingness of the state to commit more than has been traditionally expended. The determination of the PAP not to increase social spending and its emphasis on private savings as a means to solve social needs cannot be overemphasized. In Singapore, there is a sizeable private sector in health care delivery. Clammer (1997) argues that the progressive privatization of housing and hospitals could prevent rising levels of taxes to pay for social services and undue dependence on state welfare. Singapore continues to be a pragmatic country with an explicit 'anti-welfarist' philosophy. Yet the state continues to finance a network of public outpatient clinics and hospitals, and the majority of health dollars still flow to the public sector. It is recognized that even low-income, unskilled wage-earners are necessary to the country's economic survival and social stability. The state's retreat in health care spending has drawn some criticism from some trade unions. For instance, in 1994 the Amalgamated Union of Public Employees refused to endorse some health care initiatives for civil servants which required employee contributions in order to lessen the financial burden on the state.

## **Developmental problems**

With a limited budget for social and community services, it is expected that the developmental state of Singapore will play a rather restricted role in the provision of social services. Thus, as in other industrial countries, the presence of massive social needs can be discerned in a few areas.

Assessment of the poverty rate can be elusive in most societies. There are some major reasons for this. The poor are politically invisible and they are atomized. A sizeable proportion of the people in the poverty pool may change from year to year. More importantly, the permanently poor are often isolated. As in many other Asian countries, the state of Singapore has not developed any elaborate mechanism to track the trend of poverty. Reliable estimates are lacking. There is constant official optimism about the complete eradication of poverty; but available data still show some poverty. An estimate from the Ministry of Education which utilized a different definition confirmed the declining trend. In 1978, 12 per cent of families were considered poor. By 1990, this proportion was reduced to 3.5 per cent, or some 22,000 families (Tay, 1995). Conflicting poverty estimates were noted. According to statistics provided by the Population Planning Unit, Ministry of Health, some 38,000 households fall below the Minimum Household Expenditure level of S \$510.65 for a four-person household living in a one-room flat in 1990.

Based on an average household size of 4.1 persons, an estimated 155,800 persons could be considered poor (Yap, 1995). This number contradicted that of the Ministry of Education. Tay Eng Soon, Senior Minister of State, estimated that some 22,000 families out of a total of 630,000 families were considered poor. The difference between 38,000 and 22,000 is substantial!

It would be far from the truth to argue that absolute poverty has been eliminated, particularly in the light of evidence of a substantial number of poor people in the early 1990s. Academics (Chua, 1995; Clammer, 1997) have noted a large number of low-income households which are too poor to pay their rents. And Prime Minister Goh indicated in 1996 that some 6 per cent of households could not afford to own public housing, an indirect indicator of relative poverty. Also, there is no lack of anecdotal accounts to show the presence of poverty (*Straits Times*, 3 April 1997). This conclusion is made more credible when the unfolding impact of Asian economic turmoil on Singapore is taken into consideration. According to official estimates, unemployment has been rising, with some 20,000 people already retrenched. Currently, seven out of ten workers are from the manufacturing industries (*Straits Times*, 4 June 1998). It is expected that older workers will find it difficult to get new jobs. As a result, the state is now spending some S \$50 million on the Skill Redevelopment Programme in order to retrain some 20,000 older workers.

Another improvement measure of social development is income equality. In the last decade, income distribution has been polarizing in many industrial countries (Atkinson et al., 1995). The same is true for most of the four tigers. Along with Hong Kong, Singapore is the East Asian country with the greatest income disparity. This can be seen from the latest estimates of the Gini Coefficient.<sup>3</sup> In 1994, it stood at 0.44. In the last 30 years, this measure has hovered around this level for Singapore. The coefficient in 1966 was measured at 0.50 but declined to 0.45 in 1975 (Rao, 1990; Tan, 1997). By the middle to late 1980s, Singapore had been able to shift its labour-intensive industries to other less developed countries in the region, and had developed capital-intensive, high-technology industries. Hence, economists attribute the worsening income distribution to this industrial restructuring.

This worsening problem of income disparity can be seen from another measure: the ratio of income for the top 20 per cent against the bottom 20 per cent. This income ratio for Singapore stands at 9.58 for the period 1985–89. Comparatively, this is the highest among the four tigers (Hong Kong 8.7, South Korea 7.5 and Taiwan 8.3), indicating a very high degree of inequality. Assessing it on a longer time span

(1980–94), per capita income is US \$4,934 for the poorest 20 per cent while that for the richest 20 per cent is US \$47,311. Thus, the income ratio stands at 9.58, which is the highest compared to all other Asian countries under examination. The emergence of a sizeable and relatively privileged middle class has heightened awareness of income and wealth differentials among the less privileged (Rodan, 1996).

## **Regulated unionism**

Whereas labour movements in many industrial societies have been an influential force as far as social and labour welfare are concerned, this variable has been entirely absent in Singapore. The PAP saw the need for coordination between government, management, and labour, the latter being the most important to further 'the goals of industrialization, expansive nation-building, and overall economic success on a regional and international basis' (Surin, 1996: 117). To achieve this, the state and employers had to take the lead by adopting a strategy of 'regulated unionism', so that the working class would become a constructive force for nation-building. This strategy was supported by employer federations (Rosa, 1990).

Under British colonial rule trade unions were established in the 1920s, but they were not recognized by legislation (Surin, 1996). After World War II, they were permitted to operate for the first time. Communist influences over trade unions increased considerably from 1945 to 1948. The British colonial state responded by introducing the new Trade Union Ordinance, stipulating that all union officials must be employed for three years in their union's industry, in order to break the Communist grip on the unions. In 1948 a state of emergency was declared, and trade union leaders in Singapore were either imprisoned or exiled. The state also established the Singapore Trade Union Congress to support English-speaking, white-collar unions in their fight against Communism. Militant trade unions emerged again in 1954 with the emergence of the Lee Kuan Yew-led PAP. After the PAP rose to power in 1959, there was a split between pro- and anti-Communist members of the PAP, the former leaving the party in 1961 to form a rival political party. The non-Communist members established the National Trades Union Congress (NTUC), with the objective of improving wage conditions and furthering state's political ideology.

In its early years of rule, the PAP quickly intervened to control labour activism in order to consolidate its political control. After it defeated the leftist Barisan Socialis in 1963, opposition leaders were jailed and



unions were deregistered (Deyo, 1987, 1989; Chua, 1995). An aversion to Communism on the part of Lee Kuan Yew has engendered a will to control unionism. When the city-state turned to export-led industrialization, and as cheap labour was an essential condition for development, state control over labour rights tightened considerably while benefits (overtime work, maternity leave, fringe benefits, etc.) were reduced (Deyo, 1987). The Employment Act of 1968 was a legislative attempt aimed at standardizing various working conditions (working week, overtime rate, paid sick leave and annual leave). The result of this legislation was to prevent high labour costs hidden in various benefits (Surin, 1996). The 1975 amendment of the Employment Act allowed the employers to decide to pay either an annual wage supplement and bonus or an annual wage supplement and an annual wage increase.

Further, the role of trade unions in collective bargaining for better wages and working conditions has been restricted by a series of legislation since the late 1960s. While the Trade Union Act provided non-government workers with the right to organize, a number of legislation delimited their right, and these included the Societies Act and the Internal Security Act (Surin, 1996). Under the Industrial Relations Act of 1968 and its later amendments, there was provision for the prevention and settlement of trade disputes by collective bargaining, conciliation and arbitration. Certain aspects of employer-employee relations remained non-negotiable: matters related to promotion, transfer, recruitment, termination by reason of reorganization within the work unit, dismissal and reinstatement. The state was able to disqualify an opposition party supporter from running for union leadership, and only PAP supporters could become union leaders.

The right to strike was denied to workers once the labour dispute was referred to the government-led but powerful Industrial Arbitration Court, whose award was binding on the parties. Both union activity and leadership were closely controlled by the state. Generally, Singapore has progressed from a situation of high unemployment (early 1960s) to one of labour shortage. This would have given rise to either an active or a militant labour movement. However, as a result of state control and repressive measures, union membership declined considerably, from 189,000 in 1962 to 112,000 in 1970, while work stoppages dropped drastically, from an average of 62 per year in 1958-62 to 28 in 1963-76 (Deyo, 1987). In the 1970s, under the state's guided policy, the labour movement was rather weak. Union membership reached a peak of nearly 250,000 or about a quarter of the workforce in 1979, but since then has fallen. More than 90 per cent of total union membership is affiliated

with the NTUC, a government-led body. In fact, the union movement has come under state control since 1959 (Murray and Pereira, 1996), but its affiliate unions (retail, transportation, insurance, etc.) have been endowed with a wide range of services and benefits in return for their support for the state. The NTUC effectively becomes a tool of development policy by organizing productivity campaigns, training programmes, and other efforts to augment labour's contribution to development (Deyo, 1987).

As noted, Singapore is unique in having developed a comprehensive national provident fund which gives some protection to workers against several contingencies. The very nature of this provident fund means that only workers reap the benefits of economic growth. However, one must not forget that the state remains the biggest winner, since it has access to massive supplies of cheap capital from workers' savings. The provision of low-cost public housing is another way to appease the working class. Labour welfare, however, could not be considered as generous. There is as yet no unemployment insurance in this city-state. But severance pay and worker compensation programmes are required of employers (Deyo, 1992). Unlike Taiwan and Korea, which are far less affluent, there is no minimum-wage law.

The main ingredient of labour welfare, wage determination, is heavily influenced by the state. The formulation of wage policy is carried out by the National Wages Council, which comprises representatives from the government, the NTUC, and employers' associations. This is a form of corporatism, with the view to harmonizing the interests of all parties. Since labour policies are implemented with the objectives of economic expansion and increased productivity, the NTUC has the sole duty of formulating annual wage guidelines for the economy. Because of the strong state presence, wage determination is almost entirely guided by the state. One overarching goal is evident: labour cost must be maintained at a level which will appease foreign investors. For instance, during the austere economic contraction in 1998, the National Wages Council recommended wage restraint as the prime solution to the problem, so that companies could moderate their business costs and remain viable (*Straits Times*, 27 May 1998). The state quickly backed this stand, asserting: '[the] workers must also lower their expectation and accept the wage restraint recommended by the NWC.'

The weak labour movement is a reflection of how ineffective civil society is in Singapore. Ironically, Prime Minister Goh Chok Tong said recently that there was a need to promote a civil society in Singapore. To him, civil society should be stripped of all political connotation; it

should only comprise non-governmental organizations and bodies that reflect people's views and needs (*Straits Times*, 14 April 1998). In sum, over the years the PAP state has successfully depoliticized the labour movement, established *de facto* state control over unions, transferred bargaining power from workers to employers, and ushered in an era of labour quiescence that persists to this day (Murray & Pereira, 1996).

## **The capital investment state**

From the foregoing, it can be seen that the PAP state has played a key role in orchestrating the political and economic development of Singapore. Often, what Singapore conjures up in the minds of many people is the existence of a paternal state (or 'hard state', after Mirza, 1986). Since its independence in 1959, Singapore has been controlled by a single political party, the PAP, which has been noted for having great control over the economy and imposing strong restrictions on individual activities (Tan, 1997; Enricht et al., 1997). It has managed the economy with a firm hand, and has relied on overseas multinationals to build the economy. This is reflected in the scale of state spending, the activities of state-owned enterprises, and even in the rate of national savings (Mirza, 1986).

Such an intrusive role is also discernible in the state's social policy reforms, which are targeted at restricting state involvement (Deyo, 1992): 'Large industry-wide unions were decentralized and house unions were encouraged. Some social insurance programs were partially decentralized to firms... while educational and welfare programs, and later, medical coverage, devolved to firms.' If the state has played a major role in the economic and social development of Singapore in the past (Wilson, 1978; Dixon & Drakakis-Smith, 1993), it has not changed its position: a recent budget speech pledges: 'A deliberate policy to keep the public sector lean and trim, avoiding welfarism and confining Government's role to one of providing basic public goods and services, thus freeing more manpower and financial resources to the private sector as the engine of growth.' Most importantly, a capital investment state characterized by the Central Provident Fund is firmly embedded in Singapore.

Socially and politically, the downside of this capital investment state has been well documented: much regulation, less freedom of expression and information, more state paternalism, and greater favouritism towards state companies (UNDP, 1991; Enricht et al., 1997). The PAP state has defended its authoritarian rule by relating political control to economic growth, arguing that the former is a prerequisite for capitalist development and attracting foreign investments. Lee Kuan Yew, the former

prime minister, once remarked that 'authoritarian arrangements are essential to economic success' (cited in Hitchcock, 1998). To the political elites in the developmental state, a second necessary condition for economic growth is the restriction of state intervention in social welfare. Essentially, social welfare is regarded as an inhibitor of economic growth. The small budget for public assistance and the absence of other social programmes such as family allowance and unemployment insurance, coupled with the strong economic growth in Singapore, has given the state some ammunition to justify its position. However, as noted above, this official argument is rather deceptive, considering the massive investment of the state in social policy between 1960 and 1990, which had a minimal impact on the growth of the economy. State investment in low-cost public housing, education, and medical care has kept the cost of living down and pre-empted demands for wage increases in spite of the long hours which most workers had to endure (Castells et al., 1990; Castells, 1992; Tan, 1997). Socially, the state could afford to do more, but it refrains from doing so. Any rise in the standard of living has to wait for improved economic performance. The upshot of this has been the presence of social problems in this small but advanced economy.

Ideologically, the welfare state, covering such institutions as full employment policy, the provision of public assistance, and unemployment benefits, is considered by the state to be an evil to be shunned at all costs. Singapore does not have a western-style welfare state. The idea of social entitlement as right is absent. The goal of income redistribution is not pursued. Full employment is shaped more by economic growth, though the PAP is active promoting labour retraining programmes. Progressive taxation is not used as a policy tool to bring about social equality. As a mature capitalist society, there is the utmost respect for private ownership and property rights, while the market is held to be the ultimate arbiter of economic outcomes. The worldwide trend toward marketization appeals to the PAP party. Not surprisingly, the state is pursuing a privatization strategy and aims to privatize a number of public-owned enterprises. Most notable are its efforts to cut back health spending and encourage people to fend for themselves in any medical contingency, and its attempt to implement the liberalization of the CPF.

### **Some determinants of state welfare**

It is evident that there are social needs and problems in Singapore which demand increased state intervention. Massive social needs were present prior to the export-led industrialization in the 1960s, and the

state responded to them by setting up various social welfare services. In other words, state welfare has preceded industrialization. The logic of industrialism is not able to explain this phenomenon. The diffusion of social welfare ideas has taken place: the idea of the provident fund was introduced by the British, but overall development in Singapore cannot be explained by diffusion theory. Likewise, interest group politics is much less significant in Singapore than in other advanced countries, possibly because of the predominance of the PAP state.

The absence of a social democratic party and the weakness of the labour movement explain in part the path Singapore has taken in social provisions. The strong rule of the PAP has precluded much interest group politics. Social welfare in Singapore is state-led, and is linked to its economic development. The developmental state's primary objective has always been to promote economic growth and to make sure the capitalists are willing to stay. It seems clear that the present level and mode of social welfare development satisfies the ruling party because it proves to be functional. Social welfare has contributed to the national development in Singapore. International capital and foreign capital are contented with the status quo as well. In this regard, the legitimization of the PAP ruling is aided in part by the public satisfaction of the capital investment state. One must not forget that the CPF was introduced by the British colonial state. Hence, the diffusion of ideas from other welfare states plays a role here.

Singapore is unique in implementing a large-scale CPF for its citizens. Marxist scholars have argued that forms of social intervention are indispensable in advanced industrial countries. Thus it is contended by some scholars that the provision of social security is functional to the survival of any capitalist society (Offe, 1984; 1996; Chua, 1991; 1995; Tremewen, 1998). Singapore is no exception to this analysis. Arguing from a neo-Marxist perspective, Castells (1992) notes that Singapore has successfully used welfare expenditures and public housing to facilitate the reproduction of labour. Prior to its independence, social needs were massive but social services in Singapore were underdeveloped. This situation is conducive to public discontent. An analyst comments that in the face of poverty, extreme inequality, and lack of social services, the British colony was open to the agitation and Communist subversion which shook Singapore in 1947–50 and again in 1954–5 (Regnier, 1991). In this respect, the institution of the CPF represents the approach the developmental state has adopted to ensure social stability, as a means to attract foreign capital investment and avert social crisis (Sherraden, 1997).

Are there any factors which might prod the developmental state into expanding its social spending in the near term? The answer seems to lie in whether the existing level of social development can be maintained or further improved. In mid-1998, there are a few significant threats to Singapore's social livelihood.

First and foremost, the continuing Asian financial turmoil which began in late 1997 and the prospect of a dwindling economy might make it necessary for the state to intervene on behalf of those who are badly affected. This is the worst economic crisis in living memory for Asian countries, including Singapore. At the time of writing, it is still difficult to say if Singapore and other Asian countries have come out of the wood. If the economic crisis lingers, then unemployment and relative poverty will rise quickly, destabilizing the status quo and worsening present social problems such as income inequities. Manufacturing workers and women in Singapore are being hardest hit. According to a study done in 1998, most workers (six out of ten) who have been laid off in the wake of the crisis are women who work part-time. If this is in fact the case, then quality of life will certainly decline for many sectors of the public.

A second factor relates to the ageing population and its needs, which will require substantial state intervention (Table 3.4). Singapore has a larger ageing population than the other three tigers. Academics like Low and Aw (1997) have warned of the impending ageing crisis. It is projected that by the year 2030, 25 per cent of the population would be elderly, and the rise of the old-age dependency ratio would be dramatic (from 14 per cent in 1990 to 45 per cent in 2030). This would certainly put the existing social welfare system under great pressure. But, as in other Asian countries, the aged population in Singapore does not constitute a strong political force *vis-à-vis* the state. Their needs may not be heard.

A third possibility of change comes from the growing middle class. Bullard (1997) observes that the Asian middle classes have begun calling for democratic reform, greater political freedom and more equitable distribution of the gains of economic development. The middle classes in South Korea and Hong Kong have become increasingly visible as a result of the Asian crisis: some of them lost their jobs, and saw their wealth dwindle as a result of the stock market crash. They are therefore exerting pressure on their states to modify their social policy. But civil society in Singapore is weakly developed, even though the middle class does express its needs and shows a degree of discontent with the existing situation. The extent of dissatisfaction can be gauged from a survey

*Table 3.4* Population aged 65 and above (as percentage of total population) in the Asian little tigers, 1997 and 2015

	1997	2015
Hong Kong	9.8	13.4
Korea	6.0	10.8
Singapore	10.9	13.8
Taiwan*	8.1	10.0**
Japan	15.5	25.4
Canada	12.2	16.5
United Kingdom	15.8	18.7
United States	12.3	21.1

\*Taiwan data come from Ministry of Interior, ROC (1998).

\*\*For year 2011.

*Source:* World Bank (1999).

which reveals that a considerable percentage of citizens (9 per cent in 1997) opted for emigration to other countries.

Finally, the trend toward democratization in Asia may be another factor. The state in Singapore has argued that its democracy must be different from the one practised in the West. It further contends that the 'Asian way of democracy' focuses on the rights of the community rather than of the individual. Nevertheless, there is growing pressure for greater freedom of expression (greater freedom to voice dissenting views) and, by extension, unrestricted democratic systems. With its neighbour Indonesia going for democratic election in mid-1999 and the public having more and more chance of opening expressing their views, pressure on Singapore for freedom of expression may gather some momentum. The experiences of Korea and Taiwan have shown that democratization could be a crucial factor which influences social welfare development.

Against these pressures, there is a strong ideology of social non-interventionism and a commitment to individual responsibility and self-reliance in Singapore. The ruling PAP has successfully cultivated this ideology among the masses. To some extent, this 'self-help' ideology can be traced to, or is fuelled by, the Confucian ideology of family support and mutual aid for one another (Jones, 1993). Prime Minister Goh has consistently called for nation-building, and asked the people to maximize the common ground shared by the various ethnic groups so that 'an extended Singapore family' could be established on the basis of some core values. The Confucian values of familism, mutual support, and deference to authority are cherished by the ruling PAP party. More

importantly, to entice foreign capital to invest in Singapore, low labour costs along with low taxation must be present. Any deviation from the present model of social welfare (i.e. a low welfare spend) would have some repercussions on the taxation system, which in turn would trigger strong opposition from capitalists.

Finally, the absence of strong opposition parties means that alternative visions of a good society are generally lacking. Despite a change of guards in the early 1990s, the PAP has not changed its position on state welfare and social policy. It is intolerant of democratic pluralism, and tries hard to undermine public support for rival political parties. In November 1990 Lee Kuan Yew, the founding father, resigned as prime minister but remained as senior minister, exerting considerable political influence behind the scene, permitting a carefully groomed 'new guard' to lead the country. The new leaders promised a 'more consultative and open' style of government, and held elections in August 1991. To their surprise, the electorate returned an unprecedented four opposition MPs to the 81-seat parliament. In response, the PAP closed all state-funded nurseries in those constituencies that elected opposition parties' candidates (Brown, 1993). Thus, there are ample reasons to believe that opposition parties in Singapore will remain as relatively isolated social entities and will pose a limited political challenge to the ruling party (Rodan, 1996). With a high quality of living and continuing substantial investments from foreign capital, the ruling party up to now has seen no necessity for a major change in economic and social policies.



# 4

## Authoritarianism and the Social Insurance State: The Case of Taiwan

When one looks at the developmental history of the Taiwanese state, a contrast can be made with Singapore. While the PAP in Singapore wrestles with the key question of nation-building in the early years of its rule, the KMT (Kuomintang) in Taiwan has struggled under a survival orientation. The Taiwanese state has faced archrival Communist China in the past 50 years. Such military threat instilled a survival instinct in the minds of the ruling party. With its very strong emphasis on military spending and national defence, the authoritarian-developmental state in Taiwan soon embarked on the road of capitalist development as well as on the creation of a social-insurance state for its major constituencies. In the beginning, it granted special welfare favours to only selected groups of people. Social insurance was the mode of intervention. Social welfare services such as education and public health were made a priority because capitalist development required an educated, healthy, and highly motivated workforce. As a result, other social services have been either neglected or underdeveloped until recently. Economically, Taiwan has been long pictured as a strong developmental state whose developmental history validates the statist theory. Until recently, the country was ruled by a strong and authoritarian state that took an active role in promoting economic development (Lam & Clark, 1994). Numerous political crises that ensued from confrontation with China ultimately induced the developmental state to open up the political system to its opponents. Democratisation in turn triggered intense rivalries among the ruling party and other political parties seeking electoral success. Democratisation and ethnic divisions have diminished the power of the state, and the latter has extended its welfare concessions to the wider public as one means of gaining popular support and electoral success.

## **From authoritarian rule to democracy**

In Taiwan's history, authoritarian rule has been the order of the day. China's Qing emperors incorporated Taiwan into the empire in 1683, and the island was proclaimed a separate province of China in 1887. The Qing dynasty surrendered Taiwan to Japan after it was defeated in the Sino-Japanese War. Between 1895 and 1945, Taiwan was a Japanese colony. After World War II it was returned to China, then ruled under an authoritarian and vehemently anti-Communist KMT party led by Chiang Kai-shek. There was an anti-KMT demonstration in 1947. The KMT government soon put down this island-wide revolt when many Formosan nationalists and leftists were killed, driven into exile, or silenced (Deyo, 1987). After losing the mainland civil war to the Communist armies in 1949, the KMT government fled from China to Taiwan. It was estimated that some two million KMT supporters fled to Taiwan in 1949. The stay was meant to be temporary. General Chiang Kai-shek ruled Taiwan until 1975, and his son, Chiang Ching-Kuo, succeeded him, dying in 1988.

Because of the constant Communist threat and KMT's pledge to reclaim China, military spending was exceptionally high, even in the early reign of KMT rule. Although the regime set up by Chiang Kai-shek and his son was authoritarian, it continued to face numerous political crises over the years, domestic and external. The question of survival and political legitimacy was the key problem for the KMT when it landed in Taiwan in 1949. It suffered from military defeat and humiliation at the hands of the Communists. China considered it as a rebel province, and threatened to overrun the KMT militarily; there had been some military confrontations over the years. Thus, Communist China has posed a constant and real threat to its survival, even to this day.

Externally, the United States showed some signs of abandoning the KMT in the late 1940s because Americans considered it politically weak and rather corrupt. However, the Korean War (1950–53) triggered a change in US worldwide strategy. The United States redoubled its military and economic commitment to Taiwan, with a view to containing Communism in Asia. The KMT obtained massive foreign aid from the Americans; and the government was able to enjoy a good relationship with the United States until the early 1970s, when, in another reversal of policy, the United States began to establish diplomatic relations with Communist China. It finally severed diplomatic relations with Taiwan in 1978, but its cooperation on various fronts (e.g. trade, exchanges, military deals) has remained active.

In 1971, Taiwan was driven out of the United Nations when many countries (including the United States) gave their formal recognition to Communist China and began to sever diplomatic ties with the Taiwanese state. This started the era of international isolation for Taiwan, and undoubtedly undermined the political legitimacy of the ruling party. A sense of crisis was instilled in the minds of the public. Worse still, the ruling KMT had long been seen as one imposed from outside and lacking domestic political support from the rural Taiwanese (Winckler and Greenhalgh, 1988). Politically, it constantly suppressed its opponents and tightly controlled the media. Martial law was imposed, and there was a ban on civil liberties. Labour unions were under strict control. All unions were required to affiliate with the KMT-controlled Chinese Federation of Labour. No opposition party was allowed: a one-party system existed in Taiwan until 1986, when the major opposition party, the Democratic Progressive Party (DPP), was established.

As noted, the state expended large sums of money on the military to preserve KMT's rule against its enemy from the north. After 1949, national defence and internal stability were the twin goals for the ruling KMT. One could say that the early Taiwanese developmental state put military build-up on the front burner (Fu, 1995): military spending was huge, accounting for more than 50 per cent of the total budget in the early years. Afterwards, the state continued to maintain a strong military posture, spending 10 per cent of its GNP on defence (Welsh & Butorin, 1990).

Cumings (1987: 69) commented that the Taiwanese state (along with the Korean state) in the 1950s had 'absurdly swollen military machines – about 600,000 soldiers in each army, ranking among the highest military/civilian ratios in the world'. Although the United States footed much of the military bill in Korea, it gave much less financial support to the KMT. To support high military spending, the ruling party had to find ways of securing a good source of income. Naturally, economic development was the most sensible formula. Developing the economy would enable people to escape from poverty, and would win them over on the side of the authoritarian state.

As argued earlier, Chiang's rule had been taken as the embodiment of suppression by many Taiwanese. The regime lacked political legitimacy. In historical analysis, economic growth takes place because of the particular historical circumstances confronting the KMT. Academics such as Tsang (1993) argue that Chiang was not able to reconquer China, given his lack of military might. Yet he continued to build up the military, police, and security apparatus to extend his power and strengthen Taiwan's defence against Communist invasion. This amounted

to the creation of a powerful party-state, with Chiang as the dictator. Because of the constant threat from China, his regime was very vulnerable. Tsang further contends that 'this resulted in the emergence of an "inhibited centre" in an otherwise mighty authoritarian state' (p. 12). On the other hand, Gold (1986) considers that the KMT had a free hand to impose its policies on the general population. Military might and strong leadership did not guarantee legitimacy. Chiang further needed an efficient and effective state for Taiwan. The KMT thus insisted on spending its limited resources on the steady improvement of the standard of living, even at the expense of rational long-term infrastructural development. This was the context for the early and limited development of social welfare policy on this island. It also explained why selected constituencies (civil servants, military servicemen, teachers, and labourers) were specifically targeted in social provisions.

With a 'production first' attitude, the Taiwanese state embarked on a strategy of industrialisation. In the 1950s, the KMT initiated an import substitution policy, but this was soon abandoned in favour of exported industrialisation. The latter strategy soon proved to be the right course of action. Taiwan's upgrading to heavy and high-tech industry in the 1970s and 1980s was based on state corporations in the former case and the increasing interlinkage of the public and private sectors in the latter (Lam & Clark, 1994). Owing to popular support for the ruling KMT's successful economic policies, it was able to retain a slim electoral majority even in the 1990s elections, notwithstanding its previous authoritarian rule (Chu, 1998).

There was another result of rapid economic development. With accumulated financial resources, the KMT was able to offer lucrative concessions to the people over time. Externally, it would wield its economic clout by breaking the international isolation of Taiwan. China has often accused Taipei of using its financial clout to attract diplomatic support. Taiwan was often accused of conducting 'dollar diplomacy' when it promised foreign aid to developing countries in return for diplomatic recognition. In June 1999, its foreign minister pledged US \$300 million of aid to the reconstruction of Kosovo, a gesture widely criticised by the opposition parties.

The mid-1980s saw authoritarian rule give way to a liberal democratic order. In 1986, President Chiang Ching-kuo allowed the Democratic Progressive Party (DPP) to form. The following year, he lifted martial law. Since then, major political and constitutional reforms have taken place, including direct election of the legislature and the president, the consolidation of a multiple-party system, and the steady erosion of

KMT voters (Cooney, 1996). Rapid economic growth in this decade was accompanied by a sophisticated civil society, aided in part by the rise in educational levels.

Public questioning of the role of the state came at this time, when social movement rose to its height in Taiwan. A number of social protests demanded that the state should intervene in the worsening environment and extend the existing personal social services. Ultimately, these movements produced no lasting impact as far as social welfare development was concerned. But such populist movements, though sporadic, isolated, and often unrelated, offered an indirect critique of the economic and social policies of the Taiwanese developmental state. Moreover, as Tsao (1995) points out, most politicians could not afford to ignore welfare in their platforms, an aftermath of these protest movements.

Political liberalization continued in the 1990s. Constitutionally, the first piece in the legal framework was the 1991 reinstatement of the 1947 constitution, leading to the first full elections for the National Assembly (which was responsible for the election of the president and had the power to change the constitution) and the legislative yuan in more than four decades. The new National Assembly then passed several constitutional amendments that, among other democratization measures, gave voters their first ever opportunity to choose the nation's president, in March 1996. At the same time, exiled opposition politicians had been allowed to return home, and political parties proliferated in 1992.

### **Authoritarian-developmental state and social development**

Taiwan's road to democratization has been paralleled by success in economic development. The main indicators of development clearly show the successful transformation of the economy. This has enabled the developmental state to build a comprehensive range of social welfare services over time. Immediately after World War II, Taiwan was a poor, agricultural society. Forty years of spectacular economic growth after World War II turned a heavily rural, postcolonial economy into a modern industrialised one. With a population of 21.9 million in 1999, its per capita income has reached US \$13,303 (*Asiaweek*, 5 May 1999). More important, the Taiwanese state has successfully turned Taiwan into one of Asia's economic powerhouses, after Japan, Singapore, and Hong Kong – the Taiwan economic miracle (Selya, 1995). It has made huge advances in industry and agriculture and improved the population's living standards. In terms of per capita GNP, it was ranked fourth in Asia, after Japan, Singapore, and Hong Kong.

Material success is one area in which the authoritarian state has been eager to outperform its arch rival, Communist China. In terms of income per head and quality of life, Taiwan maintains a large distance from neighbouring Communist China, which is still a low-income developing country. In 1950, the incomes of Taiwanese and of mainland Chinese were much the same. By 1989, Taiwan per capita income was US \$7,500, compared to US \$350 in Mainland China (*Economist*, 14 July 1990). Its economic growth has been impressive, averaging 6.4 per cent between 1990 and 1995 (Asian Development Bank, 1999). With highly developed plastics, chemical, shipbuilding, clothing, and electronics industries, Taiwan's private enterprises have flourished. It has the largest foreign exchange reserve in the world, more than \$80 billion, with an account surplus of about \$20 billion a year, more than 20 per cent of its GNP. This means it has the third largest trade surplus in the world and practically no debt (Welsh & Butorin, 1990). By World Bank standards, Taiwan is considered as an upper-income country. It has an export-led economy, in which exports in 1990 accounted for 43 per cent of GDP. This compares with export/GDP ratios of some 8–13 per cent in Latin American countries (Gereffi, 1994).

Until the KMT loosened its grip in late 1980s, the Taiwanese state had been strong for a number of reasons. First, although colonial experiences in most developing countries were devastating, its legacy in Taiwan was to some extent facilitative of its subsequent development. For instance, the Japanese sought to promote the development of the indigenous social and economic structure. The colonial policies were much more development-oriented, and supplied a foundation for future development (Jonsson et al., 1991). When Chiang Kai-shek fled to Taiwan, the issue of survival drove him to prompt action to develop Taiwan economically. This proved to be the correct approach, and the subsequent improvements in standard of living gave the authoritarian state some much-needed legitimacy.

The state started first with agricultural modernisation, which included land reform and investment in rural human resources to enhance labour productivity. A host of factors are considered crucial for its success: land reform, state planning, investment in future-oriented industries, US aid and investment, and universal education. Economic development occurs, analysts argue, because the political elite has made a conscious, public commitment to the need for development. The inter-ministerial council was charged with macroeconomic planning. In a series of development plans of various lengths, the broad economic and social goals were outlined. The KMT state was the only actor capable of responding to

political and economic problems. Gold (1986) describes the state managers as having an attitude of 'dynamic dependency'. They assessed the economy and society's capabilities and needs and linkages to the world system, and actively cultivated these strengths to improve their situation. The ability of the state to act independently of 'dominant' economic interests appeared to be a prerequisite for several important structural shifts, such as land reform in the 1950s and the transformation from import substitution to export promotion in the 1960s (Lam & Clark, 1994).

With a single-minded devotion to development, the state's resources were devoted only to economic purposes, with a concomitant neglect of social welfare. Although the KMT party built up a military regime, it did not totally neglect social development, however. Most notable was land reform. In Taiwan, the distribution of land was relatively equal at the start of the economic take-off. This was the result of a land reform programme undertaken by the KMT in the 1950s. It has been surmised by analysts that this reform was attributable to the US government, which was eager to contain communism. The KMT was able to push this through without much resistance because none of the Nationalists who fled to Taiwan owned any land, and they were not hamstrung by provincial warlords (Cumings, 1987). Taiwanese scholars such as Ku (1997) argued that land reform helped the KMT because land was purchased only with bonds and shares. In return, the KMT obtained immediate revenue from the tenants, which could be used for industrial development. The reform paid off well, reducing income disparities and spurring agricultural productivity.

In the wake of the reform, agricultural output jumped, with an important impact on industry (Jonsson et al., 1991). State capacity was much enhanced. Through the land reform, the KMT state sought to neutralise the threat posed to it by the old landowning class (Amsden, 1979, 1992). The redistribution of land underscored a pattern of relatively egalitarian inter-household distribution of income, both overall and between urban and rural populations. Taiwan is often cited as a prime example of the growth-with-equity strategy in development planning, as measured by a declining Gini coefficient during a period of rapid income growth based on labour-intensive, export-oriented industrialisation (Mehmet, 1995).

## **Health, education, and housing**

The Taiwanese state recognized that it should invest in human capital to support economic development. Hence, education and health care are

high on the public agenda. Prior to 1995, when the universal national health programme was introduced, health delivery was carried out in both private and public sectors. Three labour insurance programmes (Labour Insurance, Government Employees' Insurance, and Farmers' Health Insurance) covered some 45 per cent of the total population in the early 1990s. With the introduction of national health, universal coverage has been achieved.

Traditionally, Chinese culture places a strong emphasis on education; Taiwan is no exception. Article 158 of its constitution underscores the important role of education: 'to develop the sense of nationalism, sense of autonomy, national moralities, healthy physique, knowledge of science, and earning ability'. There is a provision on education: 'All children of school age from 6 to 12 years shall receive free primary education, and all citizens above school age who have not received primary education shall receive supplementary education free of charge' (Article 160).

In development terms, the KMT realised early on that it needed an educated workforce for economic growth (Goodman & Peng, 1996). Since 1968, nine years of free and compulsory education have been available for all children (Li, 1994). For individuals, higher educational attainment is the key to social status and financial security. Over time, the state's educational expenditure as a percentage of GNP has been higher than in most other Asian developing countries: 5.5 per cent in 1991 (China, 2.3 per cent; Philippines, 2.9 per cent; and India, 3.5 per cent). In fact, it was the highest among the four tigers (Morris, 1996: 97). According to the established indicators, Taiwan performs well, and is catching up with developed economies in ratios of populations at different school ages attending schools at appropriate levels of education. As the state invested heavily in education, this engendered a significant drop in the illiteracy rate: 10 per cent in 1990. As early as 1965, the enrolment rate for primary education was already 100 per cent.

The education system serves two other functions. The state has linked the needs of economic growth with education with 70 per cent of all students between the ages of 17 and 19 in vocational schools (Morris, 1996). Second, higher education in particular was marked by politicisation (Law, 1995). The ruling KMT, like its counterpart in Mainland China, exerts considerable influence on university affairs such as administration, curriculum, and students' extracurricular activities. For example, Taiwan's university presidents are usually heads of campus political organisations, and take up party posts outside campus.

Unlike Hong Kong and Singapore, housing is not an area in which the state intervenes actively. There is a limited public housing system.



The main beneficiaries are upper and middle income groups, central government employees, senators, and congressmen. Since the 1980s, there have been housing plans which stipulated the state's commitment to a home ownership programme in which there was an annual target of 25,000 housing units. In 1988, public housing accounted for 1.48 per cent of total public welfare spending and some 4.9 per cent of total housing. The emphasis has been on home-ownership. Under the six-year plan, 1996–2001, there will be 45,740 public housing units, 8,900 units built using construction loans, and 71,800 private housing units with state subsidies (Doling, 1999).

### **The social insurance state<sup>1</sup>**

The authoritarian state has been oriented toward the establishment of a number of social insurance plans for different groups of constituencies. This inevitably evokes an image of paternalism for selected groups. Socially, it would not be wrong to characterize Taiwan as a social insurance state. The first social insurance scheme was introduced and implemented as industrialisation was about to emerge in the 1950s (Chan, 1985). Since then, the social insurance scheme has developed in three directions: military servicemen's insurance, labour insurance, and government employee insurance. The first two were instituted in 1950, and the last in 1958. Military servicemen's insurance covers only military servicemen and their families; it provides lump-sum cash benefits in the event of death or disability and free medical treatment for sickness and injury. Other welfare services came later. For example, personal social services, on a piecemeal basis, appeared in the 1960s. A small public assistance programme was introduced at this time. But it was not until the end of the 1970s that appropriate social legislation for personal social services emerged (e.g. the Child Welfare Law of 1973, the Aged Welfare Law of 1980, and the Handicapped Welfare Law of 1980). In 1995 the universal national health programme was implemented, extending health coverage to all citizens. Earlier, a small Unemployment Assistance Programme was set up in July 1994, under which a worker may get limited support for a short time (US \$22.22 per day for 25 days a month for up to four months). Current discussion has centred on the desirability of unemployment insurance as well as on the establishment of a national pension programme in the early 2000s.

The founding of the social insurance state can be dated back to pre-1949 China. The National Assembly was convened on 5 November

1946, and it adopted the Constitution of the Republic of China, which came into force on 25 December 1947. This constitutional document was adhered to by the KMT when it moved to Taiwan. There are a few constitutional provisions on social welfare. The most important one is Article 155, which establishes a social insurance system to promote social welfare. A labour insurance scheme was created in 1950 by the provincial government to safeguard those employed in industrial firms and mines with 20 or more employees.

Thereafter, the labour insurance scheme expanded its coverage of industrial labour in successive stages (Chan, 1985). The first expansion occurred in 1951, extending coverage to those in private firms with fewer than 10 or more employees. Voluntary coverage was also made available to employees of firms with fewer than 10 employees. There were two further extensions in coverage: Fishery labour and sugar cane plantation workers gained entry in 1953 and 1956, respectively. The state took a further initiative in 1958 by enacting the Labour Insurance Act, which gave it direct involvement in the administration of labour insurance. Thus, a provincial-level programme was transformed to a national one. The coverage of the labour insurance scheme was extended in 1965 to those who were employed in the government sector but were unqualified for government employee insurance (e.g. technicians and school bus drivers). The Labour Insurance Act was again revised in 1979, when its coverage was extended to all workers in private firms with more than five employees.

Why did the KMT state introduce various social insurance schemes? Academics such as Goodman and Peng (1996) argue that the labour insurance scheme was probably instituted on the initiative of the KMT in reaction to its failed labour policy in mainland China. They comment that it is no more than 'an appeasement measure to avoid potential worker revolt' (p. 205). The programme was state-led, and represents the state's recognition of work ethics. As one form of payroll taxes, it enhances work incentives. Labour insurance programmes, in essence, reward people who work, and they are contributory in nature (from both employers and employees). This form of social security is the most pragmatic in the case of Taiwan. With few resources, constant threat from China, and a strong commitment to growth, precious resources were devoted only to economic development and military infrastructure by the developmental state. But social welfare was not neglected. The state believed that the introduction of labour insurance targeting special groups was needed. In this context, the imposition of a social insurance programmes served the state well.

With Taiwan's strong emphasis on work ethics, it is not surprising to see that social assistance is neither generous nor all-embracing. Social assistance in the form of limited social relief was first made available in the early 1960s through county authorities (Chan, 1985). The programme was targeted at those poor people living in institutional care with no close kin. In 1965 it was extended to provide cash assistance to families living below the prescribed poverty line. There are two measures of poverty. In Taipei, the capital, it is defined as below 40 per cent of average family spending. For the whole province, it is defined as below one third of average family income. The programme now falls under the Public Assistance Law of 1980, and the local government carries the administrative responsibility. In 1988, a meagre 1.2 per cent of government spending was devoted to public assistance (Li, 1994). Not many people are protected under the scheme. It has been estimated that the ratio of poor people (i.e. those receiving public assistance) to total population hovers around 0.5 per cent to 0.6 per cent (Table 4.1).

A major development toward universalization of social security came in the 1990s. The National Health Insurance (NHI) programme was fully implemented on 1 March 1995, the state having proposed this idea in 1986. In 1994, the legislative yuan passed the National Health Insurance Law, which was subsequently promulgated by the president. It was later amended, on 3 October 1994, to include provisions for mandatory enrolment in the insurance programme. Taiwan's NHI, a unified health insurance system, aims to cover every Taiwanese citizen. Prior to this, Taiwan's health care system included 10 separate health insurance

*Table 4.1* Low-income households and population in Taiwan, 1990–1997

End of year	Low-income households		Low-income population	
	Total (households)	As % of total households	Total (persons)	As % of total population
1990	40,994	0.80	114,220	0.56
1991	42,665	0.82	116,225	0.56
1992	43,780	0.82	115,284	0.55
1993	46,717	0.85	118,502	0.56
1994	48,182	0.85	115,748	0.55
1995	48,580	0.83	114,707	0.54
1996	49,307	0.82	115,542	0.54
1997	49,204	0.79	112,523	0.52

Source: *Republic of China Yearbook* (1998), p. 145.

programmes – the three most prominent being labour insurance, government employees' insurance, and farmers' health insurance. It was extended to cover their dependants and others, and the insured and insuring agencies of this new scheme must follow the regulations of these original schemes to promote the programme.

The NHI is grounded in a number of constitutional articles, including Article 155 of the constitution. Moreover, Article 157 of the constitution stipulates that 'the State, in order to improve national health, shall establish extensive services for sanitation and health protection, and a system of public medical service'. Article 9 of the amended constitution stipulates further that 'the State shall promote national health insurance.'

The NHI covers contingencies such as illness, pregnancy, or injury. It is one form of social insurance, and enrolment is mandatory. Through universal enrolment the risk is shared, and the goal of 'helping others by helping oneself' is attainable. The NHI was built on the bases of three programmes: labourers' insurance, government employees' insurance, and farmers' insurance. Because the NHI is a social insurance programme based on the principles of 'helping others by helping oneself' and 'the sharing of risks', the principle of financial self-sufficiency is actively pursued. Hence, the funds needed for the programme come from one third of each programme – from the insured, the employers, and the state.

By December 1995 there were 425,000 insuring agencies with approximately 19.12 million insured persons, giving an insurance coverage rate of 92.34 per cent of the total population. The number insured was 7.02 million more than before. By the end of 1995, the total amount of contributions collected was NT \$91 billion (NT \$30.6 = US \$1), at an average collection rate of 93 per cent. Data on the collection of insurance contributions for the period between March and July 1995 show that the average amount of the insured wage was about NT \$20,000.

Administratively, the central government is the key player. The Bureau of National Health Insurance was set up on 1 January 1995 to oversee this programme. The Department of Health is the competent authority of the NHI programme for supervision and programme assessment. Further, Article 4 of the National Health Insurance Law stipulates that to supervise the implementation of the NHI and to provide consultation on insurance policies and regulations, a Supervisory Committee for National Health Insurance should be created. The committee comprises representatives of the organisations concerned – the insured, the employers, the medical care providers, and the experts.

Some important features of the programme should be noted. First, there is an emphasis on the sharing of finances. It is planned on the principles

of fair contributions of premiums and the balance of incomes and expenditures. Furthermore, the state makes it clear that self-sufficiency is the basic principle of the financing system of the NHI. There is a strong emphasis on maintaining a sound financing system: the state will not be responsible for any gains or losses of the programme. The financial responsibility of the state ends at subsidising the legally set share of contributions and the administrative costs of the programme. Finally, the state envisages that there is more work to be done in the following areas: building an actuarial model to decide on premiums, collecting relevant financial information, improving management, improving the returns on short-term capitals, and strengthening the collection of contributions due.

At the start, analysts were worried that the programme was not financially sustainable in the long run. The growth rate of expenditure exceeded that of contributions. Others felt that some people took advantage of the unlimited visit policy. Other people tried to obtain unnecessary medical treatments, thereby creating wastage. Four years after its implementation, the programme was in the red. The developmental state had to devise means to make it financially viable.

## An assessment

The Taiwanese developmental state put military and economic development at the forefront. Of particular note was its land reform policy,

*Table 4.2* Net expenditure on social welfare in Taiwan, 1990–1997

Fiscal year	Net expenditure on social welfare by general government	
	As % of total expenditure	As % of GNP
1990	8.25	2.28
1991	8.31	2.54
1992	7.96	2.60
1993	7.84	2.55
1994	8.28	2.55
1995	11.17	3.46
1996	14.46	4.00
1997	14.27	3.76

Net expenditures include social insurance (not including pension), social assistance and social relief, social welfare services, employment services, and medical care and public health.

Source: *Republic of China Yearbook* (1998), p. 144.

which brought about desirable income equality for a few decades. Social welfare was used as a method of granting special favours to selected groups. This happened before 1986. Afterwards, the KMT state, weakened internally by factions and externally by opposition parties, began to structure a better social society for its people. Public expenditures on social welfare have been increasing (Table 4.2). As a percentage of GNP, social welfare spending is on an upward trend. Still, it is a social insurance state, with benefits tied to employment, while the vulnerable and weak are still marginalised and support for them remaining weak.

If one looks at public spending, one could easily come to the conclusion that social welfare spending is rather small by western standards. In the fiscal year of 1998, the central government spent US \$15.9 billion, or 26.83 per cent of its total expenditures, on what it broadly defines as social services – a budget heading that includes social welfare expenses (14.45 per cent), community development and environmental protection (3.4 per cent), and pensions (8.98 per cent) (Republic of China 1998).

Taiwan's social welfare resources have been channelled predominantly to a small group of beneficiaries.<sup>2</sup> Taiwanese scholars (Lu, 1995; Fu, 1990; 1995) reported that the central government social welfare budget was heavily tilted toward military servicemen and government employees. In fact, 67 per cent of the central government's social welfare budget was distributed to military servicemen, government employees, and their dependents, who constituted less than 10 per cent of the total population (Li, 1994). On the other hand, some needy groups, such as women, the elderly, children, and farmers, together shared less than 1 per cent of the national welfare budget. As a corollary of such bias, there was little impact on income distribution on the part of the social welfare budget (Wang, 1994). Social insurance programmes did not have much impact either, since they required low contributions or gave out small benefits. Furthermore, the limited spending on social assistance for low-income families did not affect the income share of the bottom quintile.

Some academics in advanced industrialised countries (Gilbert & Moon, 1988; Kwon, 1998; Tang, 1993; 1998a) have challenged the use of social expenditure in the assessments of welfare efforts,<sup>3</sup> and some have called for an expanded definition of social welfare spending to arrive at a more accurate assessment of state's efforts. To overcome the deficiencies inherent in the social expenditure approach, a pioneering study conducted by Li (1994) used a comprehensive measure of social welfare spending. Li uses a broad definition of social welfare that includes social insurance, welfare services, health care, public housing, employment

services, pensions for government employees and soldiers, and community development. Added to it are education, tax savings, and inter-family transfers.

There were three major findings. First, Li reported that Taiwan spent 18.7 per cent of its GNP on social welfare in 1991. This was unfavourably compared to those of the United States (27.6 per cent) and Germany (31.3 per cent) for the year 1978. The latter estimates were drawn from Lampman's (1984) study. Using this enlarged measurement, social welfare development still lagged behind the western countries. Second, important items in comprehensive social welfare spending included conventional social welfare spending (4.6 per cent of GNP), educational spending (6.4 per cent), tax savings (3.2 per cent), philanthropy (0.6 per cent), interfamily gifts (2.7 per cent), and wage diversion (1 per cent). Finally, Li found that the poor (i.e. the bottom 20 per cent of income distribution) received considerably less than their counterparts in the United States because Taiwan's cash benefits were mainly redistributed through tax savings, and the middle class are the major beneficiaries.

### **Directions of welfare development**

Overall, one could note a few salient features of welfare development. First, Taiwan relies on social insurance as the main tool of social provisions. Essentially, it is a residual social insurance-based system with limited corporate welfare. The social insurance state is characterised by compartmentalisation and fragmentation. There are a number of problems with this approach. First, it does not protect all citizens. Second, a number of administrative units are responsible for different programmes, which creates some confusion. Third, the programme favours some groups, resulting in the long-term deficit of programmes and increasing state's subsidies. Finally, the pension is only a lump sum, not an annuity. Taiwanese scholars have commented that social insurance plans (8 out of 11 plans) put much emphasis on health but ignores other contingencies such as unemployment and retirement (Lu, 1995).

Second, only very modest welfare provision has been implemented since World War II. The whole approach has been piecemeal, reactive, and lacking a grand vision. The idea of a western welfare state is expressly rejected by the state. The haphazard nature of its development could be seen in the large number of labour insurance plans. Economic development and nation-building are the prime goals for the state. As Goodman and Peng (1996: 210) suggest, 'The developments in social welfare observed in these countries [i.e. Japan, Korea, and Taiwan]

may be explained by what we describe as peripatetic adaptive learning and development strategies with the prime goal of nation-building.'

Third, intervention in housing has been relatively weak at the start. But public health is receiving state attention, and education is strongly emphasised. In 1995, some 17 per cent of net public spending was allocated to education, science, and culture – some 6.75 per cent of the GNP. A constitutional clause underscores its importance. Article 164 of the constitution states, 'Expenditures of educational programmes, scientific studies and cultural services shall not be, in respect of the Central Government, less than 15 per cent of the total national budget; in respect of each province, less than 25 per cent of the total provincial budgets; and in respect of each municipality or country, less than 35 per cent of the total municipal or county budget.'

Fourth, social programming intensified in the late 1980s. Political crises, party rivalries, and democratisation have spurred social welfare development. The landmark development is the national health programme. But there is a conspicuous absence of crucial social programmes: unemployment insurance, family allowance, and national pension. Given this, the Taiwanese state is not a western-style welfare state. The goal of redistribution is not pursued by the state; its social assistance programme is small and not generous to the poor.

Fifth, the developmental state upholds the ideals of Confucianism, and has encouraged a reliance on family and voluntary efforts in times of trouble. This would foster a sense of solidarity in the Taiwanese society. It is doubtful whether the traditional values will be upheld by many as the society industrializes and urbanizes. Moreover, the idea of social entitlement as right is absent.

Sixth, the social engineers in Taiwan have tried to plan their universal programmes in such a way as to avoid future financial crises (Mok, 1996). In other words, financial prudence is a great concern, and they want to have a sound system, avoiding the fiscal crises that other western countries have been facing. Such pragmatism has characterized the social insurance state for some time.

Finally, Taiwan's social welfare has differed from other tigers such as Hong Kong in that social programmes are grounded in legislation. In effect, there are a large number of social statutes, some of them adopted from their predecessors in China. Much social legislation has been passed between 1950 and 1999. Such statutory provision of welfare was unsurpassed by other East Asian countries. One should not overestimate their importance, because some of them took a long time to be implemented. Nor were they actively upheld by the state. Goodman



and Peng (1996) rightly observed, 'There also exists a large gap between the constitutional statement concerning the state's obligations to provide social welfare and the reality of the existing social welfare system' (p. 205).

## **Determinants of state welfare**

We have argued that the presence of an authoritarian development state is the factor that best explains Taiwan's social welfare development. Prior to 1987, the state under KMT rule was so powerful that it could afford to neglect social needs and problems. In this respect, the Taiwanese state inherited from the Japanese overlords the following colonial legacies that helped it to remain strong: centralised administration, an efficient administrative system, good physical infrastructure, a coercive military and social control system, a belief in technical education, and some established channels of state's income. Additionally, the KMT was able to bring along a group of experts and officials from the mainland. The strength of the state meant that it could afford simply to maintain a residual social security system (Lin, 1995; 1998). It could not afford to invest much in social welfare. Rather, the state played a minimal role and encouraged people to rely on self-help and traditional family support. Because of colonial influences, education and health have received much more attention. The KMT party which succeeded to power put education at the top of its policy agenda.

In this respect, Ku (1997: 145) has offered a detailed discussion of the Taiwanese state:

The establishment of state authority through the process of state building was preceded by violence that elevated the state to a superior position over society. Both the Japanese colonial state and the KMT were from outside Taiwan. They could maximize their options of decision making by reforming existing social structures because there was little connection between them and Taiwanese society. The introduction of modern state machinery and well-educated and loyal bureaucrats enhanced the ability of the state to carry out its policies. A high level of tightened social control and order decreased possible resistance against state's policies.

As noted, when the Taiwanese state was established in 1949, it was already a strong one that had military power at its disposal and was ready to quell any political unrest or social discontent. But it did not

belittle economic development. Rather, it saw that economic growth was the dominant factor in national defence and political legitimacy. Hence, it considered such a development as an absolute necessity. Taiwanese scholars would concur with this interpretation. For instance, Ku (1997: 146) argued that 'increasing productivity over a short period of time was not for the purpose of producing more goods in order to improve the living conditions of the people; rather, it was for the enhancement of the state's capacity, especially in terms of military power should the state go to war.' Another wise strategy at this time was land reform, which was a crucial factor in maintaining income equality in the next 40 years. With massive American aid and a growing economy, it was able to grant favours to the selected groups of constituencies. One undesirable result has been that its welfare system is rather irrational and overlapping.

The Taiwanese state put a high priority on survival (political and economic). Under this 'survival orientation', social policies played a subsidiary role to the overarching economic objective. A sense of pragmatism gradually developed when some economic development was made.

If the authoritarian development-oriented state played a key role in economic and educational development, it must shoulder all the blame for the underdevelopment of social welfare provisions. The Taiwanese developmental state has been, in large part, profoundly anti-welfarist. In 1985, Premier Hua said that there would be no welfare state in Taiwan, and appealed for sustained family assistance to members in need. The resultant social security system is traditional, conservative, residual, and selective (Lin, 1995). Social welfare is assumed to be social assistance. Other scholars concur with such characterisation (Fu, 1995). Like the colonial state in Hong Kong, the Taiwanese state encouraged its people to seek help from their families under the guise of self-responsibility, an echo of Confucian values of mutual aid and family support.

Despite the state's hostility towards welfare, public opinion toward social welfare is generally favourable. For instance, a Social Attitude Survey conducted in 1991 asked three questions relating to social welfare: (1) Would increased social welfare encourage people to evade their family responsibilities? (2) If the state spends more on social welfare, will the economy be compromised? (3) Is social welfare a financial burden for the state? The results did not reveal strong anti-welfarism on the part of the public. A total of 61.9 per cent of the respondents did not agree with the first question. A similar proportion (63.2 per cent and 61.8 per cent) voiced opposition to the second and third questions respectively (Lu, 1995). Such a favourable attitude has not impelled the

state to action. Instead, it has made little impression on the minds of the ruling party. A number of other public issues high on the agenda – for instance, the independence of Taiwan, China/Taiwan confrontation, environmental concerns, local politics, and crime and order.

The state's hostility toward welfare does not mean that the social welfare system was poorly developed. Rather, there were extensive social welfare services by the time the KMT liberalised the political system. What explained such a development? Earlier on, diffusion played a role in welfare provision. This is reflected in the poverty programmes. Influenced by the American 'War on Poverty' welfare programmes in the early 1960s, two social assistance programmes were embarked on as part of a community development strategy in the early 1970s (Chan, 1985). The Shao-Kang ('little well-off', i.e. between wealthy and poor) scheme came into being in the province of Taiwan in 1972, and the An-Kang ('healthy and wealthy') scheme was simultaneously launched in the Taipei municipality. Both schemes were designed to eradicate poverty by providing vocational training, short-term loans, employment, child care, social assistance, and low-cost assistance for the poor (Li, 1994). With the severance of diplomatic ties with the US in 1978, these programmes did not last long.

The industrialism thesis explains social welfare development as being shaped by the processes of modernization and industrialization. In the case of Taiwan, such processes have generated social needs, but the underdevelopment of social welfare before 1990 contradicts the prediction of industrialism thesis. This conclusion is supported by a pioneering quantitative study done by Lin (1991a). Testing major theories of comparative social policy, Lin finds that industrialization is not the decisive variable. Rather, variable like welfare ideology, the labour movement, diffusion, and the particular state structure each play a part.

There is no social democratic party in Taiwan; and major social initiatives do not come from the labour movement. For instance, the implementation of social insurance was not due to the labour movement. The Taiwanese case demonstrated that in Asia, labour power was insufficient as a variable to induce welfare expansion. For a long time, the labour movement was under tight supervision. The KMT was rather hostile to labour movement in China before 1949 (Cooney, 1996); indeed, it passed the Labour Union Law (LUL) during its repression of the Chinese labour movement. When it fled to Taiwan, the party implemented the LUL with a view to creating unions it could discipline.

After 1949, the KMT used two means to control the labour movement. First, it chose to implement those labour laws that suited its

purposes, and used a number of non-legislative means to carry out its labour policy, thus sidelining the law (Cooney, 1996; Tsai, 1998). It would be reasonable to say that, given the developing economy, the strong state, and the lack of knowledge of law, the legal framework provided little protection for the working class. If working-class mobilisation is weak due to other factors, then the legal mechanism offered little assistance to it. It remains to be seen how and when the law can be transformed from a weapon of state rule to a means of protecting people's rights.<sup>4</sup> There is another reason why the labour movement is weak. Earlier on, the KMT successfully suppressed the labour movement through martial laws, and through close supervision and penetration at the enterprise level.

Historically, there are structural reasons for the weakness of the working-class movement. First, most factories were small in size and geographically dispersed before the democratisation process in 1987. Many industrial workers are 'part-time proletarians engaging simultaneously in industrial and agricultural production. The rural experience of the workers has the effect of clouding their class identity' (Chu, 1998: 190). Second, disgruntled workers have been able to fall back on the agrarian sector. Third, the borderline between workers and small employers has remained faint until very recently. Many workers have regarded factory jobs as an apprenticeship toward entrepreneurial careers.

As a result, the workers were poorly organised, and the unionisation rate remained around 25 per cent in 1990. It is true that strikes and industrial action increased rapidly after the lifting of martial law after 1987. However, compared to many other social groups that have staged their protests on a number of social issues, labour issues did not capture as much public attention. Also, the workers were not able to contribute much to the democratisation movement, which would probably indirectly add to their strengths. They were content to be led by the local politicians, intellectuals, and the middle class, who maintained strong ties with small enterprises (Chu, 1998).

In sum, the labour movement was tightly controlled by the ruling party, as a fortress against Communism: the ruling party knew that Communism and socialism could easily be bred or fostered by a discontented labour force. Overall, unionism in Taiwan was weak. Both the labour movement and leftist parties had little influence on the course of social welfare spending. None of the major political parties are labour-focused, unlike the Labour Party in Britain, which professes to advance labour's interests. Currently, unionism is still not strong. It hovers at around 25–30 per cent of the workforce, and does not cover the majority

of the labour force, who work in small businesses (Goodman & Peng, 1996).

On the other hand, some factors favour welfare development in Taiwan. The first factor is ideology. At the time when KMT established itself in Taiwan, there was one guiding principle for social development. The Taiwan state has always pledged to uphold and implement the three principles of the people suggested by Dr. Sun Yat-sen: Min-tsu Chu I (the principle of nationalism), Min-chuan Chua I (the principle of democracy), and Min-shen Chu I (the principle of livelihood).

To carry out democratic revolution in China, Dr Sun Yat-sen, the father of the Republic of China, extensively studied the political systems of European countries and America in formulating the three principles of the people: nationalism, democracy, and social wellbeing. Sun asserted that two methods would suffice to solve the problem of people's livelihood in China: equalisation of landownership and restriction of capitalism. The term 'restriction of capitalism' means state ownership of those enterprises that are either monopolistic in nature or unsuitable for private ownership because of large capital requirements, such as banks, railways, and shipping companies. But he wanted to restrict it so that 'the livelihood of the people will not be controlled by the capitalists'.

Taiwanese scholars such as Lin (1995) and Ku (1997) have argued that the KMT was not able to ignore social welfare in Taiwan because the KMT professed to follow Dr Sun's principle of people's livelihood.<sup>5</sup> Lin (1995) further argued that the professed pursuit of Dr Sun's principles was one strategy on the part of the KMT to retain public support: socially, there was no grand vision on the part of the KMT; but Dr Sun's three principles were used as an ideological weapon. The state did not give much thought to social welfare until it was thrust into a crisis, as evidenced by the establishment of these social programmes. Inevitably, ideology such as Dr Sun's ideas should be best seen as a tool to motivate the people. When it came down to policy implementation, pragmatism would prevail over ideology.

The state's treatment of a selected clientele is another factor explaining welfare development. Not long after its landing on the island, the KMT poured in money to upgrade the living conditions of the members of the military forces. Naturally, military servicemen were crucial to the survival of the KMT in face of the Communist challenge. Likewise, two other constituencies of the ruling party – civil servants and teachers – were well cared for. After 1987 the state, weakened internally by factions and externally by opposition parties, began to structure a better society for

its people. Still, it was a social insurance state, with benefits tied to employment, while the vulnerable and weak were still marginalised.

Thirdly, the Taiwanese case demonstrates how the democratisation movement would spur social welfare spending and lead to expanded social welfare. Since 1987, when the political system was liberalised, there has been a marked rise in the number of autonomous civic organisations. The emergence of new political parties has posed a challenge to the ruling KMT. Democratisation reduced the power of a strong state by severely limiting its capability and making it more responsive to social needs and social problems. The opposition party was a critical player, in that it prodded the ruling party into action by promising itself that social welfare would be extended once it was in power. In the 1990s, various academics have commented that social welfare spending rose, which reflected the ruling party's attempt to appease the electorate. Not surprisingly, the opposition party proposed a number of welfare programmes to win popular support. Such action, unfortunately, was often short-lived because other public issues came to the fore.

Since the late 1980s, some factors have emerged which could shape the course of the welfare development in Taiwan. We would argue that business influence is growing. Another factor, social protest movements, could only force the state to take some short-term measures to deal with immediate social issues. Finally, the major opposition party would probably not pose a strong challenge to the state on social welfare issues.

### **Social protest movements**

The mid-1980s witnessed a number of social movements in Taiwan. It was a decade of rising social consciousness (Leng, 1996). Various mass movements arose, including the feminism, consumer protectionism, environmentalism, and labour protests. One such movement, 'Homeless Solidarity', tried to promote affordable housing. It organised a mass protest on 26 August 1989, and successfully brought out 10,000 people to protest rapidly rising rental and housing prices (Lin, 1991b). Soon afterwards, the state responded by promising more housing loans and the construction of public housing. While the gains were very modest, the momentum had been established: these movements would heighten people's awareness of the social issues and forced the state to review its existing policies for marginal groups (Tsao, 1995).

These movements have had other impacts. For instance, anti-pollution activists targeting large businesses launched a total of 108 protest campaigns between 1980 and 1988. This had the effect of provoking

businesses into participation in the policy-making process. As Leng (1996: 85) observes, 'Getting involved in politics was the most direct way to protect their corporate interests.'

### **The Democratic Progressive Party**

To many (including small businesses), the rise of the DPP has provided a welcome alternative to the ruling KMT because it has been able to project a democratic, clean image. It also poses as a party that calls for more social spending. This in some ways explains why it was able to seize top positions in lower-level government from the KMT within only 10 years. The party has tried to be populist. However, when it comes to power at the national level, voters are unsure about the DPP's trustworthiness. The problem is that the party has stagnated after its meteoric rise, which was well exemplified by its defeat in the 1999 election of the Taipei mayor. At one time, the DPP's relationship with business was soured by its anti-business stance. The so called 'Bayer Affair' was a good example of the growing importance of environmental problem: the chemical producer was forced to cancel its investment plan because of anti-business sentiment in a DPP-ruled county where the investment was to be located. However, much has been done since then to improve the party's relations with the business world. It would be unrealistic to see this party as a full champion of the cause of social welfare in Taiwan. For one thing, it has to tackle a number of more important political issues. Second, with the KMT's change of stance toward expanding social welfare, the DPP's stand on welfare is unlikely to capture more voters.

### **The state-business alliance**

The state-business relationship in the authoritarian era was that of patron and client. There was an absence of institutional linkages between them whereby big business could articulate its interests; they could only influence at local level. This situation changed after 1987, when political reform opened up the political system (Leng, 1996). While small- and medium-sized businesses lacked the necessary resources and skills for organising and lobbying for change, the influence of big business has become increasingly important after the political reforms. They could influence policies by providing financial support for lawmakers, allying with KMT enterprises, and maintaining close contacts with officials. State-business alliances are based on personal relations. Undoubtedly, the business-legislature linkage has become closer since democratisation. With the ascent of business as a key factor in policy-making, state autonomy has been much reduced. In this context, and given the

dwindling political control, the ruling party has to react to crises, or to a new political reality, and grant welfare concessions whenever needed.

Inherently, this alliance is conservative, supporting the status quo. Chu (1994: 136) comments that this state-business alliance shares some common views: 'both put economic growth before environmental considerations; both favour a slow growth in social welfare spending; and both support a state-orchestrated exclusion of organized labour from economic policy-making.'

## **A recapitalution**

There are some signs that the Taiwanese state is under great pressure in several important respects. Democratisation, increasingly open and competitive markets, high joblessness, a greying population, and disillusion about corruption among the elite are putting the state under intense strain. The Taiwanese state has been weakened after the process of democratisation began. The KMT still remains the most powerful institution: it controls the presidency, a majority of seats in the legislature, and the local government of Taipei by defeating its main rival, the DPP. But the KMT and the state are no longer identical (Cooney, 1996). It has been weakened by the formation of the New Party, which mainly consists of former members of the KMT. Coercive and corporatist methods of rule are no longer appropriate, and a more consensual approach incorporating the views of various opposition parties would be needed for some important issues.

Financially, the creation of new social programmes has put the developmental state in the spotlight. This in turn triggers intense party rivalries. A case in point is the NHI. Not long after its implementation, the state has had to look for new sources of funding for this universal health programme. This has sparked rivalries between the state and its opposition party. A controversial amendment to the Charity Lottery Act, giving the central government the sole right to run lotteries, was introduced in June 1999. It was blocked by the main opposition, the DPP. Public lotteries were suspended in 1987 to curb gambling. But recently the Ministry of Finance, short of funds to finance the national insurance scheme, found them a ready source of revenue. A centrally run lottery was expected to generate an extra NT\$15 billion a year. However, the introduction of this bill created rivalry between central government and local authorities because the latter also wanted a share of the pie. Kaohsiung mayor Frank Hsieh, a DPP member, defied the central government's warnings by launching another lottery on 14 June, which



netted NT\$24 million. He preempted the legislative session, which was expected to pass the amendment giving the central government the sole right to run lotteries. With 13 of the 21 county and municipal seats in DPP hands, by centralising this power the KMT was simply trying to undermine the effectiveness of the opposition party at the local level (*Straits Times*, 25 June 1999).

As Taiwan becomes more and more industrialised, people are going to rely on economic gains as a major source for personal needs and daily living. Economic development along with full employment has no doubt contributed to improvement in living standards, but it has also led to a growing demand for services and social support. On the other hand, a more educated population leads to more scrutiny of issues and policies. In other words, the actions of the state need to be well conceived and to appeal to the masses.

Nevertheless, the developmental state is not always responsive to social needs and problems, as demonstrated in the case of social services for women. There was no estimate of how many home caregivers (mostly female) there are in Taiwan. To take the example of an advanced industrialising country, it has been found that family members provide more than 80 per cent of Canada's home care, but that their tasks grow heavier day by day. It is expected that the same thing applies to Taiwan. Traditionally, most Chinese families care for their own members. Caring for faltering spouses, ageing parents, recuperating family members, or disabled children, many of these unpaid caregivers have been overwhelmed. For a long time, the system has exploited them providing them with no support. Nor does it value what people are doing for their families. But such a diffuse group of people in need would not induce the strong Taiwanese state to action.

# 5

## The Authoritarian Developmental State and Social Welfare in Korea

Modern welfare states have emerged from many advanced industrialised countries, their emergence dating back to the end of the nineteenth and the beginning of the twentieth century. Invariably, these states have become an intrinsic part of world capitalism. Often, when these industrial countries expanded welfare provisions, they were already fully developed democracies. The case of the Republic of Korea (hereafter Korea) is unique in that it illustrates how an authoritarian developmental state<sup>1</sup> under a military leadership laid the groundwork for future welfare development, despite the fact that a significant portion of its financial resources is devoted to military infrastructure. Although Taiwan has caught up considerably in its social welfare provisions since its democratisation in 1987, democratisation in Korea at around the same time has also helped to consolidate and improve existing social programmes (e.g. national pension and medical insurance). One must not forget that at this time, rapid economic growth in the past two decades has given both authoritarian states much financial latitude. Economic growth, full employment and strong familism compensate for the lack of comprehensive welfare provisions. Another interesting (perhaps paradoxical) fact to note is that Korea, which is one of the three Asian countries (the others being Indonesia and Thailand) hardest hit by the Asian financial crisis, has emerged with a better and stronger employment insurance programme for its workers. Because welfare development in Korea is strongly linked to its political regime and its development ideology, it is necessary to explain how and why the authoritarian developmental state in Korea put forward a number of social initiatives in the first place.

## Economy, politics, and social welfare

Korea is the least developed among the Asian tigers. Despite the partition into North and South Korea, it is a large country supporting a sizeable population: in 1996, this stood at 45.5 million. Many of its social development indicators were comparable to those of industrialised countries. Life expectancy rose from 53.9 years in 1960 to 72 years in 1997, while the infant mortality rate dropped from 85 to 5 (per 1,000) in the same period (World Bank, 1999). For those younger than age 5, the mortality rate stood at 7 (per 1,000) in 1996. The adult literacy rate was 985 (per 1,000) in 1995 (UNDP, 1999). The overall UN HDI went up from 0.398 in 1960 to 0.852 in 1997. Such impressive improvements in social development are attributed to economic success. The economic growth of Korea has often been called an 'economic miracle'. It joined the Organisation for Economic Cooperation and Development (OECD) in December 1996. In 1997, it became the world's 11th largest economy, although it was considerably weakened after the economic crisis. Its average growth rate between 1990 and 1997 was 7.2 per cent (Asian Development Bank, 1999). In 1960, its real GDP per capita was only US \$690; in 1995, it was US \$10,550 (World Bank, 1999). As an industrial power, its main industries have included electronics, automobiles, steel, shipbuilding, petrochemicals, construction, and textiles. The export driven economy has been dominated by family-run business conglomerates, known as *chaebol*; and the top four, Samsung, Hyundai, LG, and Daewoo account for about half of the nation's exports. Main exports have included electronics, electrical goods, machinery, ships, cars, and textiles.

It is necessary to remember that the authoritarian state in Korea has taken a most active role in orchestrating economic development (O. Y. Kwon, 1997; Potter, 1997). In addition to this, there are some facilitating factors for its development: geopolitical, cultural, and historical. Cumings (1987) has argued that the United States have provided massive economic and military aid to Korea to 'defend the free world'. Koo (1987) attributes economic success to a strong sense of nationalism among the common people, who have assigned a high priority to economic growth. Nationalist spirit is reinforced by anti-Japanese sentiment and a sense of rivalry against Japan and the North Korea. These achievements (economic and social) appear spectacular if one considers the numerous obstacles and setbacks Korea faced at its initial stage of economic development. As a late industrialiser, Korea has struggled in great adversity. Its export-led industrialization did not take place

until the 1960s. Politically, it was under a military regime, marked by internal political instability and continuing confrontations with North Korea.

A review of its twentieth-century political history reveals a number of critical turning-points: colonization and war. Korea was under Japanese rule from 1910 to 1945. The Korean peninsula was split after World War II between the Communist North and the Republic of South Korea. The Korean War broke out in 1950, ending in 1953. The two Koreas remained technically at war because the conflict ended in an armed truce and not a peace agreement. Confrontation between the two countries was one major reason South Korea had to maintain a state with a strong military orientation.

Constitutionally, the Constituent Assembly of the Republic of Korea was inaugurated on 31 May 1948. It adopted and promulgated a democratic constitution on 17 July 1948 that stipulated a unicameral legislature and a presidential system of government. Under this constitution, the first president of the Republic of Korea, Syngman Rhee, was elected by the Constituent Assembly. On 15 August 1948, the foundation of the Republic of Korea was proclaimed. Constitutional development was soon disrupted by the Korean War; afterwards, the country came under autocratic rule. In 1960, a bloody student uprising toppled the first government. Major General Park Chung-hee led a coup and captured power in 1961. Park's autocratic rule ended with his assassination in 1979. Martial law was declared on Park's death, and Major General Chun Doo-wan seized power and crushed a revolt. Soon afterwards, Chun became president. His attempt to rubber-stamp the appointment of another general, Roh Tae-Woo, as successor sparked massive student-led protests, joined by the middle classes, in 1987. Roh then declared that he would seek office through a popular vote. He won in 1987 with only 37 per cent support because the opposition split its vote among three other candidates.

In 1990, Kim Young-sam struck a merger between his opposition party and Roh's ruling camp. He was elected as the country's first civilian president in 1992. This marked the end of the military's long domination over the Korean state (Rodgers, 1996). After taking office in 1993, Kim led an anti-corruption campaign that put Roh and Chun on trial for bribery. Separately, the two former presidents were charged with mutiny and treason for their roles in the 1979 coup and the 1980 Kwangju massacre. After the economic crisis, South Korea elected Kim Dae-jung, veteran opposition leader, as the president on 18 December 1997.

## The authoritarian developmental state

The military regime, then, was in place prior to the democratization in late 1980s. Prior to that, it used force to suppress democratic movements. In some ways, the presence of Communist regimes (China, North Korea) helped to legitimize authoritarian military rule. But the military regime under President Park intervened massively in the economy and society to orchestrate rapid, late capitalist development (Porter, 1997). In effect, an authoritarian developmental state gradually emerged after 1960 which was autonomous in relation to social classes. Korea dedicated itself to export in the post-1961 period (Kim & Leipziger, 1997). It was able to industrialize quickly by relying first on foreign aid and later on rapidly increasing savings and external borrowing, and by a vigorous pursuit of technology. As noted above, the state grew stronger when it received massive military and economic aid from the United States.

But the origin of an authoritarian developmental state in Korea can be traced to Japanese colonialism. The Japanese rule of Korea ended in 1945. Because of repression, there was no dominant political group that could lead the country after the Japanese departed. Two rival groups gradually appeared: the Chosun All-Korea Council of Labour Unions and the Korean Independence Expediting Federation of Labour Unions. They were not unions, but they engaged in political discourses. In effect, there was no labour union to protect workers' rights at this time (Porges, 1991), and the workers were not organised.

Later, the military regime under Rhee took a number of measures to consolidate its power. The National Security Law (renamed the Anti-Communist Law in 1961) was passed in 1948, followed by a number of amendments designed to protect the country from Communism. It punished all acts of treason, espionage, or sabotage. Many of its articles were vague and abstract (Lee, 1993). For instance, anyone with knowledge of another person's criminal act but who had failed to inform any intelligence agency could be fined or imprisoned for five years.

Legal scholars such as Lee (1993) commented that the 1948 constitution followed the basic concepts of rights and political ideas enumerated in the constitutions of western democratic countries. It sought democracy, equality of opportunity, and guarantees of the liberty and equality of each individual. Unfortunately, a number of constitutional amendments were made to this constitution which eroded the political rights of the people. An amendment was made in 1952 under declaration of martial law with the express aim of extending the tenure of the incumbent president. This and other amendments had the effect of extending the

term of office for the incumbent president as well as providing *ex post facto* justifications for military coups d'état (Lee, 1993). As law became an instrument of political power, the rights of the Korean people were seriously undermined.

President Park had a vision of a developmental project (Porter, 1997). His regime was powerful, and it was supported by 'military elites, upper bourgeoisie, state managers, technocrats of the state and private sectors, and the omnipresence of US strategic and economic interests' (Choi, 1996: 35). To spur economic development, several institutions were created. The powerful Economic Planning Board was responsible for the strategy of economic development. It had broad budgetary authority and administrative control over the banking system. The complete integration of planning and budgeting served to avoid possible conflicts of interest among different ministries. The state brought in economic technocrats through highly competitive examinations (O. Y. Kwon, 1997). A research institute – the Korean Development Institute – examined and recommended social initiatives for the state (Kwon, 1998). There were a number of social initiatives coming from the Board in the 1960s.

President Park realized that the labour market must be tightly controlled if economic development were to be achieved. After the military coup in 1961, he suspended the labour rules and dissolved the unions in an attempt to consolidate the state's power and ensure labour's acquiescence in the development of the country (Porges, 1991). Park soon re-established a centralised union organisation under the Federation of Korean Trade Unions (FKTU), which continued to be under the state's control. For some time, national industrial unions under the Federation functioned to moderate union demands and implement state policies (Park, 1990). As part of its manpower planning policy, the state promoted the rights of management at the expense of workers. It also imposed wage guidelines, and often sided with the management in labour disputes (O. Y. Kwon, 1997).

### **The 'Korean welfare state'**

With hindsight, it is clear that the military regime used some appeasement measures to control the workers and to win popular support. A case in point is the military regime's embodiment of welfare state ideals. Compared with the other three Asian tigers, what made Korea unique was its open declaration of adopting a welfare state. Recently, as South Korea has slowly recovered from the Asian economic crisis, President Kim Dae-jung, a champion of democracy and human rights, prioritised his

government goals by focusing on three core areas: the economy, the relationship with North Korea, and 'productive welfare' (*Korea Herald*, 2 May 1999). Kim further contended that the Korean state should aim at productive welfare because the middle class was badly shaken by the economic crisis and the lower class was suffering: 'We should establish a welfare system to prevent the collapse of the middle class and the poor.' Although no one was surprised by the top two items on the political agenda, the high regard Kim gave to the welfare system would be a surprise to anyone. Back in 1987, President Chun had proclaimed a welfare state in Korea, but the substance of this claim had not been seriously defined or pursued.

Compared to the other three tigers, Korea is a latecomer in welfare provisions. Historically, there has been no lack of charitable action on the part of the emperor to aid the poor and destitute. This took place in the two dynasties: Koryo (981–1392) and Yi (1392–1910). Japan occupied Korea between 1910 and 1945 and turned it into a colony. Unlike Taiwan, which inherited some desirable Japanese legacies, Korea remained underdeveloped under Japanese rule. Social equality was not promoted (Park, 1990). Instead, the colonial overlord emphasised military and police forms of control, and found it expedient to ally itself with the landowning classes as a means of disciplining peasants and extracting rice for the export market (Cumings, 1987). The colonial government passed the Poor Law in 1944, but it was never put into effect. The American Occupation Administration (1945–48) was more concerned with law and order, and did not pay much attention to social welfare. Public relief and limited social services were carried out by the Ministry of Social Welfare (Park, 1990).

The construction of the 'Korean Welfare State' was preceded by the series of social reforms which took place after World War II. At that time, Korea was underdeveloped. It was not endowed with resources, since most industries were in North Korea. The population increased rapidly, and there was much chaos. Political instability could be attributed to frequent peasant protests and rebellions, guerrilla movements, and a large floating group of poor peasants (Cumings, 1987). Korea was characterised by extreme income inequality in the 1950s. A *New York Times* correspondent looking into the cause of local uprisings observed in 1950 (quoted in Cumings, 1998) that there was 'great divergence of wealth' in the country, with both middle and poor peasants living 'a marginal existence'. He interviewed 10 peasant families. None owned all their own land, and most were tenants. The landlord took 30 per cent of the tenants' produce, but additional exactions, government taxes, and various

'contributions' ranged from 48 to 70 per cent of the annual crop. He concluded that the primary cause of the Korean insurgency was the social inequity of land relations, and the huge gap between a tiny elite of the rich and the vast majority of the poor.

The policy tool used to counter such inequities was the land reform introduced after World War II. In the past, there had been various attempts at land reform. The Japanese colonial government introduced land reform from 1910 to 1918, followed by the construction of roads and ports. Before any welfare provision was introduced, the first Korean government under Rhee pursued a land reform policy between 1948 and 1950, which resulted in some equalisation of income (Koo, 1987). Ironically, when the North Korean troops temporarily seized part of South Korea in 1950, revolutionary but short-lived land reform was undertaken. But it is generally believed that this initiative came from the United States, which considered it to be a potent weapon against communism.

In summary, land reform in Korea was the result of two factors. First, compulsory acquisition of land owned by Japanese landlords after independence in 1945 was implemented. Second, at the insistence of the United States, a three-hectare ceiling was imposed on holdings in the wake of the Korean War to offset the egalitarian rhetoric coming from Communist-held North Korea. Koo (1987) argues that land reform in Korea was less successful than Taiwan's, but some 70 per cent of eligible land was redistributed. In fact, the landowning class was closely tied with the Rhee state. A number of scholars (Haggard, 1990; O. Y. Kwon, 1997) have commented that the land reform contributed to the relatively equitable distribution of income. In hindsight, such policy would be sensible because continuing social disparities could only destabilise the already fragile political situation in South Korea.

## **Education, health, and housing**

A review of social welfare development in Korea shows that social services are made 'productivistic', in support of economic development.

The Korean developmental state has invested much in education. A few landmarks may be noted. Primary school education has been compulsory since 1953, and middle school education has been compulsory since 1992. Historically, education was given highest priority under Confucianism (O. Y. Kwon, 1997). Education has played an important role in the course of Korean development. The state under Rhee used education primarily to promote political loyalty and obedience (Jeong & Armer, 1994; Morris, 1996). This was done by the rapid expansion of education



at the primary level. A close link between education and economic development was made under Park regime. The education ministry designed educational development plans in close cooperation with the Economic Planning Board. Since the country was on the road to building an export-led industrialization at this time, it was felt that the state should stress secondary and technical education to facilitate such a move. As Jeong and Armer (1994: 537) point out, 'the state's expansionary policy toward secondary enrolments was designed to effectively incorporate the population into the shifting economic system to maximize growth'.

After three decades of development, there are some notable achievements. According to the United Nations Development Programme (1998), Korea has achieved near-universal levels of primary enrolment in the 1960s. Secondary school enrolment grew from 27 per cent in 1960 to 90 per cent in 1992, while higher education enrolment went up from 4 to 42 per cent in the same period. The World Bank notes that Korea's enrolment rate in high schools was markedly higher than those of other Asian tigers. It further comments that the real growth of educational spending per child was at historically high levels for Korea – over 350 per cent over the 20-year period to 1989.

The expansion in education is fuelled by increased spending in education (Table 5.1). Government spending in education accounted for 18.1 per cent of the budget in 1995 (Asian Development Bank, 1997). This was just one third of the total national spending on education, with the private sector shouldering the rest of the expenditures (O. Y. Kwon,

*Table 5.1* State expenditure on social welfare in Korea, 1979–1995 (billion won)

Year	Education	Health	Social security and welfare	Housing and community amenities
1979	863.0 (14.4)	56.8 (0.9)	283.0 (4.7)	105.5 (1.7)
1983	2188.6 (17.9)	180.4 (1.47)	568.9 (4.7)	589.2 (4.8)
1987	3113.7 (17.1)	400.8 (2.0)	1132.9 (6.2)	1072.3 (5.9)
1991	5608.8 (13.9)	716.2 (1.7)	3438.2 (8.5)	3918.9 (9.7)
1995	12638.2 (18.1)	637.3 (0.9)	6493.5 (9.3)	5433.9 (7.8)

Figures in brackets represent percentage of total public spending.

Source: Asian Development Bank (1997).

1997). Compared to educational spending in previous years, such spending has gradually levelled off. After a rapid rise in the 1960s, the expansion in spending had tapered off by the early 1990s, but then climbed back to a high level (Table 5.1). Thus, Korea fared well when comparing with other tigers. In 1996, public spending on education as a proportion of GDP in Korea was 3.7 per cent, which compares well with Hong Kong (2.9 per cent) and Singapore (3.0 per cent).

As in Hong Kong and Singapore, there have been concerns with the quality of education. The overemphasis on rote learning in Korean educational system has been criticized. Further, the remarkable achievement in education has been achieved through relatively high pupil-teacher ratios (Lewin, 1997). Above all, the developmental state has been relying on the private sector to meet all the educational needs. This prompts some critics to contend that the state should spend more on education.

The state introduced a universal medical insurance programme in 1989. Its main responsibility is to assist those who are covered by the programme. Usually, they are either poor people or working poor. The state spent some 2 per cent of GDP in the period 1990-97 (World Bank, 1999). This is higher than Singapore (1.5 per cent) but lower than Hong Kong (2.3 per cent). When compared with other industrialized countries such as Canada (6.3 per cent) and Japan (5.7 per cent), the figure is much lower.

Likewise, the developmental state has been involved in housing provisions, though the actual construction is left for the private sector. In the first five-year national plan (1962-67), only 12 per cent of dwellings were built by the state. By 1977 this had increased to 45 per cent. In the 1993-97 plan, some 2.85 million dwellings were scheduled, half of which would be public housing. Housing for the lower class is funded from the state budget, while home-ownership is encouraged for middle and higher income groups (Doling, 1999). This increase in housing supply on the part of the developmental state points to the significance of housing in the overall national development plan. Housing is considered as productive, and is tied to development. Thus, Park (1990), in his correlational study of the relationship between economic growth and housing and community development spending (1950-85), finds a statistically significant relationship between the two.

Korean scholars such as Yoon (1994) challenge the notion that housing intervention benefits the broad mass of the population. Instead, he argues that it has served the interests of large house-builders and the better-off middle class. The Korean state's involvement in housing has not been driven to reduce labour costs (as the case of Singapore and Hong Kong). It is directed toward stimulating production. Likewise, Doling

(1999) argues that housing in the four tigers is subservient to the needs of the economy. Further, different income groups will have housing provided of different sizes and different tenures. Thus the goal of public housing is not equality of outcome. Rather, it is 'a fit, healthy, disciplined work-force and orderly development, particularly in a rapidly growing urban agglomerations where land supply was limited, contributing to national economies' (Doling, 1999: 249). Because of this emphasis, relevant social welfare goal in housing provisions is not established. Despite rising number of elderly people, for instance, there is a lack of development of a housing policy for the elderly, in part due to high housing prices and housing shortage (Choi, 1996).

### **Social welfare provisions**

In addition to these services, there are a few important social security provisions in the Korean state:

#### **Poor Law, Civil Servants Pension Act, Industrial Accident Insurance**

Because of the Korean War and its ensuing confusion and disorder, social security provisions did not begin until the early 1960s under the regime of military leader turned president Park Chung-hee. All physical infrastructure and production facilities had been destroyed by the Korean War. The first social legislation introduced was the Public Livelihood Protection Law, upon which the Public Assistance Programme was based. The law was enacted in 1961, and gave meaning to the constitutional provisional right to a decent level of living. This right could be dated back to 1948, and there was a gap between law and reality until the Public Livelihood Protection Law was passed. At first, relief was to be in kind, not cash. At present, benefits include income support, educational support for children, medical support, and job training.

As for the other Asian tigers, the Public Assistance Programme is a means-tested one that provides benefits to poor and low-income people. Kwon (1999) reported that some 13.7 per cent of the total population received public assistance in 1965. There has been a declining trend since then. In 1995, some 4.2 per cent of the total population were relying on it. The poor were grouped into (a) those unable to work, e.g. because of old age (those living in public residential institutions and those living in their own homes) and (b) those able to work but deemed to be in absolute poverty (defined as those who earned less than 45,000 won in 1990). This programme had a number of pitfalls: unrealistic income level for eligibility, bureaucratic inefficiency, and massive false

claims. It carries stigma, and, as reported by Fisher (1987), some four million people who qualified for public assistance refused to apply on account of the stigmatization attached. More important, poverty level is only 46 per cent of the minimum living cost for those living in a large city, which is unrealistic. Using this measure, only 9.6 per cent of the total number of elderly people aged 60 and over were considered poor in 1994. Scholars (e.g. Choi, 1996) have argued that applying the actual minimum living cost would raise the number to 30 per cent. In addition, the responsible authority's initiative through informal visits was crucial to the identification of the needy (Park, 1990; Kwon, 1999). In sum, the law did not create a social right, and the whole programme was rather rudimentary.

In 1962, the Civil Servants Pension Act was enacted. The basic retirement pension requirement is that the employee must have served at least 20 years. Both the employer (i.e. the government) and employees contributed to this programme. In 1973, a law was passed making professors and teachers in private institutions entitled to pension or lump-sum benefits to cover contingencies such as old age, disability, and death. This law provided medical benefits and cash payments for short-term contingencies. The great populace was left out of these two schemes. They had to wait until 1989, when the National Pension Programme was introduced before they could have pension rights.

In 1963, the first Industrial Accident Insurance Programme was enacted. It was a compulsory programme. At its inception, it applied to those workplaces with more than 500 employees. Employers had to pay for the insurance premiums. The benefits provided to injured workers were broadly divided into cash benefits and medical benefits. The programme would provide full medical and hospital care. Survivors would be entitled to a lump sum. In 1996, this programme was expanded to cover more employees: those companies with only five workers were being covered. Kwon (1998) estimated that some 40 per cent of economically active workers were in this programme. Under the director-general of the Office of Labour Affairs, firms or enterprises with 16 workers or more were obliged to participate and contribute.

The introduction of the Industrial Accident Insurance Programme coincided with the early industrial development of the country. President Park rightly perceived industrial development as the key to the future of Korea. He did not oppose social welfare because of the linkage between social support and industrial growth. In drafting the relevant legislation, he specifically asked his advisers to draw up plans so that social welfare would aid the development of the economy.

In this period, the development of welfare provisions had been slow, as evidenced by its low spending: 1–2 per cent of GNP (Son, 1998). If one looks at the history of state welfare in Korea, however, one realises that the state established a number of important social programmes for the country. Most of these programmes, however, had limited beneficiaries and hence were selective in orientation. Often, the programmes stipulated voluntary participation. Enactment of the law would come first. Refinements and expansion of the existing social programmes would come years after their inception. In particular, two significant programmes, health insurance and the national pension scheme, were much delayed in their implementation. As a result, it would be erroneous for researchers to conclude that the first year of operation of a social programme is evidence of a government's firm commitment to that programme.

The two programmes integral to Korean social security are medical insurance and the national pension. Both are contributory and work-based. Social insurance is the main policy tool for income maintenance for the aged, disabled, and survivors, and health care for the sick (Ramesh, 1995).

### **The Medical Insurance Programme**

Essentially, many programmes at their inception were linked to work, and thus could be conceived of as a form of occupational benefit. They were designed to enhance work incentives. Two examples were the Industrial Accident Insurance Programme (Kwon, 1998) and the Medical Insurance Programme. Interestingly, the idea of medical insurance was first considered in the context of the national emergency in 1961. Korean academics (Lee, 1998; Kwon, 1998; Son, 1998) attributed the final passing of the first Medical Insurance Law in 1963 to President Park and his advisers. Son (1998: 19) summarised the social policy decision-making process:

Debates on the initiation of a medical insurance programme were limited to a small number of high-ranking officials who consisted of the Social Security Investigation Committee within the Ministry of Health and Social Affairs. The legislation bill for the Medical Insurance Law was drawn up by the bureaucratic elites in the Ministry of Health and Social Welfare. As for the legal frame, the bureaucratic elites borrowed from the Japanese Medical Insurance law.

This law was applicable to firms of 300 or more employees, and the employers had to shoulder the contributions. It was a voluntary plan, and coverage was limited to cash benefits for sickness, childbirth, and funeral

expenses. Initially, some 11 government-sponsored pilot insurance programmes were formed (Son, 1998). Success was very limited; by 1965, only two industrial enterprises provided this insurance with some 3,000 employees in each, and the administrative costs were disproportionately high. Along with the introduction of this programme, the medical assistance programme was revised to cater to the poor who were protected under the Livelihood Protection Act. Those who were poor did not pay for medical treatment; those who were able to work had to pay 50 per cent of hospital expenses, but enjoyed free outpatient services.

The state turned the programme into a compulsory one in 1970. Despite rising medical needs, the state was not able to expand this programme because most financial resources were devoted to national defense. The country had to rely on foreign debt, which played a key role in the financing of Korea's development (Haggard & Cheng, 1987). Korea faced periodic debt-servicing problems in the 1980s.

This programme drifted along and could only expand after the United States, Korea's strong ally against Communism, gave financial assistance to the state. In 1977, the state breathed new life into the programme when it confirmed the compulsory nature of the programmes and extended it to large firms with 500 employees. Assistance was given to both employers and self-employed to start some form of medical plan. The needy (old, children, orphans, and poor pregnant women) were not neglected, because they were now covered under the new Medical Assistance Programme.

A number of revisions of the programme were undertaken later. In 1977, a separate Medical Insurance Law was passed to cover government employees and private school employees, along with their dependants. It was extended to military personnel, professional military personnel, and employees in private education foundations. Their dependants were also protected. More changes came in 1983, when employees and their dependants in business with 16 or more workers were covered. In 1989, the programme became a universal one when it was extended to all citizens. Given the rising costs of health care in all developed countries, it is unreasonable to expect the state to bear all health care expenses. Hence, the attainment of universality status does not mean that health treatments are unlimited. Patients have to pay 20 per cent of the hospital treatment fee and 50 per cent of the outpatient treatment. Use of the health services is limited to six months per year. In 1994, this programme covered some 85 per cent of the Korean population (Choi, 1996).

A few lessons were learned from the implementation of the universal Medical Insurance Programme. First, the programme was initiated by

President Park, and his advisers were involved in the programme design once the go-ahead was given by the president. Bureaucratic elites adopted the Japanese model and modified it to fit the situation in Korea (Son, 1998). Two undesirable effects were noted: compartmentalisation of financial and administrative units and inequality in contributions and benefits.

Second, employers' resistance to this plan was minimal, probably because the initiative came from the country's leader, and the voluntary nature of the programme would not jeopardise firms' interests. Similarly, workers were not involved in the planning and implementation of the programme. The Korean Medical Association came on the scene in the mid-1960s, making proposals to improve the programme. One could say that the strong Korean state made this programme feasible. Finally, some planning was done, involving two state bodies: the National Health Secretariat and the Korean Development Institute. The latter was under the control of the Economic Planning Board, which was set up in 1965 to provide expert advice to the state's policy-makers.

### **The National Pension Programme**

Core social programmes such as old-age pensions emerged much later than the above programmes. One obvious reason is that Korea is still a relatively young society. In the mid-1990s, only 5 per cent of the population were elderly. Nevertheless, debates on the feasibility of having a National Welfare Pension Programme began in 1960. The relevant law was enacted in 1973, but its implementation was postponed to 1989. Academics estimated that only 2 per cent of people over 65 received a public pension in 1990 (Palley & Usui, 1995). Prior to the introduction of this programme, the state passed an Old Age Welfare Act in 1981, followed by a Charter of Respect for the Aged. However, the state has provided little support for the development of community-based infrastructure (Palley & Usui, 1995). It has not abandoned its call for strengthening the family so that support for its members may be sustained. As Goodman and Peng (1996) observe, the state's agenda is that the family should carry on its social welfare role for their members.

The National Pension Programme is mainly financed from contributions paid by those insured and their employers. In 1994, employers and employees each contribute 6 per cent of the wage to the programme. Pensions will be drawn from the fund when they retire. A single fund was set up for this purpose. This programme covers all employees, except government civil servants and private school teachers. In 1989, firms with more than 10 workers had to join the scheme. Later it was extended to

firms with more than five employees. Farmers, fishermen, and the self-employed in rural areas were allowed to join in 1995. The government was responsible for the administrative costs. In 1990, some 16 per cent of the working population were covered. Participants of the plan came mostly from middle- and high-income groups.

At present, the programme is financially sound. Because the programme is at its early stage of development (a high ratio of contributors to pensioners), there is a current surplus (incoming contribution exceeds outgoing payment) of more than 1.5 per cent of GDP each year (World Bank, 1999). It is set aside as a reserve, and nearly two-thirds of the reserve is directed by the Ministry of Finance and Economy toward public-sector projects that earn below market rates of return. Currently, the total reserves amount to almost 8 per cent of GDP.

Independent of the National Pension Programme, there are three separate occupational pension schemes for civil servants, teachers, and the military. These schemes have their own sets of benefit rules and contribution rates. These schemes are rapidly approaching fiscal imbalance, and are projected to run deficits some time during the next decade (World Bank, 1999). Likewise, Korean academics such as Kwon (1999) have predicted that the same fate will befall the National Pension Programme. Using a simulation model, Kwon (1999) comes to the conclusion that this programme will be financially bankrupt in the long run; it will be unable to pay all the beneficiaries, but state contributions could be one means to prevent the crisis. There are some other problems. The coverage is still limited, but there are signs that the programme will be extended to the self-employed in urban areas. Self-employed people have resented the fact that they have had to shoulder all the expenses. The redistributive impact of the programme is rather weak.

### **The Employment Insurance Programme**

The 'production first' attitude of the developmental state could be seen in the belated introduction of employment insurance. As Tyabji (1993) notes, the Korean state gave preference to job creation and placement services rather than insurance. One 'late' addition to the social safety net was the Employment Insurance Programme. Established in 1995, it was a mandatory programme that provided unemployment benefits for displaced workers. Companies with more than 30 employees must join it. Like its counterparts in advanced industrialised countries, this programme has a training component (Kwon, 1998, 1999). Initially, the contribution rate was set at 0.6 per cent of wages, and there was equal contribution from employers and employees. Later, the contribution



rate was increased to 1.36 per cent of total wages, with employers contributing 1.05 per cent and employees contributing 0.31 per cent. Given its short history, this programme could be considered as rather rudimentary. The pool of financial reserves that was building up was rather small. This concern seemed to be remote, because historically the Korean economy has had a very low unemployment rate.

This programme came into the spotlight when Korea plunged into economic woe in 1998. The economy was in tatters. Unemployment quickly exceeded 8 per cent; predictions on the trend of unemployment were grim. Although it was at best a rudimentary programme and its contribution history was only a short one, it could easily be depleted in the context of growing unemployment. International organisations as well as the Korean state considered the scheme indispensable in stabilizing the social condition. In fact, the International Monetary Fund bail-outs specifically allowed the state to expand this scheme so that those who were laid off would be assisted. In January 1998, the plan was extended to companies with 10 or more regular employees. Two months later, it was further extended to cover workplaces with five or more workers. In October, temporary and part-time workers were able to join the scheme for the first time. More important, firms with fewer than five regular workers were covered. The eligibility requirement of three months' employment was reduced to one month. The plan became more generous: the duration of cash benefit payments was increased from 60 to 210 days. The level of benefit amounted to 70 per cent of the minimum daily wage (Lee, 1999). Although the plan has evolved quickly, it is estimated that only 40 per cent of the labour force is covered. But a large number of workers classified as daily workers are excluded (ILO, 1998).

This represents a significant deviation from the conventional structural adjustment approach dictated to the developing countries, who would normally be required to cut back on all social spending as a condition for IMF loans. Other international organisations have lent a helping hand. The ILO has been involved, undertaking a feasibility study relating to the implementation or expansion of unemployment benefit schemes in Korea, focusing on designing systems that provide benefits to as wide a percentage of the labour force as possible.

## **Explaining Korean welfare development**

The industrialism thesis is espoused by a number of analysts and scholars who believe that it could explain social development in the developing

countries. A good example comes from the World Bank (1999), which looks at the origin of social welfare in Korea:

On the other hand, different sorts of social problems arose as industrialisation and urbanisation increased, fertility rates declined, and the informal support network shrank. To address these emerging socioeconomic issues, two major social insurance programmes – the national health insurance and national pension programmes – were implemented.

Park (1990) disputes this interpretation, and concludes that the industrialism thesis is at best a necessary condition for welfare development. It is not sufficient. His study tries to correlate economic growth with welfare spending. The Korean economy recorded a moderate rate of growth in the early 1960s. Since 1963, this rate has become one of the fastest in the world. In 1970 constant prices, real GNP grew at an annual average rate of 6.3 per cent during the first half of the decade and at 11.1 per cent at the latter half. In terms of per capita GNP, the average annual growth rate was only 3.4 per cent between 1961 and 1965. This increased rapidly to 8.9 per cent in the second half of the decade. The per capita increased from US \$82 in 1962 to US \$1,503 in 1980 and US \$2,150 in 1985, reaching US \$2,815 in 1987. On the other hand, social welfare spending amounted only to 0.65 per cent of GNP in 1974. This increased to 1.1 per cent in 1985, which compared very unfavourably with other industrial countries.

Based on our own analysis, the industrialism thesis could not explain why social welfare initiatives (early 1960s) were taken at the same time as the country pursued its industrialisation. One must not forget that at that time Korea was one of the poorest countries in the world, and could not finance such social initiatives. The developmental state under President Park was production-minded, embarking on a course of 'nation building through exports'. Neither is the labour mobilisation theory an acceptable explanation; the labour unions were peripheral to the policy-making process, and were actively suppressed by the military regimes.

Some Korean researchers have other explanations for social welfare development. Kwon (1998, 1999) argues that the authoritarian developmental state under President Park (1961–79) lacked political legitimacy. It needed a short-term strategy of legitimation, and this explained why social initiatives were taken after the 1961 coup d'état. Park's strategy was followed by President Chun, who also lacked popular support, as he

ousted elected politicians from power. The National Pension Programme was formulated during his rule. Other Korean academics such as Park (1990) believed that social initiatives undertaken by President Park were no more than 'political propaganda'. Park advanced two reasons for his view. First, social spending did not increase from the introduction of these programmes. Second, there was no evidence that efforts were taken by the ministries and planning bodies to plan and coordinate welfare programmes. After the democratisation in 1987, social welfare captured public attention, and most candidates from dominant political parties that vied for power promised to extend welfare. After the election, President Roh introduced the National Pension Programme as well as improvements for the National Health Programme. If the need for political legitimisation explains why social welfare is developed, then the process of democratisation certainly helps to consolidate its development.

The authoritarian developmental states in Taiwan, Singapore, and Korea all considered economic development as the key to development. Survival was a major issue in all three countries. Massive resources were devoted first to military build-up and then to economic development. Interestingly, social welfare institutions, which were secondary to economic development, emerged at different times in these countries. Their development reflected different motives on the part of the leaders. In Singapore, the developmental state needed massive capital for economic development, and the central provident fund, bequeathed from the British colonial government, became a convenient and cheap tool to finance infrastructural development. In Korea, the developmental state had to finance its military programmes. Similarly, Taiwan needed economic development to support its military spending. Undoubtedly, both Korea and Taiwan drew considerable military and economic aid from the United States. But both states were devoid of resources for non-economic items in the beginning of their industrialization. This was the context for the underdevelopment of social welfare development. The Kuomintang in Taiwan was able to withhold social welfare development because it was a strong state. Similarly, the authoritarian regimes of Rhee and Park were strong states. Both countries did create some small social programmes at the start of industrialization. In Taiwan, the early social welfare initiatives were all aiming at constituencies of the regime: military servicemen, teachers, and civil servants. On the other hand, Korea was ruled by different dictators between 1961 and 1987. Political legitimacy haunted these leaders; as a result, some initiatives were taken to target selective groups in the society.

The Korean welfare history illustrates that the following external factors could be important: diffusion and the foreign model. With explicit political overtones, the Americans had pushed for land reform in Korea. There is a unanimity among policy analysts that such a policy has fostered an equalitarian society in Korea. Massive American aid also played a role in welfare explanation. The development of National Health Insurance could not have been made without such aid. Ideas from the United States and Japan also have helped the policy-makers to design the welfare system. In this respect, some researchers such as Goodman and Peng (1996) have commented that the Korean state has not just adopted these ideas indiscriminately. Rather, there is an adaptive learning: these western models have been restructured to suit the needs of the state, national purpose, and cultural orientations.

### **Labour welfare and the labour movement**

As noted, the Korean state under President Park used repressive measures to control the labour movement. The primary reason was that the state needed cheap labour in its drive toward export-led industrialisation. Two other objectives were important: the prevention of disruptive labour conflict and the maintenance of managerial control. After breaking the labour opposition in 1961, President Park set up the FKTU to control the labour movement. In fact, the developmental state, until recently, suppressed the labour movement (Chang, 1997): overall, the labour movement was kept under tight control and kept weak. Unionization rate stood at 10.6 per cent in 1981. This could be attributed to strong repression from Park and his successors. Chun Doo-Hwan tightened labour control considerably in his early rule. For instance, the Labour Union Law and the Labour Dispute Adjustment Law, which prohibited interference by a third party, were enacted in 1980 during a period of severe labour oppression, to prevent two church-related organisations from educating and organising workers (Lee, 1993). These laws were repeatedly used to exclude non-labourers from supporting the labour movements. In addition, scholars such as Park (1990) have attributed the weak labour movement to enterprise unionism. Unions were enterprise-based, and this kind of organization fitted the paternalistic idea of enterprise as one big family. The unions often addressed management for labour welfare improvements. Thus they had little incentive to bring their case to the legislature and wider society.

An essential condition for the success of export-led industrialisation was ready access to cheap labour. Until late 1980s, when the labour

movement became stronger and the unionisation rate higher, labour welfare was ignored. This situation was very much like that in other Asian countries. The 'economic miracle' has not been without a price (Johanning et al., 1994). Because the state's priority has been to develop the economy, labour working conditions have been long neglected and could be described as 'very poor' (Lee, 1993). Critics comment that South Korea has the longest average working week (more than 50 hours in the 1980s) of the NICs. It pays its workers among the lowest hourly wages, and it experienced the highest rate of industrial accidents. In 1997, the average working week was 46.7 hours. Industrial accidents reached 66,770 in 1997, compared to 71,548 (6.7 per cent) in 1996.

Industrial safety was neglected by industrialists and the state. One example is the asbestos hazard. Researchers have found that the manufacture of asbestos has shifted to developing countries such as Korea because of increasingly tight legal control in western countries. A study conducted in 1991 found that in Korea, manufacturers and state agencies have not taken the precautions necessary to adequately protect employee health and meet international standards (Johanning et al., 1994). Worker exposure to asbestos dust well above US and German standards is commonplace.

This is not to say that liberal labour legislation is absent in Korea. In fact, labour laws protecting various workers' rights were introduced as early as 1953. There was clear evidence of American influence on the passing of these laws, which were all patterned after American ones. In 1953, the National Assembly enacted four basic labour laws: the Labour Standard Act, the Labour Union Act, the Labour Dispute Adjustment Act, and the Labour Committee Act. Legal scholars have commented that these four acts established a comprehensive legal framework for the protection of workers' rights. However, the state under President Park kept many of these laws on paper, and never attempted to implement them (Porges, 1991).

Labour welfare improved considerably in late 1980s, when the political system began to open up. In 1988, it was the heyday for the labour movement. A minimum wage law was enforced in 1988. The Equal Employment Law provided that women should not be discriminated against in the workplace, and provides a one-year maternity leave. The Labour Standard Law was amended in 1989, which further improved the working conditions of the workers by reducing the working week from 48 to 44 hours by October 1990. Many unions succeeded in winning large wage increases and favorable collective bargaining agreements (Rodgers, 1996). But the developmental state's stance toward low labour

cost remained unchanged. For instance, Kim Young-sam's administration continued to give priority to holding down labour costs, and opposed legalizing dissident trade unions.

In March 1997, a new bill passed through the National Assembly. It allowed for the formation of multiple labour unions but permitted for the first time the introduction of lay-offs. The latter represented a concession on the part of trade unions. The principle of no work, no pay was also introduced. Employment security was the issue that dominated labour welfare in the following years. After the financial crisis and increasing lay-offs due to corporate restructuring, trade unions were more vocal in their demands for employment security. The militant Korea Confederation of Trade Unions (KCTU) organised a massive rally and general strikes. The more moderate Federation of Korean Trade Unions (FKTU) also used strikes to demand wage increases and end massive layoffs. Negotiations between the management and the unions on the issue of lay-offs were marked by occasional violence (Park, 1999).

### **The construction of the welfare state**

Using the standards we have established, Korea is not a welfare state. It does have a full array of social welfare services. Education, health, and housing have developed extensively along with the social security. The idea of social solidarity is fostered; but social entitlement as of right is not deeply rooted. There is a strong emphasis on the productive nature of social welfare. This is seen in the areas of education and housing. There is also an emphasis on traditional support. Confucian ideas are prevalent and many young people support their parents. In the area of ageing, the state is less interventionist, allowing families to carry out their traditional role. The traditional value of filial piety that stresses family responsibility in taking care of the elderly is promoted by the developmental state. The general principle underlying public policies for elderly people is 'care for the family first, social security second' (Choi, 1996). Scholars have identified the promotion of family values as one of the barriers which hamper social welfare development (Park, 1990). Financially, the state is handicapped by high military spending. And social insurance is the dominant mode of social support. Further, lacking legitimacy, the military regimes have used social welfare as appeasement measures to win popular support.

Despite these factors, there have been some recent efforts at social reconstruction. After 1992, Kim Young-sam's state declared its aim of balancing human security and growth. This idea of balanced development

was cherished. In 1995, the National Welfare Planning Board was formed by the state. The Vision of the Twenty-First Century National Welfare Reform to enhance the quality of life was proclaimed. There were three objectives: the attainment of a balance between economic growth and social welfare; the integration of traditional Korean customs with the positive elements found in western welfare states; and the establishment of preventive and productive welfare. Some strategies were specifically examined: setting a national minimum standard of living in the public assistance programme; building a nationwide social insurance network; and providing universal and preventive social welfare services.

Lee (1999) further argues that the Kim Young-sam's administration wanted to construct a new comprehensive model of social welfare for Korea in the face of growing globalization. This would enhance national competitiveness in the changing international environment. With the Asian financial crisis, the developmental state under Kim Dae-jung has been overstretched in dealing with this crisis. It remains to be seen whether the ideas proposed in Kim's administration will be revived in the new government. For the moment, this is not likely; reorganisation of the economy and society in the wake of the crisis is a daunting task.

## **A recapitulation**

By all accounts, the war-torn and financially strained Korea is a late starter in welfare provisions. Unlike the other three tigers, which have rejected the welfare state outright, the developmental-military state under Kim Young-san made a commitment to a welfare state. Perhaps, given its lack of social vision, one could say that the military state only gave lip-service to this idea. With hindsight, however, it is not just a hollow promise. Relevant legislation was passed by different administrations, and some rudimentary forms of welfare provision were established in the early 1960s. Inevitably, some of these efforts benefited a small group of constituencies. And for a long time much of this social legislation was only drafted and 'remained dormant' (Lee, 1999: 27). However, one must admit that this social infrastructure later paved the way for the expansion of the social security net.

Like its counterparts, the Korean developmental state has encouraged its citizens to uphold the ideals of Confucianism: familism, respect for authority, support for one family's members, and filial piety. These states have presumed that the tradition of Confucianism is strong. Some academics have contended that Confucian family welfare is very much active in the four tigers (Jones, 1990a; 1990b). On the other hand, Esping-Andersen

(1996: 23) has queried whether it is really 'an effective functional equivalent to welfare statism'. In this regard, Korean researchers (Park, 1990; Helgesen, 1998) have attested to the lingering influence of Confucianism. They argue that the traditional culture seems to persist and remain stable in spite of rapid social change. For example, most Koreans are ashamed to send their aged parents to old-age homes, and the ties between parents and children remain very strong even in the face of rising number of nuclear families.

In his survey of national-consciousness, Helgesen (1999) regards 'deep-rooted familism' based on Shamanism and Confucianism as the guiding principle of Korean political culture. This familism encouraged filial piety and 'we-collectivism', and was preserved through moral education aimed to 'promote nationalism, anti-Communism, and general ethical norms for the daily lives of the people' (p. 155). President Park in the 1960s advocated a 'Koreanized democracy', aiming to incorporate Confucian ideas such as respect for the authority and filial piety. These traditional values are at odds with western ideas of democracy and other universal values.

The debate is clearly not settled. As pointed out by Tyabji (1993), the traditional social support system is gradually being eroded by social change which calls for improvements to the formal social security system. Another implication from this debate is that the social right to welfare is still foreign to these tigers, including Korea. The Korean state has left social welfare services to the families while maintaining a restrictive public welfare system. Not surprisingly, some Korean scholars have labelled the welfare system as residual and selective, arguing that it has not yet established the full array of welfare provisions common in other advanced democracies. Notably absent is the family allowance. Likewise, housing services are underdeveloped. According to Yoon (1994), the owner-occupation rate was only 50.6 per cent in 1990. There was a modest but growing national housing fund that built some 219,000 units in 1997 (against a total of 596,000 units). In the 1990s, the state's initiatives have centred on universal medical insurance, national pension, and an expanded employment insurance system. They all give social support to a large number of people.

Viewed objectively, Korea is moving quite rapidly towards a more caring society. Care in part comes from the traditional social support networks. However, many of the social programmes only benefit those who are working; these schemes could be considered as one form of corporate welfare. Work status is an essential condition to their access. Because of this, state expenditure on welfare provisions is by no means large. In



this respect, Korea is not a welfare state in the western notion of the word. Given the increasing power of labour and democratic politics, expansion of welfare provisions is not unlikely. The foundation laid down by the authoritarian developmental state will probably be backed by rising social expectations, the aspiring middle class, and, above all, the militant labour movement. Further expansion of social welfare is likely to be state-led. Business support is important when corporate welfare is involved. Often, business is a social force to reckon with. From the experiences of other Asian countries, it is reasonable to say that business generally opposes rapid welfare development. Korean scholars such as Kim (1997) have argued that the large *chaebols* have exerted more and more influence upon the developmental state since the 1980s. The latter is transformed from a comprehensive to a limited developmental state.<sup>2</sup> The influence of the *chaebols* seems to have waned in the wake of the 1997 financial crisis. If they have been considerably weakened by the financial crisis in 1998, it remains to be seen how influential they will be in future social policy-making.

# 6

## Toward a Capital Investment State? The Social Welfare Development of Hong Kong

This chapter examines social welfare development under the British colonial state in Hong Kong (1842–1997). One cannot but note some contradictions in Hong Kong's social policy. The colonial state maintained a laissez-faire economy, stressing the importance of the markets in achieving economic efficiency and growth. However, this classical development ideology did not prevent the state from providing extensive housing, education, and medical services. It maintained universal health care, and 'operates the second-largest public housing program of the capitalist world' (Castells et al., 1990). Yet it was strongly committed to a residual welfare model, in the conviction that increased welfare would harm economic performance. Though an extensive array of social welfare services were present, Hong Kong was not a welfare state. In recent time, some plans for the partial privatization of social welfare services have been made, driving Hong Kong further away from the goal of the welfare state. The post-colonial state fully endorses this policy shift. It has moved closer to the developmental state model by actively intervening in economic and social affairs, and has moved to reduce its involvement in housing, health care, and social welfare. Of special note is the continual attacks on the social assistance programme (corresponding to what Pierson (1994) calls 'programmatic retrenchment'), which reveals the state's adoption of a neoliberal social agenda. The threat to social welfare seems likely to come from the post-colonial state, which is attempting to move toward a capital investment state.

### **The colonial state and the underdevelopment of social welfare**

Hong Kong was acquired as a part of the settlement imposed on China in 1842, after Britain's victory in the First Opium War (Miners, 1995).

This explains in large part the frequent demands by later Chinese governments for the return of Hong Kong. They claimed that the treaties ceding Hong Kong Island and Kowloon and leasing the New Territories were invalid because they had been exacted under duress. The British rule lasted for 156 years (except for a brief spell of Japanese occupation during World War II), coming to an end in June 1997. China regained Hong Kong and set up a Special Administrative Region (SAR). It has adopted a 'One Country, Two Systems' policy to solve the Hong Kong question, promising a hands-off approach to the governance of the SAR. Under Article 5 of the Basic Law, the new mini-constitution for Hong Kong, the socialist system would not be practised in Hong Kong and the capitalist way of life would remain unchanged for 50 years.

For much of its history before World War II, the activities of the colonial state were like those in other British colonies. In general, the British government believed that a very limited administration would meet the needs of the people. Public expenditure was confined to the bare essentials. The colonial state had been a staunch supporter of the policy of economic and social non-interventionism from the outset (Scott, 1989). Economically, Hong Kong was decreed a free port, and the government served the interests of the British merchants. The entrepot function lasted until early 1950s. Thereafter, an export-led industrialization was initiated. From the late 1960s, Hong Kong began to industrialize rapidly. In the 1980s, manufacturing industry declined when employers closed down the plants and moved them over the border to reap the benefits of Chinese cheap labour. Since then, financial services, regional trade services, and tourism have formed the backbone of the economy. Scott (1989) called the colonial government a 'minimal state', with functions limited to a level compatible with the maintenance of society. The state was primarily responsible for law and order both internally and in the protection of trade with China. It was involved in health and sanitation, public works, and rudimentary social services. It controlled land use, revenue, and taxation. But even these functions were initially negligible.

Politically, the British imposed on the colony a constitutional framework which remained unchanged till the middle of the 1980s. The result was a strong colonial state. It entailed the four 'nots'. In Hong Kong there was not: (1) responsible government; (2) self-government; (3) a representative legislature; or (4) democracy (Wesley-Smith & Chen, 1988). This constitutional framework had three broad principles. First, the British government had complete executive and legislative authority over Hong Kong. The governor, who had ultimate government power within the territory, was appointed by the Queen and had to implement

the policies of the British government. Second, the governor made all local policies and was accountable for them to the Secretary of State for Foreign and Commonwealth Affairs. Third, the governor had an Executive Council which advised him. There was a Legislative Council of which, until 1986, when a form of election was introduced on the basis of functional constituencies, the governor appointed all members. Democratization intensified in the 1990s, with more and more people eligible to vote for members of the legislature. But such limited democratization in no way undermined the power of the colonial state.

The nature of the colonial state was the key to the underdevelopment of social welfare policy in prewar Hong Kong. Hodge (1973) observed that it was British policy to make each colony as self-sufficient as possible, so any development had to be funded from its own resources. It was inconceivable that prewar Hong Kong could have found sufficient resources to embark upon social reforms. Hodge (1973) identified an internal logic in the order of development of social services in the British colonies. The order of provision seemed to be: (1) education to produce a cadre of local assistants for the colonial government, traders and the missions; (2) basic health services to help relieve sickness among colonial administrators; (3) labour legislation, to regulate contracts between master and servant, to deal with the labour needs of government, etc.; (4) social welfare and the responsibility for penal administration. Generally, the case of Hong Kong exhibited this pattern.

The term 'social welfare' was used in a narrow sense in Hong Kong to refer to social security and limited personal social services (Hodge, 1980; 1981). Only after 1970 did the colonial state undertake much social welfare work to help the poor and distressed. There were three official justifications for this. First, social welfare was not common even in other countries at that time. Second, the Chinese family felt a duty to look after members who were in trouble; there was little sense of responsibility incumbent on anyone outside the family, including the government. Finally, the population in Hong Kong was changing. People in distress could go back to their native villages and families in China for help. The development of social welfare in Hong Kong is aptly summed up by Jones (1980): 'The history of social welfare in Hong Kong is one of voluntary charity first smiled upon by government, then aided and supported, and lately, as government itself takes an increasingly active role in the field of social welfare, questioned – but supported.' It was only after World War I that an increased interest in social welfare was seen. Voluntary welfare increased after 1945, when more missionary organizations came to the colony to give aid to refugees from

China. In 1948 the colonial state set up its Social Welfare Office as part of another department – the Secretariat of Chinese Affairs. Compared to the massive extent of voluntary work, the Social Welfare Office was a belated attempt to deal with social needs and problems. It was elevated to a full department in 1958.

At the end of World War II, the war-damaged colony faced many pressing problems as well as the need for social reconstruction: drastic increase of population, poverty, homelessness, and political instability. Yet the colonial policy continued to be 'minimal' as far as social matters were concerned. There were several reasons for this. First, anti-colonial feeling was in the air and British eagerness to shed its colonial responsibilities in other parts of the world encouraged Chinese aspirations (Endacott, 1978). The British were seriously looking into the possibility of returning all or part of Hong Kong to China. A confidential analysis of the position of the British government was drawn up by the Foreign Office in 1946 which envisaged the possibility of the return of the New Territories to China and its aftermath. A second factor leading to the minimal policy had to do with the fact that the colonial state continued to perceive the enlarged population as mobile and transient, and saw no point in providing services for them. The reason for official inertia in social policy was not financial; from 1946 to 1967 there had been a large budget surplus, which could have funded social welfare services.

Some modest improvements in social policy came in the early 1950s. The improvements, though limited, represented a departure from the traditional residual social policy upheld by the colonial state. The most innovative project was public housing for the needy. This corresponded to the time when Hong Kong moved from an entrepot to a manufacturing base. The provision of other social welfare services was rudimentary at this time. In education, the goal was primary education for all children by 1961, but by 1961 there was still a shortage; the colonial state did not expand secondary education, and many were still deprived of it. Medical services improved even more slowly; the facilities at public hospitals were inadequate. Expenditure on educational and medical services began to rise in the mid-1960s. Despite this, the public had to rely heavily on private medical care and private schools. The least developed service was social welfare. The colonial state did almost nothing other than relief work. In its first White Paper on Social Welfare in 1965, the colonial state defended this position by placing the responsibility on the family and the voluntary sector.

The geopolitical environment in the region triggered a change in British policy. The Communist rise to power in China and regional conflicts in

Asia brought a change in the attitude of Britain toward Hong Kong. The first priority of the Communists after their defeat of the Nationalist Government in China in 1949 was to take back Taiwan, not Hong Kong. But soon Maoist China became involved in the Korean War in 1950. During that war, the British sent troop reinforcements to Hong Kong to meet and repulse any possible invasion by the People's Liberation Army; and same time, the British government declared that it would maintain its position in Hong Kong (Miners, 1995). At the same time, the United States position changed: it was opposed to any further Communist aggression in Asia (Darwin, 1988). This was demonstrated by the deployment of the American navy to protect Taiwan. In the meantime, there had been a change in Britain's attitude toward maintaining Hong Kong. Its willingness to keep the colony was more remarkable in view of the decolonization of other Asian colonies and the financial exhaustion of the British empire. Darwin (1988) suggested that Britain was very vulnerable at the end of World War II. There was the possibility that it would run out of hard currency and be unable to import vital supplies of food, fuel and raw materials. Even in the midst of such a crisis, however, Britain was determined to retain control over Hong Kong.

There were two geopolitical reasons for this (Tang, 1998a). First, the end of the war brought with it the rivalry of two superpowers – Russia and the United States – in many parts of the world. Europe was seen to be the major arena. However extensive the power and influence of the superpowers, it was not yet universal (Darwin, 1988). In the later 1940s, there was a vast region where the British enjoyed a fair field and, at worst, limited competition. What had once been christened the 'Southern British World' stretched from the Middle East and South and East Africa across the Indian Ocean to Malaya and Australasia. This was a world region relatively remote from the centres of the great rival powers. The British could still hope to enjoy most of the benefits of the empire: secure fields for settlement and investment, and complementary trading partners offering privileged access to foodstuffs, raw materials and minerals. Secondly, Britain had charted a new role in world politics. It would become a 'worthwhile ally' to the United States in a strategic partnership against the spread of Communism. In this context, Hong Kong would become a 'fortress colony' against Communism, in accordance with the defence policy of the British government.

The British colonial state was tested in the mid-1960s when a series of riots rocked the colony and almost brought about a 'state failure'. These riots were orchestrated by the leftists, and came at the time when the

Cultural Revolution hit Communist China. This was the context in which the colonial state gradually embarked on the promotion of various social welfare services. Since the 1960s, health and education have been improved by gradualism. The development of public housing was contrary to the nature of the colonial state, but its rapid expansion was seen as necessary for the colony. Finally, labour services and social welfare developed rapidly in the 1970s. The timing of their introduction closely corresponded to the 1960s rioting in the colony. The 1966–67 riot was the most severe, and almost brought down the colonial state. It was orchestrated by pro-China trade unions in the context of worsening social conditions (Doling, 1997; 1999).

When the rioting subsided, the colonial state under Governor MacLehose quickly introduced a legislative programme to improve working conditions and reduce exploitation by employers. In social welfare, social assistance and special needs allowance were introduced in early 1970s, and have since become the backbone of social welfare programme in the colony. In housing, a 10-year plan with the eventual aim of housing 1.8 million people by 1982 was drawn up. It proposed to eliminate all squatter areas in the colony and to solve the problem of overcoming and sharing in both private and public housing. In education, the state promised to provide all children three years of secondary education by 1979. Additional technical education would also be available. Governor MacLehose's plan for social reform gave centre stage to housing, education, social welfare, and health care (Hodge, 1980). These four areas would be the pillars to support the future wellbeing of the community. All these efforts required substantial increases in spending. But such developments in social welfare were not backed up by any rational planning. Rather, it was a pragmatic response on the part of colonial state to the changing harsh realities. When the urgency of the political situation subsided, the colonial state's social initiatives weakened. Social policy-making in Hong Kong became incremental after 1977. The state did not cut back its social services, but it did not formulate any comprehensive and rational planning to meet the new social needs either. Instead, it encouraged small-scale, problem-specific strategies, avoiding system-level planning or reform (Tang, 1997; 1998a).

## **State welfare provisions**

During this century, the state has assumed a major responsibility for promoting social welfare, especially in the decades following World War II. A welfare state was introduced to Britain in the 1940s. The

British approach was characterized by three tenets: the rational bases of empirical social science, social planning, and the active involvement of the state (Hewitt, 1992). The crux of the approach included rational analysis of needs and problems, followed by rational policy-making by the state. After World War II, the British colonial state made no attempt to introduce the same institution in Hong Kong. None of the British style of social policy was applied to Hong Kong. The colonial state only pledged to maintain a caring community by introducing social welfare services. The idea of care within the community was particularly emphasized in the 1970s, after the colonial state's legitimacy was challenged by the 1960s rioting. In the aftermath of expanding social welfare, the state emphatically ruled out the establishment of a welfare state in Hong Kong. In its final White Paper on Social Welfare 1991 (Hong Kong Government, 1991: 13–14), the state opined: 'it is not desirable to move towards providing a western-style welfare state'. It continued: 'Social services should be improved without creating the sort of dependency culture which has emerged in some developed industrialized societies, a phenomenon that removes the incentive to work and undermines the productive engine of the economy.' Governor Patten, in his final policy speech, reiterated that social welfare was not designed to reduce social inequalities, but rather existed as a safety net for only the most vulnerable and disadvantaged (Hong Kong Government, 1997). The *Hong Kong Annual Report 1998* shrewdly states: 'Hong Kong is not a welfare state but the community cares deeply about its state of welfare. Its residents expect the government to help the disadvantaged maintain an acceptable standard of living' (Hong Kong Government, 1998: 169).

Despite the colonial state's aversion to state welfare, social welfare services have been expanded since the 1970s. The proportion of the state's spending (as a percentage of total government spending) devoted to major social welfare services in the year 1996–97 is as follows: education 18 per cent, health 12 per cent, housing 11 per cent, and social welfare 4 per cent (Hong Kong Government, 1998). In the fiscal year 1997–98, public sector expenditures accounted for only around 18.5 per cent of GDP. Over time, fairly stable expenditures (as a proportion of GDP) on education and housing can be seen (Table 6.1). Social welfare has climbed steadily to a record high in 1995–96, though the proportion is the smallest of all four services. Likewise, health spending has been edging up.

There is an array of social welfare services in Hong Kong. As noted, education and health are the two services which were developed early by the colonial state. Lately, education in Hong Kong has been praised by policy analysts in development economics for its role in economic



*Table 6.1* Social services spending as proportion of GDP in Hong Kong, 1975–1996

Year	Education	Medical/health	Social welfare	Housing
1975–6	2.7	1.2	0.4	1.4
1981–2	2.5	1.3	0.7	2.4
1985–6	2.8	1.4	0.9	2.0
1991–2	2.5	1.3	0.8	1.6
1992–3	2.8	1.5	0.8	1.4
1993–4	2.8	1.5	0.9	1.6
1994–5	2.9	1.7	1.0	1.8
1995–6	2.8	1.9	1.2	1.8

*Source:* Hong Kong Government (1996).

development as well as in improvements in quality of life. Without a doubt, the state is deeply involved, funding all levels of education except pre-primary. Educational policy-making is tightly controlled at the top, though the running of educational services has been left to the voluntary sector. Mass basic education was attained when compulsory primary education was introduced in 1971. In 1978, compulsory education was extended to junior secondary education. In 1989, there was massive expansion of tertiary education, thereby reducing the elitism attached to it. Analysts comment that this was done in response to the confidence crisis affecting the colony after the Tianenmen Square Massacre in Beijing (Chan & Leung, 1997) which triggered an exodus of professionals, rich people, and the middle class to other countries.

The state has stressed education as a tool for economic development. In practice, education development, however, has not been able to synchronize economic growth and changing demands of national development. Often, it is ad hoc and reactive rather than proactive for social development. As Sweeting (1995) observes, there is a time-lag in the state's response to the education demand generated by rapid economic development and demographic changes in the last two decades. There has been a lack of commitment to any ideal of equity. Compared to other industrialized countries, its share of GDP is not high (2.8 per cent in 1995–96). At present, Hong Kong's education system has its share of problems. They include: minimal support for pre-primary education; heavy reliance on the private sector; acting only as a regulator; failure to inculcate a sense of democratic citizenship; and lack of national curriculum (Postiglione & Leung, 1995; Postiglione & Lee, 1995; Morris, 1995; Chan & Leung, 1997).

Housing is an area in which the state has been heavily involved. To most analysts (e.g. Castells et al., 1990; Doling, 1997; 1999), the

achievements of this programme has been substantial because the construction of public housing has to keep pace with the rapid population growth induced by immigrants from China. About half the population live either in public rental housing or in purchased flats built by the state (Hong Kong Government, 1998). In 1997, public rental housing accommodated some 2.5 million (39 per cent of the population). Additionally, some 24,000 subsidized flats under various home ownership schemes were built and sold to the public. The state's Long-Term Housing Strategy of the 1990s is to build some 175,000 public rental housing units and 187,000 public flats for sale between 1993 and the year 2001. Housing in the private sector meets the needs of the rest of the population. Home ownership rate reaches 52 per cent in 1997 (Hong Kong Government, 1998). Prior to the 1997 transition, escalating housing prices fuelled by speculation and land shortage made it difficult for many people to get their own flats. This prompted the chief executive of the post-colonial state to draw up an ambitious plan to increase housing supply (85,000 units per year) so that 70 per cent home ownership could be achieved in the near future. The housing programme is now run by the Housing Authority, on a self-sufficiency basis. The role of the state in housing is restricted to providing cheap land and capital. Because of such an intangible subsidy, the state's support is hidden from the public view.

Before 1955, public housing was an insignificant item in the public budget. Immediately after the war, the colony experienced a big jump in population: from 600,000 in 1945 to 2.3 million in 1951. Many of these were poor, fleeing from the turmoil caused by the Communist take-over in 1949; and this led to very large squatter settlements all over the colony. A huge fire in 1953, making some 50,000 people homeless, triggered the public housing programme. Gradually, the state became immersed in the provision of low-cost housing. The heavy emphasis on housing can be explained by economic factors. The state wanted to reduce the cost of looking after the homeless, to diminish the risk of future of squatters' fires, to recover the land on which the squatters had built and, finally, to provide a labour supply that would be conveniently located near the major industrial areas (Ho, 1986; Scott, 1989).

Evidently, the active role of the colonial state in housing development goes against its social non-interventionism. To Marxists like Castells and his associates (1990), public housing in Hong Kong functions as a form of subsidy to working-class families, thus facilitating the reproduction of labour power. Surprisingly, scholars from non-Marxist traditions also see a link between development and public housing in Hong Kong. One

analysis conducted by Ho (1992) shows that public housing tenants on average paid much less than their counterparts in the private sector (7–8 per cent compared to 19–20 per cent). In fact, public housing tenants benefited from the state's subsidies in several ways. Public rents were raised only infrequently. Concessionary interest rates were used to calculate the repayment on the already under-reported capital spending. Finally, capital costs were under-reported, and this was made possible by selling land at lower than market prices as well as under-reporting engineering and construction costs (Ho, 1992). Ho argues that, as a capitalist economy, the colonial state continuously accumulated capital to reproduce itself and to survive the competition from other capitalist economies. Facilitating industrialization since 1950s, it had to combat high labour costs. There was hardly any private initiative to tackle housing problems and the resettlement of squatters. The state shouldered the housing costs so that the labour costs could be lowered, which was a necessary condition for industrialization. Hence, it had to step in to build housing for the workers in order to help the industrialists.

Another area of social intervention is health. Health indicators show that Hong Kong people enjoy good health. The colonial state is able to do this by relying on a mixed economy of health care, which has been preserved after the 1997 transition. Basically, it maintains a universal health system (clinics and hospitals) for everyone, though primary health care is generally neglected. With a nominal fee, all residents are able to access health services, in-patient or out-patient. Health spending comes out of general taxation. On the other hand, there is a private sector through which health care services are provided for those who can afford. Looking at the state's contribution to health, it is seen that it has hovered around 2 per cent of GDP in recent years, a figure which compares unfavourably with other industrialized countries. Private health care provision, as well as the widespread use of traditional Chinese medicine, makes it easier for the state to maintain a moderate level of public health spending.

For a long time, the private health sector has fared well despite its exorbitant fees. This is in large measure due to the long waiting times in public hospital and clinics, short consultation times in public hospitals, less than desirable service quality, and increasing affluence. Although universal health care is available, many patients shy away from the public hospitals, convinced that private health care was much better in quality. Consequently, private medical practitioners in Hong Kong are probably the best paid in the world (Harvard Health Team, 1999). Since the Hospital Authority took over the administration of public health care in 1990,

the quality of service in public hospitals and clinics has dramatically improved. Facing rising health care fees, more and more people (including the middle class) have turned to the public system. The private sector is finding it more difficult to compete. They have pressured the state to adopt a two-tier health system in which the wealthy are given low priority in public hospitals (Gauld, 1997). On the other hand, rising health care costs and demands for public health care have strained the public system and made the state increase its funding on health. In response, the SAR state has openly supported the introduction of a contributory medical insurance patterned on Singapore's health model (*Hong Kong Standard*, 21 June 1999). This proposal comes at an inopportune time. The Hong Kong economy has deteriorated rapidly since the Asian economic crisis. Critics have charged that the proposal would amount to the privatization of health care in Hong Kong, with the state shedding its primary obligation to the citizens. In the midst of economic recession since 1998, public support for this idea is wanting. The state will have a hard time convincing the public that medical insurance is superior to the present health care system, which is funded from general taxation.

Like health, education, and housing, the colonial state prided itself on its welfare programmes. This is rather surprising, as Table 6.1 indicates that social expenditures on this item is the lowest of all services. In its report to the Fourth United Nations World Conference on Women, it contended: 'Hong Kong has a highly developed system of social welfare services and social security. There is in place a safety net for the needy and the disadvantaged. Further, a range of preventive, development and support services and remedial services are available' (Hong Kong Government, 1995, 5.3.1). A review of Hong Kong's social security programmes would quickly dispel this claim as a myth constructed by the colonial state.

In Hong Kong, social welfare is subsidiary to economic development and dependent on the economy for funding. Social welfare was neglected until the early 1970s. The first White Paper on Social Welfare in 1965 urged people in need to seek assistance from their families, so that traditional virtues of familism and filial piety should not be undermined. In other words, Confucian family ideology became an apology for the state's inaction. Most social security programmes were introduced in 1971–72. Not long after, personal social services were developed under the auspices of financial support from the state, implementation often falling on the voluntary sector. Since then, there have been incremental increases both in spending and in new services. Planning machinery (a five-year plan review) was introduced to allow for some short-term

planning. Since the 1973 publication of the first Five-Year Plan For Social Welfare Development, attempts have been made annually to quantify needs, set standards for service provision, and project manpower needs.

There has been a dearth of new developments in social welfare since the 'big bang' expansion of the 1970s. It is clear that the colonial state wanted to maintain the status quo. Overall, social welfare is tilted in favour of social security, which consumes almost two-thirds of the recurrent expenses allotted to social welfare. Social security comprises two programmes: the Social Security Allowance (SSA) and the Comprehensive Social Security Assistance (CSSA). The SSA caters for special groups through the Old Age Allowance and Disability Allowance schemes. It provides flat-rate allowances to meet the special needs of the severely disabled and the elderly persons. These two groups are traditionally considered as groups which deserve special respect and care. In 1996, 520,600 people received SSA (Hong Kong Government, 1998). This programme is unique in Asia, being universal in coverage and funded from the general tax revenue.

The CSSA is the mainstay of the social security programme in Hong Kong. As in other advanced industrialized countries, this means-tested social assistance programme is a safety net for those with no other means of financial support. While countries like Japan and Canada enacted legislation to define the scope and conditions of their social assistance programmes in the 1950s, such legislation is lacking in Hong Kong, though a right to appeal was embodied in the programme. The assistance is not generous, but it carries much stigma. There is an underlying assumption that only the deserving poor should receive assistance. The concept of welfare right to social assistance has never been fostered by the state.

Over time, a great number of social assistance recipients in Hong Kong have been the aged poor, because they do not have any statutory retirement programme to fall back upon when they retire. Consequently, social welfare expenditure on this sector has been increasing over the last few years. The number of recipients increased from 166,720 in 1995 to over 230,000 in early 1999 (Table 6.2). This programme have come under the spotlight recently. When the British colonial state and China were embroiled in an acrimonious dispute over democratic reforms in the mid-1995, the Chinese government attacked the colonial administration for raising the level of public assistance benefits and spending too much on social welfare. High welfare spending would cause the collapse of its economic success. Further, the programme has been not only used by those who are economically vulnerable; it serves as some form of subsidy

*Table 6.2* Number of people on public assistance in Hong Kong, 1985–1999

Year	No. of cases
1985	63,713
1988	64,222
1989	65,684
1990	66,675
1991	72,969
1992	81,975
1993	95,104
1994	109,461
1995	166,720
1996	215,028
1999	230,000

Public assistance is now renamed 'comprehensive social security assistance'.

*Source:* Tang (1999).

for those who are unemployed, or who are retired with insufficient means to care for themselves.<sup>1</sup> On top of this anti-poverty function, this programme is geared to those who are temporarily out of work, single mothers, and newly arrived immigrants from China. After the Asian economic crisis in 1998, massive unemployment in the colony led to further rise in the number of recipients. This prompted a backlash from the SAR state.

Overall, social needs greatly exceed social welfare services. One can find a perennial shortfall in services from the Social Welfare's Five-Year Plan Review. There is no retirement programme. The greatest gap in social welfare provisions is the absence of an old-age programme and unemployment insurance. A number of old-age pension proposals (a central provident fund, old age pension, etc.) have been discussed in the last two decades. All were shot down by the colonial state in response to fierce opposition from business. Similarly, the idea of unemployment insurance has been quickly dismissed by the colonial state. These two needs together have put considerable strains on the social assistance programme, which is the last resort for the aged poor and the unemployed. The pressure from unemployment on the social programme is most evident after the Asian economic crisis, when the unemployment rate reached an alarming 6.3 per cent in April 1999.

Realizing that the issue of ageing could no longer be avoided, the colonial state finally approved the Mandatory Provident Fund (MPF) in 1995.<sup>2</sup> Under this, people would pay premiums for their own pensions into designated saving accounts. This represents a key step in constructing

a social investment state in Hong Kong, promoting investments and savings. The state shied away from those retirement programmes which were more redistributive in nature. With the strong backing of the insurance companies, the new SAR state seems determined to introduce it in the year 2000. Opposition to the MPF is not strong from big business, since most of these firms have some form of private insurance plan in place for their employees. Even if the programme is introduced, the retirement needs of the growing aged population could not be met quickly, since a provident fund would take time to build up. As an occupational pension plan, it would benefit only those who work full-time. It would exclude some '600,000 housewives, 400,000 disabled, 300,000 self-employed and 1.5 million elderly citizens' (Brewer & MacPherson, 1997: 91). This programme is branded as gender-biased by feminists, who have heavily criticized the impending Mandatory Provident Fund since it would disadvantage home-makers and casual workers, who are mostly female (Hong Kong Women's Coalition for Beijing, 1995).

In all the social welfare services, there is a clear emphasis on quantity to the neglect of quality. The quality of health, housing, and education services is far from desirable. In social policy, the colonial state was a pragmatic drifter. It had no clear social vision, and no comprehensive future plan. It did not promote the concept of social right to social programming that was important in western industrialized countries. It did not even bother to put in place a mechanism to monitor social needs and problems. Likewise, a systematic evaluation mechanism for social intervention was lacking. Client participation in the social policy decision-making process was minimal. The state had no clear answer to the question 'Where are we going?' It certainly had no qualms in reducing its commitment to social programming. But should circumstances change and social stability be challenged, then the state would take some new social initiatives to create a politically stable environment on which the economy could grow.

## **Explaining social welfare in Hong Kong**

On the question whether Hong Kong is a welfare state, the unanimous view is a resounding No. Even the post-colonial state concedes that it is not a welfare state (Hong Kong Government, 1998), though it argues that there are extensive social welfare services. In this line of reasoning, Steve Tsang (1989) comments that Hong Kong 'has a well developed welfare system'. However, social policy analysts take a different stand, and tend to view Hong Kong's social policy as residual. Leung (1995: 378)

characterized it as 'colonial remedial welfare policy'. Other writers and analysts would concur with this characterization (Scott, 1989; Mok, 1994; Chan, 1997; Yu, 1997; Wilding & Mok, 1997; Ngan, 1997). Earlier, scholars like Hodge (1973) used this term to label Hong Kong's welfare development. This characterization has drawn subtle queries from some scholars. Thus, Chow (1998:160) asks the question:

With over half of the population in Hong Kong living in public housing estates built by the government, education and medical care provided to all requiring them, and a social assistance system to prevent people from living in poverty, is 'residual' still the most appropriate term to describe the social welfare system in Hong Kong?

On the basis of our review of social welfare services, Tsang has overstated his case. Using the criteria we establish, Hong Kong falls short of being a welfare state. It has established a national minimum through social assistance, though the programme has been punitive to the needy. It has no full employment policies and progressive taxation to further social ends. With rapid growth, full employment was easily attained before 1997, and employment policies were not required. Its universal health and education programmes would be considerably less efficacious has not the private sector been involved. By allowing the private sector to provide such services, the state's involvement is considerably less than what is required. An affluent Hong Kong has made it easier for the people to access private services. Above all, the idea of social entitlement as a right is not embraced by the state. With rapid growth and affluence, the residual welfare policy has given way to an incremental model. This term would probably better capture the phenomenon of growing welfare services in the last two decades (Tang, 1998a).

But social welfare is still less developed in Hong Kong, compared to other advanced industrialized countries. It also lags behind economic development. What factors explain the development of social welfare? A tentative answer comes from one study which specifically addresses this question. Tang (1996a) conducted a quantitative time-series analysis of the determinants of social welfare in Hong Kong. Four comparative theories of social policy development were tested: the industrialism thesis, social democracy, state-centred, and open economy. Because of the difficulties in quantifying variables, Marxist theory and diffusion theory are not included. In this study, the dependent variables were social welfare spending. It was found that the social democratic approach and the open economy thesis had no validity. There was no connection between



industrialization and social welfare development. Industrialization in fact came from the major impetus in housing, education, and health. Overall, there was some support for the state-centred theory. The size of the civil service was found to be important. The bureaucracy was deemed autonomous, and exerted some influence on the growth of social welfare spending. It was found that government spending and taxation policies are good predictors of social welfare development. This lends support to the state-centred theory. Given the lack of a social democratic party in Hong Kong and the weak bargaining position of the trade unions, a social democratic explanation which links social welfare to political power and mobilization of working class would not be appropriate. Likewise, the entrepot nature of the colony means that the city-state has been subjected to international influences since the nineteenth century. External influences on social policy-making would not be an important variable. Rather, it is a constant. Although industrialization is not found to be important in the study, it has played some role in welfare provisions. First, economic growth resulting from the industrialization process would enhance the state's capacity to intervene. Further, with the onset of industrialization, various social needs and problems do emerge (overcrowding, family break-up, poor health, environmental concerns, etc.). The ability of the community to assist their members has been weakened by the industrialization process.

If the state is the key variable affecting social welfare development, it is necessary to examine the link between colonial state and welfare development. Hong Kong became a British colony in the age of imperialism. Imperialism and its corollary, colonialism, are viewed by some social theorists as a kind of distorted capitalism which enabled the imperial powers to benefit from the colonial regions through the export of capital in the face of a lack of domestic investment opportunities. It was the existence of these colonies, purchasing consumer goods, supplying raw materials and providing new markets for capital, that kept western capitalism on the move (Harrison, 1988). It followed that the underdevelopment of social welfare in the colonies could be explained by the very nature of imperialism and colonialism.

The imposition of a colonial state in large part explained the underdevelopment of state welfare in Hong Kong before 1950. It maintained a *laissez-faire* economy, but capitalists were influential, and they were ardent proponents of residualism. The modest development in educational and health services served colonial interests and met social exigencies. As the colonial state went industrialized, the development ethos of trickle-down was upheld. Development policy focused on infrastruc-

tural development in the expectation that benefits would flow to the general population. This policy also served as an apology for social non-interventionism: there was no need for massive social spending, since the fruits of economic development would ultimately raise people's standard of living.<sup>3</sup> In the 1950s, geopolitical factors changed the British's stance toward its rule in Hong Kong. The first departure from traditional social policy occurred in 1954, when the public housing programme was introduced. This were two considerations: land was cleared for industrial development and helping to restore public order and hygiene (Castells et al., 1990). Low-cost rental housing served as a subsidy to the working class, thereby reducing the pressure toward wage hikes. This indirectly met the interests of business.

Housing, social work services, and social security expanded drastically as a result of the state's need to gain legitimacy in the wake of the 1960s rioting, which were indicative of the worsening social conditions and a lack of compassion in society. The legitimacy crisis was in part attributable to the alien nature of colonialism. The legitimacy issue was complicated by the ruthless exploitation caused by rapid capitalistic development in the colony. This reflected the capital accumulation process that was taking place. Workers were the losers in the process. Due to a number of factors (transient immigration, abundant cheap labour, state-business alliance, weak working class movements), industrial workers in Hong Kong were not organized as a powerful force, and they were unable to reap the benefits of economic growth (Hopkins, 1971; Turner et al., 1980). The ensuing poverty and inequalities destabilized the political situation. With these as backdrop, the state began to see some value in the provision of social welfare services. Social welfare facilitated the reproduction of labour and contributed to social stability. Social welfare development in the 1970s was pivotal in ensuring social stability, and was seen as facilitating economic development. Social programmes were made possible by the rapid economic development of the colony.

Like the developmental states in other Asian tigers, the colonial state was autonomous and powerful. Social reforms were implemented easily. Though colonial leaders forged an alliance with British and Chinese businesses, the bureaucracy was relatively autonomous in its decisions. In the economic arena, the state supported business's goals for development. Business was eager to see capitalistic development in the colony. The state facilitated business's investments by creating a low-tax, cheap-labour, and politically stable environment.

The lack of a strong working-class movement and trade unions meant that the colonial view of development remained unchallenged. There

were some protest movements after 1970s. But civil society was weak *vis-à-vis* the state. This situation remained unchanged even after the limited democratic reform induced by the colonial state in Hong Kong. Social welfare was supported by the people: lower and middle classes both gained from it. The civil service had vested interests in maintaining and expanding social welfare. This gave rise to an incremental social policy between 1978 and 1997. However, there was a limit beyond which business was unwilling to go, particularly if its financial interests were hurt. This unwillingness was seen in the rejection of a minimum wage, a retirement programme, and unemployment insurance, all of which would have cut into profits.

Strong family ideology was fostered by the state. It has the effect of reinforcing the state's anti-welfarist stance, resulting in a residual welfare system based on hard work, self-reliance, utilitarian familism, the family caring responsibility, low expectations of the state, and welfare as a kind of grace, and mainly for those least able to help themselves (Chan, 1997). The colonial state's use of Confucianism as a justification for its limited role in state welfare is handy, since Confucian values are prevalent in the Chinese society. Research has shown that people respect the elderly and give them monetary assistance. But there is research indicating a positive view of state welfare. For example, Tam and Yeung (1996) have shown that people's expectations *vis-à-vis* welfare have changed, and that they opt for shared responsibility between government and families for social needs. Earlier, Lee (1991) found a more favourable attitude toward welfare. There is support for the proposition that welfare levels are meagre, and that more welfare would lead to productivity. Evidently, it is hard to argue with credible evidence that Confucian values and state welfare are mutually exclusive. What the colonial state did was to justify its inaction by means of a cultural explanation. Thus the colonial state 'acts as a moral regulator for correcting the behavior of the public, demanding of the family to fulfil its traditional caring responsibility' (Chan, 1997: 69).

### **The post-1997 state**

Hong Kong is now under Chinese rule. Politically, power is getting more centralized and vested in the Chief Executive, Tung Chee-hwa, who was handpicked by the Chinese government. After the transition, China quickly reversed the democratic reforms introduced by Governor Patten. The popularly elected Legislative Council was dissolved in 1997 and replaced by a Provisional Council whose members were appointed

by the Chinese government. A newly constituted Legislative Council was established in May 1998. The new political system makes it difficult for any party to challenge any policy initiatives advanced by the state. The new Legislative Council is enfeebled by changes in the electoral rules and the group voting system. Only some 20 seats are open for direct election, the remaining 40 either directly appointed by a Beijing-appointed body or directly elected by functional constituencies with a much-reduced voter base. The total number of eligible voters in the functional constituencies has fallen from 2.7 million to 180,000. Because of this peculiar arrangement, people with business and pro-China backgrounds are now be elected as legislators. The Democratic Party, a champion of democracy and social welfare expansion, would not be able to obtain a majority in the legislature. Close alliance between state and business is emerging. Tung, a shipping magnate, shares businesses' views on the social and economic development of Hong Kong. He has close ties with big business, while many Chinese business leaders have direct access to the leaders in Beijing. Because of this transformation, the colonial state is supplanted by a quasi-developmental state which is actively orchestrating economic development. The interests of state and business have gradually merged: pursuit of economic development.

The SAR is acting more like a developmental state. Its political power is stronger than its colonial counterpart. Economically, the state has become interventionist. For instance, a huge state intervention in the stock market to bolster confidence in Hong Kong's currency was effected in October 1998 during the Asian economic crisis. Consequently, the state has become the city-state's largest shareholder. The 1998–99 budget was expansionary in nature, with increased state spending to boost the economy. This resulted in a deficit budget. Meanwhile, the state is active in making Hong Kong more competitive against its neighbouring countries. The policy of promoting high-tech industries is receiving the utmost attention, resulting in the planning of the cyberport and the policy of recruiting high-calibre people with high-tech expertise from China. Finally, to boost the lacklustre tourist industry, the state is actively negotiating with Walt Disney on the possibility of constructing a Disney theme park in Hong Kong.

The new SAR state, led by Tung and his close advisers (most of whom have business links), is anti-welfarist in orientation. It continues to argue that rapid economic growth is the key to social development, and that benefits from growth will eventually be shared among all the people. Social welfare should be supportive of economic development. Following the colonial approach, the post-colonial state upholds some

conservative public finance principles: a balanced budget, low taxation, low public spending (not exceeding 20 per cent of GDP), and a cap on public spending growth (which should be lower than the growth rate). Such views are endorsed by China. As noted, China showed displeasure at the colonial state's increased expenditures on welfare by openly criticizing Governor Patten's handling of social welfare. The uncertainty around the post-colonial state prompted business people to persuade China to put into the new constitution for the SAR a conservative public finance clause. Consequently, the Basic Law has prevented rapid expansion of state welfare (Tang, 1991). Articles 107 and 108 call for balanced budget and a low tax policy. These two articles constrain the spending and taxing power of the SAR in order to prevent members of the legislature from turning Hong Kong into a welfare state. These provisions were written into the Basic Law because its drafting was undemocratic and favoured the business and industrial sectors of the society.

Without a popular mandate and eager to establish himself, Chief Executive Tung acted as if he set a high priority on people's livelihood. In his first Policy Address on October 8, 1997, he pledged that his government would always put the people's livelihood first and attach the greatest importance to their interests (Hong Kong Government, 1998). He set out a number of social objectives, including the annual supply of 85,000 housing units to solve the housing problem; the reduction of waiting time for rental public housing; and the objective of 70 per cent home ownership. He set up three task forces to examine three key areas: education, housing, and the elderly. Some critics have worried that these promises would prove hollow. The coming of the Asian economic crisis hit Hong Kong very hard in late 1997s. The stock market fell dramatically; the property market slumped, with house prices falling 50 per cent. The crisis effectively derailed Tung's housing objectives and planning, and they have rarely been mentioned since. At the same time, there has been very little progress in the areas of education and the elderly. Even without the economic crisis, people wondered whether Tung would be able to follow through his social programmes, since the new SAR state is heavily represented by capitalists.<sup>4</sup> There is an inherent conflict between increased rental public housing and the sale of private housing by big business, since they appeal to the same clientele.

As the crisis persists, there is systematic programmatic retrenchment in social welfare in the SAR. To Pierson (1994), programmatic retrenchment denotes direct attacks on social programmes whose impact is immediate. Some forms of privatization of health and housing programs

to restore individual responsibility and self-restraint is endorsed by the post-colonial state. In health care, the state is adopting a user-pay principle, and has brought in a group of Harvard health specialists to study ways to make the health system sustainable in the long term. Prior to the study, it has prejudged the issue by calling the public to accept a contributory medical insurance system in place of the present universal health care. In housing, rental public housing flats were put up for sale to the tenants. The state also devised various incentive schemes, helping people to purchase public housing. In social care, the state pledged to break welfare dependency. It expended efforts in cracking down on welfare fraud and on devising means of discouraging people from applying for public assistance. In August 1999 the state made it known that social welfare spending would be reduced for three years beginning in the year 2001. All in all, the incremental approach to social policy was under attack through Tung's privatization efforts. All these efforts point to the possible transition to a capital investment state in Hong Kong.

With huge reserves, colonial Hong Kong could have done more in state welfare. The city-state missed an opportunity to take a different path in social provisions. In 1997, there was a call for the establishment of a social development fund to meet massive social needs from the largest opposition party in the Legislature (*Hong Kong Standard*, 8 May 1997). The Democratic Party suggested that the government set aside HK \$101 billion (US \$13 billion) from the HK \$380 billion (US \$49 billion) financial reserves to set up eight development funds in 1998. Parts of the fund would go to education, social welfare, labour training, and housing. The Financial Secretary's cool response to this proposal was hardly surprising. This illustrated the colonial state's refusal to get involved in rational social planning. Moreover, in his final budget (March 1997) before the handover, the Financial Secretary, facing very-strong demands from most political parties in the Legislative Council, continued to reject any rise in the levels of public assistance for the poor. He clearly indicated his caution in the approach to public spending.

Such financial and social conservatism has continued unabated in the first two years of the SAR. The new state is pro-growth in orientation and has taken active steps to realize its goal. One key piece of its overall development strategy is to foster a capital investment state. Social welfare plays a role here. Those services which are not productive are reduced and those which foster growth are encouraged. Education is highly valued for its human capital development potential. The burden of health and housing could be shifted from the government to the affluent and the middle class, who have to rely on the private market

for services. Social care is the least productive and any expansion, however slight, should be checked. Such differentiation will probably be the main strategy of the post-colonial state in the years to come.

# 7

## Social Welfare Provisions in East Asia and Quality of Life

This chapter first discusses similarities and differences across social welfare provisions in the four tigers. This is followed by a review of the key outcome measures of social welfare policy. Specific major developmental problems will be examined. To this end, we examine indicators of the quality of life: social welfare spending, human development, gender equity, poverty, and income distribution. Social expenditure is dealt with in order to assess its impact on quality of life. We argue that, given the existing levels of social provisions, the four tigers are beset with lingering problems of poverty and inequality. Though the states have much potential to tackle these issues, they stick to the status quo. Cross-nationally, social development is a major goal in the developmental agenda, and should be actively pursued.

### **Social welfare provisions in East Asia**

East Asian states were devastated and impoverished in the wake of World War II. In varying degrees, they faced an uncertain future as a result of changing geopolitical contexts and regional conflicts. Such condition prompted the authoritarian states in Korea and Taiwan and the one-party state in Singapore to develop their economies. Likewise, the colonial state in Hong Kong supported industrialists in their development of export-led manufacturing by providing favourable investment environments. As White and Goodman (1998) observe, welfare provisions were introduced by conservative elites in the developmental states rather than as a result of popular demand or working-class mobilization. As a result, they reflected the particular developmental ideologies adopted by the elites. In their search for economic growth, Asian states were pervaded by mistrust of social welfare. In the 1960s, social welfare



was considered of secondary importance to economic policy by the developmental states. It was developed to meet needs only to the extent that such measures would not hinder economic development growth (Chan, 1985; Chang, 1985). More often than not, welfare concessions were given to selected groups in return for their loyalty and support. Hong Kong was a partial exception. Relatively more 'stable' than other tigers, it was able to introduce a massive housing resettlement programme in 1954 for the homeless and low-income people to aid capitalist development.

Overall, social welfare policy in these countries was modest, reactive, and cautious (Hodge, 1980; Midgley, 1984a; 1984b; MacPherson, 1982). The Asian tiger states were minimalist on welfare but maximalist on profits.<sup>1</sup> Taiwan exemplified this approach. Industrialization remained the prime target for development, and social welfare policy was seen as generating few economic returns and diverting scarce resources away from industrialization. In addition, the heavy burden of military spending handicapped the development of social welfare (Lin, 1991a). The Taiwanese state resisted those social policies which were established for 'unproductive labour' (Chan, 1985). The Korean model of welfare was very similar. In the early years of development, Korea allocated less than 10 per cent of its budget for welfare services, so that more money could be invested in human resource development (Pae, 1992). Thus a small budget has forced the state to prioritize welfare services – comprehensive national medical care protection, pensions, support for the handicapped, the poor and the old, and housing, in descending order.

Hong Kong and Singapore were even more conservative than Korea and Taiwan. Pursuing a *laissez-faire* policy and export-led development, the colonial state in Hong Kong turned down various requests to introduce different forms of social security before 1970, arguing that traditional Chinese family support would be undermined. Chris Patten, the last colonial governor, pledged that the state would keep sensible control of public spending at below 20 per cent of GDP. Community services for the people would be provided 'without ever jeopardising the strength of our economy', (*Sing Tao Daily*, 29 November 1995). Goh Chok Tong, Prime Minister of Singapore, similarly reaffirmed the defining characteristics of the Singapore-style social policy. Basically, it was to be implemented through wealth creation first and then distribution, with a strong emphasis on economic efficiency and meritocracy. The state's efforts, he said, were motivated by the principle of equality of opportunity, not of outcome. Although it subsidized education, housing, and basic health care, it stopped short of spending too much on social welfare (*Straits Times*, 23 September 1995). The conservative elites in

Table 7.1 Social welfare spending of Asian little tigers, 1995

	Spending as % of GDP on			
	Social security	Education	Health	Public spending
Hong Kong	1.3	2.9	2.3	18.5*
Korea	1.5	3.7	2.0	17.7
Singapore**	0.7	3.0	1.5	15.9
Taiwan	2.8	5.5	3.3	29.0
Industrial Countries (Mean)***	20.1	6.0	8.7	34.9

\* For 1997.

\*\* For 1993.

\*\*\* Mean for industrial countries covers the period 1985–90.

Sources: UNDP (1998); Asian Development Bank (1998); World Bank (1998); *Far Eastern Economic Review* (1999).

Hong Kong and Singapore resorted to development economics to justify their residual social policies. As noted, the traditional approach in development economics tends to play down the importance of social intervention, seeing the latter as draining away scarce resources for economic development.

Despite such ideological commitment to wealth creation, political, social, and economic conditions in the East Asian tigers engendered some forms of intervention in social policy. It would be wrong to assume that these countries allow the free market to operate and distribute resources freely. Thus Midgley (1986; 1995; 1999) observes that these four countries were characterized by extensive government intervention and policies to promote industrialization. They established a variety of social welfare schemes, including statutory education, housing, social security, health, and social work services. Essentially, these states used social policies to promote labour stabilization, foster structural integration, gain legitimacy and win popular support, and meet social needs. Education and health, in particular, have been treasured highly by the Asian tigers in the course of economic development because of their capacity to enhance human capital development, a necessary condition for economic success in any country (Lim et al., 1988; Morris, 1996; Henderson, 1993). Consequently, each tiger has spent considerable amounts on social welfare development. This in part explains why the Asian tigers perform well on some established social indicators.

Some recent statistics on social spending bear this out. Table 7.1 indicates that, except for Singapore, these countries have relatively low outlays on social security. In education, three countries spend over 3 per cent,

Table 7.2 Social spending\* in the Asian little tigers

	As % of GDP			As % of total government spending		
Hong Kong	1979: 4.3	1988: 4.5	1996: 7.6	1979: 28.4	1986: 33.6	1995: 37.7
Korea	1979: 3.8	1988: 3.5	1995: 7.7	1979: 20.0	1986: 24.6	1995: 28.3
Singapore	1979: 3.9	1988: 6.0	1993: 6.6	1979: 12.7	1986: 24.3	1993: 34.5
Taiwan	1979: 1.5	1988: 2.9	1996: 4.4	1979: 10.6	1986: 24.1	1995: 32.0

\* Social spending covers education, social security and welfare, and health.

Sources: Dey. (1992); UNDP (1994-7); Asian Development Bank (1997).

with Korean expenditure coming close to those of industrial nations. Hong Kong and Korea spend more on health than the other two countries. Lastly, compared to the industrial nations, government spending as a percentage of GDP is low. Taking social spending as a whole, Singapore comes out on top in the late 1980s, with Hong Kong, Korea, and Taiwan expending moderate amounts of national income on the social wage (Table 7.2).

A lack of comprehensive social security schemes accounts in large measure for the difference in expenditures between the Asian tigers and the OECD countries. None of the tigers had unemployment insurance before 1995, although the subject was debated in Hong Kong and Korea. Trade unions activists and academics in Hong Kong have pressed for the introduction of unemployment insurance and a minimum wage ever since the 1980s. The colonial state has flatly rejected their proposals. Renewed efforts to reinstate them on the public agenda came in the wake of the Asian economic crisis in 1997. In response, the SAR state quickly dismissed these ideas. On the other hand, Korea set up the first unemployment insurance programme among the tigers in 1995.

As in the industrial countries, ageing is emerging as a problem in Asia. The tigers have responded differently. Singapore devised the Central Provident Fund to meet the needs of retirement in 1955. This programme was set up by the British in the course of decolonization. In contrast, Hong Kong lacks social insurance for the ageing. Since 1992, the colonial state has proposed two social insurance plans and then backed away. In 1995 it endorsed the Mandatory Provident Fund, the final implementation of which rests with the new SAR state. Both Korea and Taiwan have relied on corporate welfare to address old-age needs. In response to increasing pressure towards expanding old-age programmes to all the population, Korea set up a national pension plan covering all people between the ages of 18 and 60 in 1988 (Kwon, 1998). In Taiwan, planning for a similar national pension programme is under way.<sup>2</sup>

Comparatively, Taiwan and Korea have the most comprehensive social security programme, providing insurance-funded retirement, invalidity, survivor's sickness, maternity, and work injury benefits. As a latecomer in social security, Hong Kong introduced social assistance in 1971, soon followed by social allowance for old age and disability. The latter is a demogrant allowance which is unique to the Asian tigers.<sup>3</sup> Employer liability schemes were also introduced in order to provide work injury, sickness and maternity benefits (Midgley, 1986). Likewise, South Korea attached more importance to social welfare in the 1970s. By then, the Korean state had recognized the importance of social development and the need to solve social problems (Chang, 1985). It subsequently introduced an insurance scheme which covered sickness, maternity and work injury benefits. As in Hong Kong and Korea, employer liability programmes were established in Singapore and Taiwan by the ruling parties to meet the needs of injury, sickness and maternity. All in all, the style of social policy has been incremental, piecemeal, and haphazard. Midgley (1986) attributes this incrementalism to a reluctance on the part of political elites to expand social programmes, unless circumstances dictate otherwise.

Taken together, the Asian tigers share some common social policy strategies. First, they are ardent believers in the trickle-down theory of development: economic growth will raise incomes through real growth and benefits will flow throughout the population. Second, the following defining characteristics of government are deemed essential to development: the relatively small share of the state in total spending; relatively small fiscal deficits; and flexibility in the labour market. Third, social security is a weapon to target politically important interest groups, which could result in inequitable horizontal redistribution. Researchers (Chang, 1985; Deyo, 1992) observe that the Korean state deviated from the 'production first' approach temporarily in 1963, and legislated to give pension, medical and other benefits for civil service, military, and private school teachers. Similarly, Hong Kong civil servants, whose loyalty is crucial to the survival of the colony, have long enjoyed job security and generous allowances. To protect their interests after Hong Kong reverted to China in 1997, the colonial state set aside a huge sum (US \$19 billion) as a pension fund for retired civil servants. In Taiwan, the government's contribution to social insurance for military servicemen and related groups amounts to 10 times the sum contributed for farmers and labourers (Ku, 1995; 1997). The ruling People's Action Party in Singapore similarly has turned very deliberately to the civil service as a political ally, improving allowances and giving them an expansive role (Rodan, 1993).

A fourth similarity is that the states have generally been prodded into expanding social policies by crises. The Hong Kong colonial state drastically increased its spending on social services after the riots in 1966–67 (Tang, 1998a). In Taiwan, significant periods of growth in social spending also correspond with political crises (Ku, 1995). In Singapore, the setting up of the Central Provident Fund at a time of political instability was interpreted by some as a mechanism to gain a popular mandate and as a means of controlling the labour movement. In Korea, the protracted strike wave of 1987–88 led to heightened political pressure, culminating in the launching of a national pension system and the extension of coverage (under the medical insurance programme) to the entire national population.

Fifth, statutory social assistance programmes are established in all the tigers. Material relief was the method of choice after the war. It has been supplanted by cash relief. Compared to those in the industrial countries, the programmes are smaller in scope and their levels of benefits meagre. They carry a stigma which has affected the take-up rate. The idea of social entitlement as right has never been promoted by these states. Poverty monitoring has been weak in all the tigers. An official poverty line is conspicuously absent in Hong Kong.

Sixth, cultural influences (Confucianism and Dr Sun's Principles) were used by the developmental states in rejecting the expansion of social welfare, as demonstrated in the case of Hong Kong, Singapore, and Korea. In Taiwan, Dr Sun's Principles were 'emphasized' by the developmental state to show its concerns for people's livelihoods, although these gestures turned out to be more rhetorical than real. White and Goodman (1998) are probably correct to conclude that cultural explanations remain unhelpful in the understanding of East Asian welfare provisions.

Lastly, with the partial exception of Hong Kong, the Asian tigers are developmental states which have been strong in guiding and orchestrating rapid industrialization (Gold, 1986; Appelbaum & Henderson, 1992; Amsden, 1992). They formulate and implement national development strategies, plan for effective deployment of labour, and maintain low labour costs by effectively minimizing the potential for the development of an active labour movement (Deyo, 1987). The last goal is realized by repressive labour laws and the introduction of labour dispute mediation. Hong Kong, Taiwan, and Singapore also tried to regulate labour by means of work-based welfare schemes.

Table 7.3 summarizes social welfare provisions in the Asian tigers. Education and health are well developed in all four tigers, while public

Table 7.3 Social welfare provisions in the four Asian tigers

	Hong Kong	Korea	Singapore	Taiwan
Universal health	Yes	Yes	Yes	Yes
Universal pension	No	Yes	Yes	No
National minimum wage	No	Yes	No	Yes
Family allowance	No	No	No	No
Universal primary schooling	Yes	Yes	Yes	Yes
Personal social service	Extensive	Moderate	Moderate	Moderate
Public housing	Extensive	Developing	Extensive	Small
Unemployment insurance	No	Yes	No	No
Active labour market policy	No	No	No	No
Progressive taxation	No	No	No	No
Social entitlement as right	No	No	No	No
Social welfare as redistributive	No	No	No	No

housing strategy is actively pursued only in Hong Kong and Singapore. Old-age programmes are developed in Singapore and Korea, while Hong Kong and Taiwan have promised to create their own in the near future. On the other hand, social work services are in high demand in all tigers. Asian tigers lack family allowance and commitment to full employment policies, both are important policy weapons to achieve societal solidarity and equality. It would be fair to conclude that Asian tigers have an impressive array of social welfare provisions. Significant social programmes, though, are missing. The absence of active policies to pursue full employment, social solidarity, and equality of outcome distinguish them from fully-fledged welfare states such as Sweden and Norway.

Given their particular style of social welfare provisions and their hesitancy in expanding social welfare, it is necessary to ask whether the Asian tigers actually do well in social development. Related to this, one can ask to what extent their social intervention has been able to affect some key development problems. In the advanced countries, a number of studies have examined the impact of the welfare state on social development (Korpi, 1985; Pfaller et al., 1991). Yet similar efforts to assess the impact of social welfare policy in the developing countries have been uncommon: examining and comparing the impact of social programmes

on social inequalities in the Asian tigers is limited (Clark & Chan, 1995). This can be attributed to two factors. First, whether economic prosperity would lead to better quality of life is a difficult empirical question. Second, assessing quality of life is difficult because of data problems and conceptual issues.

The importance of quality of life to a nation cannot be overemphasized. Economic growth alone does not adequately indicate the actual development of a society (Sarker & Gaur, 1994). For developing countries, the view that economic growth should be complemented to the extent feasible by the pursuit of certain social objectives is receiving more support. These social objectives include: alleviation of absolute and relative poverty; the correction of glaring inequalities of social condition (between genders, classes, regions and ethnic groups); provision for personal safety and security; and the tackling of looming threats such as environmental degradation (White, 1996). Despite progress, the states in East Asia have not paid sufficient attention to the assessment of quality of life. This can be attributed to their single-minded devotion to economic growth. A case in point is environmental degradation, which is a tangible problem to many. Long years of rapid industrialization in the tigers has given rise to pollution problems. Increasing transportation in the four tigers has been a major source of greenhouse gases. The growth rate of carbon emissions by East Asian economies (including China and Japan), an annual average of 8.5 per cent, is higher than that for the world as a whole (Drysdale and Huang, 1995). Also, the average concentrations of pollutants (sulphur dioxide and suspended matter in the air) in major East Asian cities (Hong Kong included) exceeded safe (hence acceptable) levels in 1987–90.

## **Growth and social development**

Given the extent of economic development in the Asian tigers, has there been a marked increase in the quality of life? In Chapter 1 we saw that all four tigers, when compared with other developing countries, are performing well using the following criteria: mean years of schooling, enrolment ratio for all levels, adult literacy rate, and population per doctor. The measure of adult literacy rate is not far behind those of the industrial countries. There is a larger gap when enrolment ratio for all levels, mean years of schooling and population per doctor are considered. Arguably, the Asian tigers have a high quality of life, and they are close to the standards of living of advanced industrial countries. This conclusion is further backed by the United Nations Development Programme Index on Human Development (HDI). It is a single average of three indicators of

Table 7.4 Congruence of HDI and GNP ranking, 1997

	HDI	HDI Rank	Per capita rank	Difference between HDI rank and per capita rank
Singapore	0.888	22	4	-18
Hong Kong	0.880	24	8	-16
Korea	0.852	30	33	+3
Taiwan	-	-	-	-

Source: UNDP (1999).

development designed to capture the key components of human development: life expectancy at birth; adult literacy and years of schooling; and GDP per capita adjusted for diminishing marginal utility of income.

### Human development

In Table 7.4, we note that the three tigers measured by the UNDP have over time acquired good ranking in HDI measures. But comparing their HDI ranking with their GNP per capita ranking (i.e. the income rank) will give an indication of the congruence of income and human development. The UNDP contends that human development and economic growth are mutually reinforcing. Economic growth expands the material base for the fulfilment of human needs. A healthier and better-educated population is capable of being economically more productive. In 1997, Korea (HDI rank 30, per capita rank 33) had very similar ranks for both measures. Hong Kong (HDI rank 24, per capita rank 8) and Singapore (HDI rank 22, per capita rank, 4) are an exception in the industrial world. There is a substantial gap between real GNP per capita rank and HDI rank. Inevitably, this suggests that the income rank is far ahead of the HDI rank, showing that Singapore and Hong Kong have considerable potential for translating their income into improved wellbeing for the people. The *Human Development Report 1996* (UNDP, 1996: 67) comments unfavourably about Hong Kong and Singapore: 'Other countries have an "efficiency shortfall" relative to their income.... Hong Kong and Singapore, even with incomes comparable to that of many industrial countries, fall far short.'

### Gender equity

Using gender measures compiled by the UNDP, one can get a glimpse of gender equity in these countries. There are two measures: the Gender-related Development Index (GDI) and the Gender Empowerment Index



*Table 7.5* Gender Empowerment Measure (GEM) for Asian little tigers and selected countries, 1997

	GEM value	GEM rank	Seats held in Parliament (% women)	Administrators and managers (% women)	Profes- sional and technical workers (% women)	Earned income share (% to women)
Singapore	0.423	47	2.5	34.3	16.1	31
Korea	0.302	73	3.0	4.2	45.0	28
Canada	0.700	6	19.3	42.2	56.1	38
USA	0.671	7	11.2	42.0	52.7	41
High human development	0.549	–	12.6	25.3	47.2	40

Hong Kong and Taiwan are not ranked in this measure.

Source: UNDP (1997).

(GEM). The GDI uses the same variables as the HDI (i.e. life expectancy, adult literacy rate, educational attainment, and share of earned income). It is adjusted in accordance with the disparity in achievement between men and women. According to the UNDP (1997), Hong Kong ranks 28, Singapore 27, and Korea 35. But their HDI ranks are higher than their GDI ranks, resulting in a deficit of –6 for Hong Kong, –4 for Korea and –1 for Singapore. For the GEM, Korea ranks 73, Singapore 47 in 1994 (Table 7.5). This is a cause for concern. First, their rankings are considerably lower than most other industrial countries. Further, one component of the measure is particularly disappointing. The share of seats in parliament by women in Singapore is a mere 2.5 per cent (3 per cent for Korea). Though Hong Kong and Taiwan are not included in the study, there is much room for the Asian tigers to improve the political and economic status of women in their societies.

## Poverty

The second measure of quality of life is the poverty rate, a more telling indicator than other social indicators. Numerous studies have documented the rapid decline in poverty for these four countries. For example, Fields (1984; 1991), using the head-count index and country-specific poverty lines, reports that poverty decreased in all four East Asian tigers. Table 7.6 gives the absolute poverty rates of the Asian tigers over time and shows the extent of poverty alleviation. Given the fact that the proportion of the population in poverty has fallen below 2 per cent in the Asian tigers, there is substantial poverty alleviation.

Table 7.6 Absolute poverty (percentage of households in poverty) in Asian little tigers, 1966–1996

Year	Hong Kong	Korea	Singapore*	Taiwan
1966	18	41	37	55
1970		23		
1971	11			
1973			31.9	20
1976	7	15		
1978			15	
1980	4	10		10
1983			0.3/7.2	
1990	2	5.0		
1996	10	4.4**		0.5

\*From Lim et al. (1988). Two poverty lines are used in this study: an extreme absolute poverty line of \$60 per month per capita and a moderate poverty line.

\*\*This figure is higher than the UNDP's 1994 estimate.

Sources: Bautista (1992); Lim et al. (1988); Tang (1998b).

South Korea stands out, since it has seen a substantial decline in absolute poverty: poverty in Korea has declined steeply from 41 per cent in 1965 to less than 10 per cent in 1980 (Kim & Leipziger, 1997). A recent estimate is 2.1 per cent (UNDP, 1994), with only 20 per cent of people living in rural areas being poor (Johansen, 1993). Most economists attribute this to gains in income (Leipziger et al., 1992).

The trends in poverty for Singapore is based on the Amalgamated Union of Public Employees (AUPE) poverty lines (Lim et al., 1988). The reduction in poverty has been fast, from over 30 per cent in 1973 to about 15 per cent in 1978 and 7.2 per cent in 1983. Recent assessment of poverty in Singapore is extremely optimistic. Lim and her associates (1993) comment that rapid economic growth has almost removed absolute poverty, which is largely confined to the elderly and disabled. Researchers attribute this downward trend in poverty to employment expansion and government policies pertaining to central provident fund, health, education, and public assistance (Lim et al., 1988). In the chapter on Singapore, we noted that poverty is not totally eliminated there. According to statistics provided by the Population Planning Unit, Ministry of Health, some 38,000 households fall below the Minimum Household Expenditure level of S \$510.65 for a four-person household living in a one-room flat in 1990 (Tay, 1995).

This remarkable record has to be seen in the context of the rest of developing world. The United Nations' Report on the World Social Situation

(1993) laments that there has been only a negligible reduction in the incidence of poverty over the world in the 1980s. On a very optimistic note, however, it praises the success of East Asian tigers in raising employment and alleviating poverty. Not surprisingly, the image of widespread poverty in the East Asia tigers is pushed to one side by many economists. International organizations make it clear that poverty is not a major concern in these countries (World Bank, 1990; UNDP, 1990).

In any estimate of the prevalence of poverty, there is always cause for caution. Official poverty rates in many countries are riddled with problems and should be interpreted with great care (Fields, 1994). There are many serious data problems, measurement bias, and a tendency for many governments to explain away the phenomenon. A major problem has arisen with the poverty estimate in Taiwan. According to the Taiwanese government, only 0.5 per cent of the total population can be counted as below the official poverty line. This incredibly low figure is subjected to serious questioning on the part of the Taiwanese academics (Ku, 1995). One reason for this low estimate is that the local authorities have been able to underestimate the severity of the problem to avoid having to spend huge sums on social assistance.

Likewise, scholars in Hong Kong has raised serious doubts about the reliability of official estimates, which are based on the number of recipients of social assistance. This programme has carried a very high stigma. The problem is that the Hong Kong government has been reluctant to raise the levels of social assistance and change the rules of eligibility. Many more people could have obtained this support had there been a change. Mok (1994) found that the living standard of the poor had worsened, as evidenced by the declining ratio of public assistance benefits to the median wage of the manufacturing workers. More important, using a different measure of poverty (i.e. relative poverty) would inflate the poverty rate for households to 13 per cent (14.9 for individuals). Anecdotal accounts also support the presence of poverty. Despite Hong Kong's growing affluence, MacPherson (1992) notes that the urban poor and needy are very visible in this British colony. The colonial state was much embarrassed when the United Nations Human Rights Committee decided to investigate the living conditions of the 3,000 poor who live in six-foot-long metal cages (*Far Eastern Economic Review*, 9 November 1995). It was further embarrassed by Oxfam's report in October 1996, which estimated that 10 per cent of the population were living in 'abject' poverty. In September 1997, a report by the Hong Kong Social Security Society reported that the number of people living below the poverty line had tripled to 856,000 in the past 25 years. The figure

represented 14 per cent of the population, compared with 10 per cent in a 1981 study and 8 per cent in a 1971 study (*Far Eastern Economic Review*, 1998). Case studies even show that some working households have inadequate food. There is credible evidence that the problem of poverty is clearly getting worse in Hong Kong.

In some situations, the urban poor only become 'visible' when they struggle for their housing rights. There have been reports that living and working conditions for the urban poor in Korea worsened over the 1980s (Hart-Landsberg, 1993; Abelmann, 1996). They were neglected by the developmental state. Recent government housing policy added to the housing problems of the poor when it began to launch many 'development projects' for urban renewal. The results were eviction and clashes between the poor and the government. Poor people began to develop their organizations in order to assert their rights and continue their struggle. After the Asian economic crisis, Korea has been hit hard. Industrial restructuring has led to lay-offs and massive unemployment. Pending more research, it stands to reason that poverty is on the upward trend again.

The cases of Korea and Singapore highlight the importance of relative poverty. As in Hong Kong, the problem of relative deprivation is haunting both Singapore and Korea. According to the Korean Development Institute, relative poverty (percentage of household with incomes below one-third of the average level of household income) declined dramatically, from 12.1 per cent in 1965 to 4.8 per cent in 1970. During the 1970s, relative poverty increased, to 12.4 per cent in 1976 and 13.3 per cent in 1980 (Leipziger et al., 1992). For Singapore, Lim and his associates (1988) worked out a relative deprivation line of S\$170 in 1982–83. A decline in relative poverty was noted: overall deprivation declined in 1982–83 to 25 per cent, from the 1972–73 level of 63 per cent. However, with a quarter of households considered as relatively deprived, the scenario does not invite complacency. Suspicions that relative poverty has been rising in the East Asian tigers are valid. It would be fair to say that the real dimensions of absolute and relative poverty in Hong Kong, Singapore, Taiwan, and Korea have not come into the open.

### **Income inequality**

Another significant indicator of collective quality of life is income inequality. Inequalities undermine the whole process of development and slow poverty reduction. This important issue has drawn much attention from researchers. There are different ways to measure inequality distribution: Gini coefficient, Kuznets ratio, and Atkinson index. The most popular measure of income inequality is still the Gini coefficient of

household income (or individuals). Before looking at the Gini coefficient, there is another measure worth studying. It is devised by Ahluwalia (1976) to classify countries in terms of inequality. His classification is based on the percentage of income obtained by the poorest 40 per cent. There will be low inequality where the poorest 40 per cent receive more than 17 per cent of income; moderate inequality where their share is between 17 and 12 per cent; and high inequality where their share is less than 12 per cent. Using this schema, South Korea and Taiwan are listed as having low inequality while Hong Kong and Singapore have moderate inequality. In reality, the gap between Hong Kong's richest and poorest is among the Asia's widest (*Far Eastern Economic Review*, 9 November 1995). Government figures from 1991 show that the bottom 20 per cent of households had a median monthly income of HK \$3,460 (US \$443), while the top 20 per cent earned HK \$27,965 (US \$3,585). The UNDP gives a similar estimate for a different time frame. In 1980-94, the real GDP per capita for the poorest 20 per cent was HK \$5,821 (US \$746) and that for the highest 20 per cent HK \$50,666 (US \$6,496). The income ratio is estimated to be 8.7. For Singapore, the corresponding income ratio is 9.58, which suggests that income inequality in the city-state is the greatest among the four tigers.

Like the poverty problem, analyses of most recent Gini coefficient present some worrying signs for the Asian tigers (Table 7.7). Hong Kong (0.51 in 1996) and Singapore (0.49 in 1989) have levels of inequality significantly higher than the other two countries. By contrast, Taiwan and South Korea have very comparable levels of inequality, and their Gini coefficients are much lower than those of Hong Kong and Singapore. Other indicators confirm this observation: percentage share of income by the top 10 per cent for Hong Kong and Singapore is 37.3 (1991) and 33.5 (1983), while the corresponding figures for Korea and Taiwan are lower. Looking at the income ratio of the highest 20 per cent to the lowest 20 per cent, the pattern is consistent, with Singapore (9.58) high at the top of this measure of inequality (Table 7.8). To put this in perspective, one could note that it is only in 29 of the 68 developing countries that the ratio of the incomes of the richest 20 per cent to those of the poorest 20 per cent exceeds 10 to 1 (UNDP, 1997).

It is important to examine the trend in income inequality in these Asian countries. An important generalization about changes in income distribution over time is proposed by Kuznets (1959). He argues that income inequality worsens in the early stages of economic development but then gradually improves as development proceeds. If this is the case, then economic prosperity would really take care of the problem. In actual

Table 7.7 Gini coefficient for household income in East Asian little tigers, 1966–1996

Year	Korea	Taiwan	Singapore	Hong Kong
1966	0.342	0.358	0.498	0.467
1968	0.305	0.362		
1970	0.332	0.321	0.470	
1971	0.360		0.430	0.409
1972		0.318	0.430	
1973			0.430	
1974		0.319	0.430	0.398
1975			0.440	
1976	0.391	0.307	0.440	0.409
1977			0.440	
1978	0.400	0.306	0.440	
1979			0.424	0.373
1980	0.389	0.303	0.420	
1981			0.443	0.453
1982	0.357	0.308	0.465	
1983			0.440	
1984		0.312	0.460	
1985	0.356	0.317	0.460	
1986				0.458
1988	0.340			
1991				0.480
1994			0.440	
1996				0.510

Sources: Fields (1984; 1991); Lim et al. (1988); Haggard (1990); Sundrum (1990); Tsang (1991; 1998b).

practice, however, this 'U-curve' distribution proposition is rather speculative and tentative (Midgley, 1984a; 1984b; Sundrum, 1990). Yet a number of later studies came to a very similar conclusion, confirming Kuznets's hypothesis (Paukert, 1973; Ahluwalia, 1976; Adelman & Morris, 1984).

Looking at the four East Asian tigers, how valid is this generalization? The picture is a mixed one. First, it can be seen that both South Korea and Taiwan have very comparable Gini coefficients in 1985. South Korea appears to support Kuznets's hypothesis. The Gini index was 0.344 in 1965, with inequality worsening to 0.391 in 1976 before improving to 0.356 in 1985. It reached its lowest level in the mid-1980s. Contrary to the proposition of Kuznets, Taiwan has a consistently declining distribution: the problem of inequality is improving over the years. Within a span of 25 years, the fall in Gini coefficient has been substantial (from 0.558 to 0.317). Income distribution in South Korea and Taiwan has remained relatively stable.

*Table 7.8 Asian tigers' income ratio per capita (\$US), 1980–1994*

Country	Top 20% per capita	Bottom 10% per capita	Income ratio * per capita
Hong Kong	5,821	50,666	8.70
Singapore	4,934	47,311	9.58
Korea	–	–	7.50
Taiwan	–	–	8.30
USA	5,800	51,705	8.91
Japan	8,987	38,738	4.31
Sweden	7,160	33,206	4.61
Canada	5,971	42,110	7.05

\* Income ratio (per capita) is the ratio of top 20% to lowest 20% in terms of per capita income.

\*\* Data for Korea and Taiwan is for the period 1985–9.

\*\*\* The average income ratio (per capita) for advanced industrial countries is 6.98 for the period 1980–85.

Sources: World Bank (1980–95); UNDP (1997).

In contrast, Hong Kong and Singapore show a marked difference, refuting Kuznets's proposition. Their patterns actually indicate a high level of inequality at first, followed by some improvements, and then quick deterioration. Income inequality in Hong Kong improved in the 1970s but worsened in the 1980s and 1990s. Similarly, the level of inequality in Singapore improved in the late 1970s but worsened toward the end of the 1980s. The United Nations' World Social Situation Report (1993) independently arrives at this conclusion, noting the increase in income inequality in Hong Kong and Singapore. In sum, East Asian tigers provide a mixed picture (Bigsten, 1983). Kuznets's prediction is not always correct. This is not surprising, in view of the facts that his hypothesis is often understood as describing a historical process and his study is plagued by the problem of a small sample of countries. In summary, even though the Asian tigers are becoming affluent, the problems of poverty, income inequality, and gender inequity continue to haunt them. It would be necessary to look at the impact of their social welfare policies to gauge their capability to solve these problems.

## The impact of social welfare

Generally, deliberate distributive policies initiated by the government would be instrumental in reducing inequality. Social security programmes have been and could be redistributive. Some academics share this

optimism. It could be expected that social security programmes would increase income share of the workers, resulting in a more equal income distribution. On the empirical front, the effect of fiscal policy on income distribution depends on two factors: the way taxes are levied and the way government spending benefits different income groups. There is evidence to show that taxation and public spending really matter in redistribution. For instance, Musgrave and his associates (1974) found that for the United States, distribution of the tax burden would reduce the Gini index from 0.365 before taxes to only 0.359 after taxes; the distribution of the benefits of public spending would lead to a greater reduction.

On the other hand, it is more difficult to estimate the distribution of transfer system than the distribution of the tax burden (Sundrum, 1990). On balance, the picture is mixed. Drover & Mosovitch (1981) conclude that transfer programmes in Canada have not led to a reduction in the inequality of income. There are two reasons: the rich have benefited from some transfer payments at the expense of the poor, and the minimum wage are frequently below the poverty line. Nevertheless, other studies find a positive impact of social spending on redistribution. One study estimates that the benefits of public spending in Malaysia would lead to a reduction of the Gini index (Meerman, 1979). Selowsky (1979) makes similar estimates for Columbia which show that the distribution of benefits from public spending on education and health care reduced the Gini index from 0.426 to 0.400.

Comparative study has thrown some light on this debate. A study of income transfers in 10 advanced capitalist countries by Mitchell (1991) finds that social security is the main instrument for reducing inequality; taxation could play a role too. Taxation systems generate a significant amount of the overall redistribution in the United States, Canada, Norway, and Australia. Unlike the developed countries, there is a limit to the effects of social security spending on redistribution in the developing nations. Government spending in these countries is considerably less than those in the industrial countries. Sundrum (1990) estimates that subsidies and transfers from government account for only 8 per cent of GDP (24 per cent of GDP for advanced industrial countries). Whether social spending will reduce inequality in one particular country needs to be tested empirically.

The effectiveness of an income transfer system could be judged by the extent to which indices of inequality, such as the Gini coefficient, decrease during the transfer process. Such a change would measure the amount of redistribution achieved by the transfer system (Mitchell,



1991). Studies of this kind in the developing countries are limited. Two studies might have some bearing on this issue. An early study of income distribution in Hong Kong by Hsia and Chau (1978) highlights the effects of taxes and social spending. They find that government spending strongly favours low-income groups. When the Gini coefficient is adjusted to take into account the distribution of government taxes and benefits, it improves by about 0.03 to 0.04. However, the gain is quite moderate. A multivariate study on the relationship between social spending and inequality is undertaken by Clark and Chan (1995), who set out to examine the validity of different theoretical paradigms (modernization school, dependency theory, etc.) to explain the economic development of Taiwan. Specifically, state policy in Taiwan is tested to see if it has a positive impact on economic performance and popular welfare. Welfare is measured by the growth of the national Physical Quality of Life Index (PQLI) and the change in the ratio of the income of the richest to the poorest fifths of the population. Their analysis is based on the regression of lagged time-series relationships among these variables. They find that welfare spending has the largest impact on the nation's PQLI. On income inequality, their study shows an influential combination of market and policy factors (government spending growth and welfare spending growth). These findings 'suggest that the government promoted equality both directly through its (limited) social spending and indirectly through the liberal effects that resulted from its conservative fiscal policies' (Clark & Chan, 1995: 36).

Another time-series study (Tang, 1996b) on the other three tigers show similar results. In this study, three separate single-country studies (Hong Kong, Singapore, and South Korea) are made, each looking at the connection between social spending and income inequality. Social security and health spending are related to the Gini coefficient in each Asian tiger over a specified period of time. There is no strong relationship between income inequality and social security spending in Hong Kong and Singapore. The mainstay of social security programmes in Hong Kong is the public assistance and social allowance. The former has been described as 'closer to the Poor Law than the 21st century in its levels and in its rules' (MacPherson, 1993), while the social allowance yields small benefits for the beneficiaries. On the other hand, Singapore has a long list of social provisions (public assistance, tax allowance, and Central Provident Fund) but there is a significant reduction of expenditure for social security in recent years (Ramesh, 1995). This trend in Hong Kong and Singapore presents no surprise, considering the excessive enthusiasm in these two city-states for rapid economic growth.<sup>4</sup> The

issue of social inequalities is sidelined by the two states, which have tried to convince their people to trust the trickle-down mechanism. On the other hand, South Korea shows a stronger relationship between income distribution and social security; but the parameters have not achieved the required level of significance. There is no doubt that the Korean government has tried to pursue a more equalitarian policy. It is speculated that the introduction of the national pension plan in late 1980s, given its limited coverage, would have some impact on income distribution. However, given the short time span, its impact does not show up in this study.

These findings are suggestive, but urge that careful thought be given to social security provisions. Even in these high-income developing countries, there is no inevitability that social security will lead to income redistribution. The case of Hong Kong and Singapore show the minimal impact of the social security provisions on income distribution. However, Taiwan shows a very different reality. Social security has some impact on income distribution. The Korean case lies in between. Though it has a relatively more comprehensive social security systems than Hong Kong and Singapore, the period under examination does not display any strong relationship between social security provisions and income inequality.

## **Sources of change**

A review of the developmental experiences of old-age plans in the developed and developing countries would shed more light on the effectiveness of social security. Generally, pension plans and the provident fund approach, characterized by limited coverage and limited benefits, are not very redistributive. There is ample evidence drawn from various countries to prove this contention. In Germany, the old-age pension scheme involves very little income redistribution between classes since it is strongly earnings related (Kaim-Caudle, 1973). Similarly, very little redistributive effects can be found from the old-age pension plan in Britain, which is means-tested and offers low benefits (Williamson & Pampel, 1993). The Swedish occupational pension with universal coverage has little impact on redistribution, since the benefits are small. In the developing world, instances abound that point to the limits of social security programmes. For instance, Brazil's enactment of a public pension plan fails to bring about distribution from the rich to the poor or even from the middle class to the working class. Williamson and Pampel (1993) observe that the plan is based so much on prior contributions

and thus prior income that the impact of the programme on inequality is minimal. Similarly, the Indian provident fund has little impact, since workers can only take out what they put in.

A comprehensive study of the impact of social security provisions in the Third World by Midgley (1984a; 1984b) finds that they have little redistributive effect, and that many programmes even reinforce and amplify existing inequalities. In most developing countries which run social security programmes, the benefits are small and coverage is often restricted. As MacPherson (1987) points out, the main feature of social security provision in the developing countries has been the universal restriction of coverage to those engaged in formal wage employment.

In comparison with developing countries, Asian tigers do better in providing employment, improving absolute income, and reducing poverty than their Latin American counterparts (Haggard, 1990). However, the data presented here suggest that problems of relative poverty and income inequality linger. Compared to developed countries, the size of social security spending is too small to have a significant effect on income redistribution.

The potential for further improvements is considerable, and three conditions could facilitate that trend. The first is the potential utilization of accumulated reserves for social policy ends. Each tiger has sizeable billions of international reserves: Hong Kong (US \$89 billion); Singapore (US \$71 billion); Korea (US \$59 billion); and Taiwan (US \$95 billion) (*Far Eastern Economic Review*, 15 July 1999). After the Asian economic crisis, each tiger has been less able to manoeuvre its reserves. While Korea's strength is much reduced, the financial capability of the other three remains strong. Second, the state in each of these tigers has high degree of political autonomy (Castells, 1992; Jenkins, 1991), despite the emerging state-business alliances in many of them (Fu, 1995; Kim, 1997; Tang, 1998b). Clearly, the four tigers are equally autonomous, but their social problems are far less serious than those of neighbouring countries such as Indonesia and Thailand, worst hit by the Asian economic crisis. Third, international influences and diffusion of ideas may play some role; in particular, the new orthodoxy of social development is relevant. In many countries (including the Asian tigers), social progress has not kept pace with economic growth and growth has not brought about an improvement in the standards of living. This imbalance leads to what Midgley (1995; 1997; 1999) calls 'distorted development', a problem that demands serious scrutiny. To correct this, the idea of social development was promoted by the United Nations World Summit on Social Development (1995) in Copenhagen. Proponents of this approach

argue that economic development should be harnessed for social development. Further, social programmes are linked directly with a dynamic process of economic development, and should contribute positively to economic development.

Armed with resources and international endorsement of social development, East Asian states would have considerable latitude to intervene in the economy in comparison with western countries. Set against that possibility, however, is a long-term bias against public social security programmes and an ongoing preoccupation with unrestrained economic growth. There is thus no immediate prospect that the tigers are going drastically to revise their social policy strategy. Given that reality, what happens in the future will probably depend as much on political pressure as on economic development or the availability of surplus reserves.

# 8

## The Future of State Welfare in East Asia

### Future direction

The influential industrialism thesis states that the welfare state is a necessary and inevitable product of both the needs and the new resources generated by the process of industrialization (Pierson, 1991). From the perspective of functionalist sociology in the postwar period, the rise of the welfare state and the curtailment of the 'excesses' of liberal capitalism could be seen as a response to the new 'needs' generated by the development of industrial societies. As industrialization progresses, this perspective predicts the growth of the single-generation nuclear family, relatively low status for the aged, full implementation of social welfare institutions, and a substantial percentage of government spending. Since industrialization takes place in both developed and developing countries, the paths of social welfare development for developed and developing countries are predicted to converge. If this evolutionary perspective is deemed correct, industrial development will engender increasing affluence and massive financial reserves for the four tigers. Industrialization and urbanization in East Asia have indeed triggered massive social needs and social problems. Overall, social welfare development has lagged behind economic development. The general insensitivity of these states to the existence of poverty and income inequality is a good illustration. Their social welfare institutions diverge from those of industrial countries. They are merely adjuncts to the capitalist economy. Additionally, the theory of 'trickle-down' economics associated with the modernization paradigm and Confucian values are used to reinforce the primacy of the family, and to justify these states' lack of strong commitment to social welfare. Given the authoritarian rule in these Asian countries, governments are able to impose their development

ideologies on society: capitalist development, accumulation of capital, and supremacy of market. Voluntary and private sectors are encouraged in each tiger to cater for social needs. To some extent, growing affluence from growth allows the upper middle class and the rich to meet their social needs through the market. Liberalization of the political structure in Korea and Taiwan to some extent triggers social welfare expansion. But the particular approach taken by these states means that the lower classes and poor are easily left out of the national agenda altogether.

Though extensive social welfare services exist, Asian tigers do not come close to western-style welfare states. By definition, the developmental states are not welfare states. The sincerity of East Asian states' commitment to social welfare is subject to suspicion. Rather, social welfare policy has not been important in the nation-building process. At the time of writing, there is no discernible trend toward the creation of a welfare state in the four tigers. In future, however, will these states take a different direction? How far are their social welfare policies firmly grounded?

It is very difficult to speculate on the long-term development of East Asia's social welfare. It might be easier to guess what road the Asian tigers will take in the short term. There are three possibilities: maintaining the status quo; expanding the existing services; or retreating from the present provisions. It is arguable that the taking of a particular direction ultimately depends on political elites in developmental states. Additionally, political, social, and economic exigencies may be critical. The current Asian economic crisis is of special importance. Above all, the Asian tigers are developmental in orientation, and they could adjust their positions and respond to the changing realities with policy adjustments. Despite their apparent commitment to the goal of economic growth, their policy has been characterized by an extraordinary pragmatism in social matters. Social stability is accorded high priority by the leaders. Thus the ultimate objective of social welfare provisions in East Asia has always been the achievement of political legitimacy and social stability, considered as necessary conditions for economic investments and growth. This contrasts with the western welfare states, where social equity and solidarity is achieved through the redistribution of resources. Finally, East Asian states, no matter how autonomous they are, remain as sovereign and independent entities subsumed under a larger international system. The forces of globalization would transcend the nation-state and reduce its importance in world affairs. National social policies would be subject to powerful economic, social and political ideologies, and to the diffusion of ideas from international organizations. In this regard, the dominant ideology of neoliberalism and international organizations such as the

World Bank and the International Monetary Fund would affect their willingness to provide welfare and their methods of doing so.

Before looking at these external factors, we should consider some forces intrinsic to these societies: societal forces, political legitimacy, and social stability. Internally, state-induced social policies could be reversed if opposing forces are weak. Unlike the industrial countries, social welfare developments have not been due to working class mobilization. Trade union movements are relatively much weaker in the 1990s than their counterparts in the industrial world; states in East Asia are less susceptible to challenge from organized labour forces. On the other hand, businesses would oppose welfare expansion if their interests were threatened by increasing taxation. There have been warnings from businesses in Hong Kong, Singapore and Taiwan of an increasing burden should social welfare be expanded (Tang, 1998b; 1999).

This study has argued that social welfare development is attributable to the authoritarian, developmental states in Hong Kong, Korea, Singapore, and Taiwan. All of them were autonomous, and their capacities to effect changes were considerable. Immediately after the war, they were reluctant to put resources in to social welfare. Each of them struggled and stumbled on the way to nation-building. These political regimes lacked legitimacy. In Korea, President Park's rise to power was due to a military coup and his regime lacked political legitimation. Similarly, Chiang's rule in Taiwan was seen as alien and repressive. Initial social initiatives were taken to counter this problem. Since the late 1980s, increased democratization in Korea and Taiwan has led to the expansion of welfare institutions. Thus the processes of democratization are forcing these developmental states to assume new responsibilities to ensure that parts of the fruits of economic growth are equitably shared.

Faced with internal rivalries and external threats from its neighbouring countries (i.e. a state of siege), the PAP in Singapore was in no better position than its counterparts in Korea and Taiwan. After independence in 1965, it quickly saw the expansion of the Central Provident Fund as an effective means to contain militant left-wing factions and as a cheap source of capital for infrastructure development. Over time, the strong control exercised by the PAP has made it possible for the state to modify its welfare provisions to suit its national development goals. This resulted in the gradual transfer of the state's responsibilities for social provisions to the people.

While the goal of nation-building did not apply to colonial Hong Kong, a politically stable environment conducive to growth was deemed important to its survival. In this regard, the public housing programme

was undertaken by the colonial state with a view to assist capitalist development. State and capitalists shared the view that other social welfare provisions should be kept minimal. Social welfare growth in the early 1970s was crisis-induced, and welfare expansion slowed down considerably thereafter. The logic of incrementalism became dominant toward the end of 1970s. The limited democratization in the 1990s introduced by the British colonial state had been incomplete, and was quickly reversed by the Chinese government after 1997. The latter was critical of the British move, fearing that such developments would create a state beyond its control. At present, an executive-led, post-colonial state under the leadership of Tung Chee-hwa is very much developmental in its orientation. It has very close ties with business interests, who want to ensure that their interests are not jeopardized by welfare expansion. The new state, in alliance with China and big business, has vested interests in curbing the democratization process in Hong Kong. In this respect, the containment of democratization by this triple alliance indirectly serves as a brake on welfare expansion.

## **Neoliberalism**

In assessing the future direction for these Asian countries, two other factors are influential: neoliberalism and the Asian economic crisis. All these state have open economies and they are linked to the rest of the world; diffusion and exchange of ideas are inevitable. Thus dominant thinking in social welfare provisions adopted by the industrial countries would affect Asian states. Prior to the Asian economic turmoil, the prevailing ideological climate was overshadowed by the ideology of neoliberalism. Neoliberals argue that the welfare state is inefficient and wasteful, creating dependency and an oversized government: the welfare state is a problem rather than a solution to the people's needs. State enterprises inherently lack the profit motive's impetus to reduce costs and satisfy customers. They contend that the evidence from advanced industrialized countries is persuasive to the effect that the size of the state is of serious consequence to trend rates of economic growth and living standards. An oversized state inexorably produces high taxes, slow growth, and high unemployment. Consequently, neoliberals call for a return to the market and minimal state intervention in all areas of economic and social life (Glennerster & Midgley, 1991; Pierson, 1994).

On the whole, the neoliberal ideology is compatible with the developmental agenda of the Asian tigers, which have consistently believed that scarce resources should not be expended on social welfare. Of course,



the idea of small government does not easily square with the active developmental role of the states. Statism has become a way of life in the four tigers. But the neoliberal stand on welfare could easily be picked up by these states because it is congruent with their interests in keeping a minimal role in the social market. In response to the neoliberal ideology, Hong Kong and Singapore have considered ways to privatize their social provisions in the early 1990s. The colonial state in Hong Kong was probably hampered by the fact that its rule would soon come to a close; privatization of social welfare was slow and gradual. Housing was the prime target, and the colonial state actively tried to induce people living in public housing to purchase flats. For Singapore, the one-party regime was more stable and could implement some privatization measures. As noted in the previous chapters, the Central Provident Fund was modified so that people could have their social needs (education, health, etc.) met through this institution. Since the neoliberal perspective is influential in social policy, it is likely that these ideas will find expression in the social policy agenda of the Asian tigers in the near future.

## **The Asian economic crisis**

East Asia faced its most devastating economic crisis in the second half of 1997 (World Bank, 1998). The global repercussions of this crisis are increasingly apparent. In its first detailed look at the social impact of the Asian financial crisis on global poverty, the World Bank (1999) estimated that the world has 200 million 'newly poor'. Its own data showed poverty rising again in India, continuing to rise in Africa, and sharply rising across eastern Europe and central Asia. Indonesia, hit early in the crisis, was among the worst off, with 30 million more people earning less than US\$1 a day than it had before the financial collapse. Worldwide, the number of people below that income, considered the benchmark for abject poverty, was estimated at 1.5 billion – up 200 million from 1993. This estimate was based on trends since 1.2 billion poor were counted in 1987. The report pointed to the lasting impact of the crisis on some of the world's poorest, diminishing hope of cutting worldwide poverty by half by 2020.

What was unique about the Asian crisis was its suddenness and extent. Almost all the tigers were affected; Asian tigers' economies plunged steeply. Massive layoffs and wage cuts ensued and unemployment rose rapidly; the number of poor people rose considerably. The plight of women is particularly worrying. According to the UN's Economic and Social Commission for Asia and the Pacific, many women are losing

their jobs at a faster rate than men. Economic crisis risks erasing the progress made by women toward equality.

The impact of the economic crisis on social policies provides an opportunity for us to assess how deeply committed the East Asian states are committed to their previous policies. If spectacular economic development in the Asian tigers has not been conducive to social welfare expansion, has the recent economic turmoil modified such an attitude? Will these government increase their social spending to face this crisis? Initial signs show different trajectories, with Hong Kong taking the lead in reducing social welfare and Singapore cutting its labour costs to maintain its competitiveness by enticing foreign investments. On the other hand, Korea pledged its support for the middle class and poor people, and some positive steps were taken to reduce the impact of the crisis on the working class. Taiwan seemed able to maintain its social welfare, although its generous contribution (US \$0.3 billion) to the postwar reconstruction of Kosovo in June 1999 triggered much internal criticisms of the Kuomintang's use of money. Most argue that the money would be better spent on social causes in Taiwan.

This is not the place to examine the cause of the financial crisis. Suffice to say that a host of factors were involved: wasteful investments, badly run banks, the trillion-dollar inflow of foreign capital and its sudden outflow, corruption, high debt, poor governance, lack of accountability, and openness of the economy to international capitalism (Backman, 1999; Krugman, 1996; 1999). Japan and all the tigers (with the partial exception of Taiwan) were hurt by this crisis, which was still reverberating in mid-1999. Hong Kong, Korea, and Singapore were badly affected, with the first two countries experiencing negative economic growth. Sharp drops in regional trade, tourism, and financial activity slowed their economies. Their currencies and stock markets came under tremendous pressure. In 1998, the Korean economy virtually collapsed until it was rescued by IMF bail-outs. Hong Kong at one point talked of securing financial assistance from China to fend off speculative attacks on its stock and foreign exchange markets. At the end, a substantial portion of its financial reserves were used up in the purchase of stocks to boost up the ailing stock market. Likewise, economic growth in Singapore was reduced to a modest 1.5 per cent in 1998 from 7.8 per cent in 1997. Low growth caused the unemployment rate to rise to 4.5 per cent, its highest level since the recession in 1986. It also reduced state revenues by about 1.3 per cent of GDP, resulting in a budget deficit of 0.3 per cent of GDP in 1998 (Asian Development Bank, 1998). Taiwan seemed to emerge from the Asian economic crisis relatively unscathed. It posted a 4.8

per cent rate of economic growth in 1998 (6.8 per cent in 1997). Still, unemployment rose from 2.3 per cent in early 1998 to 2.92 per cent in the middle of 1999. The stock market fell from 9,202 in February 1998 to 6,813 in August (Cabestan, 1999). There were some signs that its industry sector and export growth had been affected by the overall weak market condition (Asian Development Bank, 1998).

In mid-1999, Korea and Singapore were showing some signs of economic recovery. Singapore reported first quarter economic growth of 1.2 per cent, while Korea posted a strong 6.3 per cent in the same quarter. It is premature to judge whether this represents the start of a recovery or a mere technical rebound. The states in these two countries, nevertheless, were very cautious, adding that they were not out of the wood yet. Hong Kong was still mired in economic recession. Its economy was hard hit, showing a drop of 5.7 per cent in 1998, and in the first quarter of 1999, shrank by 3.5 per cent. Unemployment reached 6.3 per cent in May 1999 (*Hong Kong Standard*, 28 May 1999).

## **Korea**

The economic crisis that began in late 1997 with a foreign currency shortage led to a catastrophic downturn, wiping out the economic gains of the past eight years (Park, 1999). Since the crisis, Korea has succumbed to the World Bank and the IMF. The latter made two loans to Korea, totaling \$5 billion, and is committed to making another \$5 billion in loans. Initial IMF bail-outs in Indonesia, Thailand, and the Republic of Korea called for fiscal tightening. The bail-out allowed little room for increased social expenditure. Subsequent events induced a change in policy – the deeper-than-anticipated recession, swiftly mounting job losses, and accumulating indications of widespread social distress and unrest (Lee, 1998). The IMF realized its mistake in imposing excessively tight monetary and fiscal policies, and loosened up (Krugman, 1999). Fiscal targets were revised to allow room for increased social spending. This would provide fiscal stimuli to moderate the unexpected contraction in the real economies of these countries. Nevertheless, Korea would have to rebuild the economy in accordance with the bail-out plans imposed by the IMF.

The crisis hurt the common people the most: one out of five households had someone unemployed; suicide rates rose by 50 per cent; and people were sleeping homeless outside the subway stations (Park, 1999). As an immediate response to the crisis, the Korean state increased the level of social assistance to the lower-income elderly, funded through

earmarked budgetary resources. In 1998, the benefit amount was 40,000 won for persons aged 65–79 and 50,000 won for those over age 80 (US \$1 = 1,130 Korean won). To assist workers who were laid off, the state turned them into priority creditors with respect to benefits accrued over a three-year period. A Wage Claim Guarantee Fund was created in February 1998 to cover these mandated obligations, financed by general revenues and a 0.2 per cent tax on the wage bill.

In Chapter 5 we considered how employment insurance (first introduced in July 1995) was changed in order to provide more support to the unemployed. In effect, such changes have strengthened the programme considerably. As noted, it was a limited one, with employment allowance applicable only to companies with over 30 employees. But problems lingered after the changes. In particular, feminists voiced their dissatisfaction. Only 10 per cent of female workers benefited from the programme before the crisis. They claimed that the programme had not done enough to extend its coverage to women, who have suffered much from the crisis. For instance, women are not classified as ‘unemployed’, and are often classified as those who simply give up seeking employment.

Pension plans were included in the changes. The ostensible purpose of the IMF loans was to provide adequate resources so that the state could design and implement social protection programmes that were fiscally sound while maintaining the real benefit level per beneficiary. Increased spending for this purpose could be viewed as a temporary measure until the newly designed pension system could replace the traditional system. The Korean state agreed to establish a Task Force in October 1998 to begin work on a comprehensive reform proposal; a pension reform package was drafted by the Ministry of Health and Welfare. The proposals attempted to address some of the short-term fiscal problems without any changes to the fundamentals of the system. These included: pension fund governance, integration of public and private retirement income provisions, establishment of financial and pension regulatory regimes, and expansion of capital markets for private and institutional investors. There are signs that through their loans, the World Bank and the IMF hope to influence the course of national pension reform in Korea. In all likelihood, some neoliberal ideas could be imposed on the Korean state.

Social agenda in Korea has been dominated by the unemployment issue. Korean workers tried to resist massive lay-offs. Conflicts between employers and employees on lay-offs were common. South Korea’s jobless rate reached 8.7 per cent in February, 1999 with 1.79 million people

unemployed (*Asiaweek*, 30 April, 1999). The tug of war between workers and the state has continued. In April, the Confederation of Trade Unions refused to accept the threatened firing of Seoul subway workers. There were other labour protests. The demonstrators were joined by others at 20 different state-run corporations who vowed to stay off the job until the government agreed to halt widespread layoffs. At the same time, thousands of workers at a Daewoo shipyard on the southern island of Koje demanded that the *chaebol* scrap a plan to sell the operation to Japanese companies. Lee Kyu-sung, Minister of Finance and Economy, reassured the international community that Korea would continue its restructuring efforts to achieve 'durable recovery and sustainable growth in the future'. But the 'radical workers' who took part in recent riots apparently disagreed with Minister Lee. For instance, the Korean Federation of Teachers' Association, the nation's largest teachers' organization, wanted a 30 per cent pay rise, sheet metal workers were threatening a walkout, and subway workers remain disgruntled (*Asiaweek*, 28 April, 1999).

## Taiwan

Taiwan has been least affected by the economic crisis. Socially, there has not been much reaction from the Taiwanese state. Political issues such as election of the Legislative yuan in 1998, mayoral races for Taipei and Kaohsiung, and the presidential election in 2000, and the conflictual relationships with China have dominated the public agenda.

Prior to the Asian crisis, there were some hopeful signs in Taiwan that increased attention would be paid to social policies. An important development was the announcement of the Guiding Principles of Social Welfare Policy in 1994. There were six core principles: the family as the centre of social welfare policy; teamwork among varied government departments; the establishment of a proper social administration system; needs satisfaction and the mixed economy of welfare; a balance between economic and social development; and harmony between employers and employees. The other principles touched on specific services: a financially independent social insurance system; equal access to medical care; public housing for lower-income families.

Like any other broad policy documents, the ideas, though sound, were often too generic and lacking in an implementation plan. Toward the end of the decade, the Taiwanese state examined the feasibility of introducing unemployment insurance and a national pension plan. There is no actual time-line for the implementation of these two

programmes. There is no sign that more resources will be devoted to low-income social housing. Although there is pressure toward revising the official poverty line and increasing social assistance, there is no immediate prospect of seeing this happen. There is no indication that the ruling party is changing its welfare stance: anti-welfarism and a reliance on families and communities.

Taiwanese scholars such as Ku (1997: 249) argue that state intervention in social welfare would be piecemeal and *ad hoc*. It is likely that politicians will increase certain spending so that certain favored groups will reap the benefits. Hence, social welfare spending will grow, but not as fast as one would like to see. For the time being, the establishment of a 'Western-style Taiwanese welfare state' is out of the question. A more sanguine assessment was put forward by Fu (1995). He rightly pointed out that the Taiwanese state was so preoccupied with the issues of national sovereignty, international isolation, and military threat from China that it had to spend much on the military and had little resources left for the social welfare system. He was of the view that a streamlining of central government bureaucracy could allow more resources be devoted to social welfare. However, this was easier said than done. Within the government bureaucracy, one could not identify a single independent department which could provide the focal point for social welfare policy changes. Despite these cautious predictions, in preparation for the millennium several leading Taiwanese academics urged for a comprehensive review of existing welfare system and the imposition of an institutional welfare system which would address all urgent social needs (Lin, 1998; Chan, 1998; Sun, 1998). In fact, a comprehensive social welfare plan was put forth by Lin (1998). Whether such comprehensive social planning will be accepted by the Taiwanese state remains to be seen.

But existing social programmes in Taiwan have faced some difficulties, notably National Health Insurance (NHI). During the Asian economic crisis, neoliberal proponents have seized this opportunity to attack social welfare expansion. In a recent study, the World Bank, which has advocated a neoliberal agenda of minimum state intervention, criticized the universal health programme in Taiwan (*Hong Kong Standard*, 9 June 1999). The mandatory NHI scheme in Taiwan ran into bankruptcy four years after its establishment in 1994. In this context, the World Bank's chief economist, Nicholas Prescott, opined that the social insurance system had over-insured minor risks. It was running a deficit, with citizens paying 7–8 per cent of the cost for in-patient services, and 8–9 per cent for out-patient services. His conclusion was that the system would not be sustainable in the future as the population aged. He thus discouraged other

countries from adopting the Taiwanese model. Instead, he opted for the private insurance model used by Singapore. It is inconceivable that Taiwan will be able to dismantle its universal NHI, given the fact that there is growing public support (over 70 per cent) for the programme.

## Hong Kong

By July 1999, the new SAR state had entered its second year of rule. It has had a very rocky start. The Asian economic crisis came just three months after Tung Chee-hwa assumed his leadership. The competence of the state was thrown into doubt following a series of crises after 1997: serious blunders in hospitals, the bird flu crisis, chaos at the opening of the new airport, the introduction of a sedition law, and the right-of-abode issue. There was a public perception that the new state lacked a sense of urgency, responded ineffectually to immediate political, social and economic problems.

The responses of the SAR state to the economic crisis shows how the new state differs from the colonial administration in its social policy. In its final years, the colonial state increased the levels of social assistance in the face of rising number of welfare recipients. On the contrary, the SAR state, facing a similar situation, has been relentless in bringing back the residual state. Its anti-welfare position is clear: a residual welfare system should be implanted in Hong Kong. The programme most affected is the Comprehensive Social Security Assistance (CSSA). The tightening up of the CSSA also demonstrates how insensitive the government can be in the face of massive social needs if there is an absence of societal challenges. The paradox is that the SAR state is no longer a colony but part of China, a socialist country which always pledges to do its best for people's livelihood. As Glennerster (1991) points out, the main casualty in the retrenchment of social programmes would be those programmes that targeted the poor, since the poor do not have the political clout to resist the pressures of retrenchment.

The policy of welfare retrenchment took place in the context of rising social needs in Hong Kong. The Coroner's Report in Hong Kong showed a worrying trend in suicide. The number of suicides rose by 26 per cent to 936 in 1998. Economic pressures seemed to be an important reason. The largest increases in suicides were people over 50 and the unemployed aged 20–29. The typical case was an ailing elderly person worried about finances. The Report concluded that a substantial number of the most needy and vulnerable in Hong Kong were not being caught by the welfare net (*South China Morning Post*, 2 June 1999).

The SAR state's anti-welfare stance could be seen in its measures against people receiving social assistance. It was very concerned about the rapid growth in the new cases for social assistance. In early 1999, there were more than 234,000 cases on the CSSA, including 124,870 elderly, 32,345 unemployed, and 25,900 single-parent families. In the beginning, the state cracked down on welfare fraud which was estimated to be less than 1 per cent. Critics soon asked whether the costs would exceed monies recovered. Then, several welfare reductions proposed by the state in January 1999 took effect in the middle of the year. The state proposed some form of community service for people receiving social assistance, and some social security cuts, which would possibly leave some families with insufficient money for a decent living. For example, families with three or four members had their monthly welfare benefits slashed by between 10 and 20 per cent. More recently, the Secretary for Health and Welfare told the public that the state was considering lowering standard rates of CSSA in line with deflation (*South China Morning Post*, 4 June 1999). Most candidly, the Social Welfare Department said: 'In the past, we usually over-estimated by around one per cent and we never asked the recipients to reimburse us. . . . But now we're experiencing deflation, it may make sense to lower the rate accordingly.'<sup>1</sup>

Ignoring public concern about poverty, the SAR state made no efforts to gauge the impact of recent developments on the poor. Hong Kong had witnessed a surge in poverty in the mid 1990s. Prior to the crisis, a spate of reports conducted by academics and non-profit organizations gave alarming estimates of growing poverty in this city-state. The 'newly poor' included single mothers, new immigrants from China, displaced workers, and low-paid employees. Subsequently, critics have called on the government to monitor poverty trends, increase resources in the fight against poverty, and devise an official poverty line (Tang, 1998b; 1999).

A consultant from the ILO visiting Hong Kong in the late 1998 urged Tung's administration to establish stronger social protections by introducing an unemployment insurance scheme to assist those affected by the economic crisis (*Hong Kong Standard*, 2 December 1998). At that time, some 75,000 people were laid off, an aftermath of the economic crisis. The consultant proposed a scheme whereby workers and employers could make equal contributions between 2 per cent and 3 per cent of the worker's monthly salary. The ILO believed that financially, Hong Kong was in a position to launch such an initiative. The SAR state paid scant attention to this proposal. Not long afterwards, a proposal from the trade unions to introduce a minimum wage in Hong Kong was



defeated in the Legislative Council (*South China Morning Post*, 28 May 1999). Labour activists introduced this bill because they believed that the financial crisis had badly hit the lowest-paid workers, who were in a weak bargaining position against their employers. Business groups denounced minimum wage requirements, arguing that the market, not the state, should set wage levels.

The SAR state also had plans to revamp its universal health care system. In fact, it has been trying to discourage the public not to expect everything for free from public hospitals. Given increasing health costs, a contributory health insurance scheme was seen as inevitable in the long run. In 1998, the new state commissioned a team of health experts from Harvard University to examine Hong Kong's health system. The report, which came out in April 1999, warned that the present health care system would not be sustainable because of rising costs. The Singapore model, which was based on health insurance and limited state support for the most needy, was hailed as the best option for Hong Kong to emulate. This recommendation was endorsed by the SAR state. Under the Harvard proposal, a Health Security Plan would cover in-patient services and specialist out-patient services, while a Medisave programme would encompass long-term care for the retired. All employees and employers would have to contribute to the two plans. Both employers and employees would contribute 2 per cent of employees' wages each month. After its release, the Harvard Report became rather controversial when it aroused strong reactions from the public. Many argued that this would signify a major retreat on the part of the government in social services. To most people, the existing health system (supported by general revenue), which is already universal in coverage, has served them rather well. Why opt for another programme which demands their monthly contributions?

Realizing the public's unfavourable responses to the report, the SAR state tried to put some spin behind the proposal. In June 1999, a World Bank economist was invited by the SAR to Hong Kong. He argued against the present system, and threw his support behind the Harvard Report and its main recommendation for a Singapore-style medical system. He noted that Hong Kong spent large amounts on health services as it was one of the richest in Asia. But Hong Kong had the highest subsidy rate in the world for in-patient care. He believed that the medical savings system (i.e. Medisave) in Singapore should be sustainable in the long term. But he suggested some change: the 1 per cent contribution for the proposed Medisave would not be sustainable, since acute care had been overlooked, and it should be raised.

In early July, the government continued to push forward with a mandatory health insurance scheme despite little public support. The Health and Welfare Secretary remarked that health insurance was inevitable (*Hong Kong Standard*, 7 July 1999). It is possible that such a compulsory health insurance will be introduced by the SAR state when time is ripe. However, experiences from the industrial countries have revealed that such a universal programmes would not be easily replaced by a selective one, since the former benefits the whole population and resistance to any retrenchment would be strong.

The same retreat could be seen in the housing market. There were two important developments. First, Tung's vision of supplying 85,000 housing units per year has disappeared into thin air. Second, there were a number of plans to privatize the housing market. Probably under the influence of Thatcherism, the colonial state toyed with this idea in 1989 when it first looked into this matter. Two years later, it introduced the Sale of Flats to Sitting Tenants Scheme whereby a number of existing public rental flats were put up for sale, with as much as 45 per cent discount on the market price (Yu, 1997). Public response was not encouraging, because of the poor quality of the housing. Moreover, the purchase of a flat was an investment, making the present tenants vulnerable to market fluctuations. The whole plan was shelved. After 1997, the SAR state breathed new life into this purchase programme by setting unreasonably low prices for the tenants to purchase their rental units. The responses was good this time, and the state is likely to dispose of more of its rental public housing flats to tenants in the near future.<sup>2</sup>

## **Singapore**

Given its staunch anti-welfare stance, the Singapore state's response to the crisis could be expected: increased reliance on foreign investments by reducing corporate costs. It adopted measures in the second half of 1998 to reduce labour costs and stimulate domestic demand. It bolstered the fiscal stimulus by increasing outlays on infrastructure, providing rebates on property tax, and expanding credit for small businesses. The state persuaded workers and employers to agree on a broad wage reduction to keep down unit labour costs, resulting in 15 per cent wage cuts for its employees.<sup>3</sup>

In essence, the austerity measures centred on reducing labour costs. Most notable was a reduction in employers' contribution to the CPF by 10 per cent for two years. Senior civil servants had their salaries decreased by 1–5 per cent, ministers by 10 per cent, and overall labour

costs were expected to be lowered by 5–8 per cent. Other measures to assist the private sector were suggested: a proposed 10 per cent rebate on corporate taxes for 1998, a 55 per cent property tax rebate, reductions in customs duty, excise duty on some gasoline and diesel products, airline-landing fees, port rents and dues, telecommunications expenses and industrial land costs. All these cost-cutting efforts would yield a 15 per cent reduction in corporate costs (*Straits Times*, 22 June 1999).

A wage restraint policy was firmly in place in the middle of 1999. There would be no mid-year National Wages Council wage adjustment. This extended to civil servants, numbering 64,000 in Singapore, but they would receive a mid-year payment of half a month's salary the following month. This payment was the same as the previous year. Eight out of 10 civil servants would receive the normal annual increments. Obviously, their counterparts in the private sector did not have the same increments. There was a suggestion that private firm should peg any wage hike to productivity, an idea not well received by the employers. On the contrary, the Singapore National Employers' Federation estimated that half the private firms would freeze wages this year, while another 10 per cent intend to cut wages.

Despite its gradual economic recovery in 1999, Prime Minister Goh continued to stress that Singapore needed to be more competitive with a flexi-wage system, adjusting salaries and pension, and job training. Unemployment problem continued to plague Singapore. In 1998, 28,300 workers lost their jobs (*Asiaweek*, 21 May 1999). The National Trades Union Congress predicted that more than 10,000 would be laid off in 1999. Recent data showed the number of that unemployed workers was down by 2,800 in the first quarter of 1999, which represented a drop from the 8,000 retrenchments in the last quarter of 1998.

While Singapore is weathering the economic storm, it is unlikely that it will drastically change the centrepiece of its social programmes: the Central Provident Fund. Some incremental changes which strengthen the viability of the programme might be introduced. As noted, the CPF programme is increasingly seen as under some pressures as a result of the greying population. This in itself calls for programme revisions. But it is not realistic to expect other changes, other than a gradual privatization of social institutions.

## **Influences of supranational organizations**

The rescue of Korea from total collapse illustrates the pervasive force of economic globalization. Globalization has greatly reduced the autonomy

enjoyed by a country in formulating its policies. Supranational organizations such as the IMF and the World Bank have become more prominent and interventionist. Analysts of the work of these international organizations argue that they challenge the power and stability of the states. They may even consign new functions to them. Radical thinkers even charge that their activities could impoverish and hurt the developing countries. As noted, the World Bank has praised the health model in Singapore and criticized the Taiwanese universal health programme. In 1999, when the World Bank was consulted on the appropriate form of health delivery for Hong Kong, its neoliberal stand was clear. A World Bank economist praised the privatized model of health (*Hong Kong Standard*, 9 June 1999). He conducted a study on health system in nine Asian countries, and concluded that Singapore had the best model. It was just spending about 3 per cent of its GDP on health care with the introduction of the medical savings account scheme in 1984. Singaporeans contributed 6–8 per cent of their salaries to the scheme. In 1995, the scheme's net assets constituted 324 per cent of the city's health expenses.

In this context, some international organizations have been bringing people's attention to the social conditions in the tigers after the economic turmoil. The International Labour Organization (ILO) set an example by issuing various reports urging Asian states to tackle the social impact of the crisis. They were urged to intervene to prevent 'the sudden impoverishment of millions of people when crisis strikes'. The ILO opined that the presence of better social and labour institutions would have lessened the impact of crushing recession in many countries. The ILO has urged governments in Asia to adopt more comprehensive social protections and to ensure that economic growth is accompanied by social progress. A spokesman from the organization commented: 'Although some progress has been made, the region's economic crisis has increased the awareness of the need for more of a safety net' (*South China Morning Post*, 24 November 1998). The ILO was of the view that, while many Asian countries were posting double-digit growth prior to the crisis, social improvements were left behind. Further, the Asian economic crisis has sharpened the region's need for better representation of workers and employers. Since the crisis, many governments have come to the ILO for technical assistance on how to deal with employer–employee disputes amid huge lay-offs and economic restructuring.

On the other hand, the World Bank and the IMF spoke out on social development. In September 1997, when the financial storm first hit East

Asia, the World Bank adhered to its traditional approach of encouraging the developmental states to invest in education and health. Gautam Kaji, the World Bank manager, asked the countries to 'shift more financing to develop human resources – health and education – to enhance the outreach, impact, and sustainability of delivery systems'. The World Bank was particularly critical of the health delivery system: the generally improving health status was unevenly enjoyed within countries, and health financing and delivery systems could not support further progress without extensive reforms.

As the crisis deepened, its approach was made more all-embracing. It recommended urgent changes in financial rescue programmes to protect people, not just economies. Social protection programmes must be promoted to avoid or deal with financial crises in all countries. They included unemployment insurance, subsidized school fees, job creation, food subsidies, and other programmes directly affecting the poor. Wage cuts, job reductions, lower rates of return on savings, reduced government benefits, and drops in services such as health care and safety could all affect people directly and immediately. A 'pro-poor response' to all crises could add up to 5 per cent to governments costs, but could be cheaper in the long run. Giovanna Prennushi, representing the World Bank, commented: 'The East Asia crisis and its spillover into other emerging markets offers the world an opportunity to devise a new approach to crisis, one that rightly puts concern for the poor and the vulnerable right at the centre of its response.'<sup>4</sup>

## Conclusion

Signs that the four tigers are able to embark on the road of western welfare states are not hopeful. Evidently, economic crisis has prodded these countries to change their social policy strategies. Korea faces a daunting task in reconstructing its economy and social safety nets. It will probably take some time before it is free from its economic woes. On the other hand, the public policy agenda in Taiwan is dominated by political issues (e.g. relationships with neighbouring China), and the state will probably opt to retain the status quo relating to welfare construction. It is possible that Taiwan may slow down the pace of social welfare expansion. In response to the crisis, Singapore has merely consolidated its existing public policy by lessening the financial burdens on business. Workers' interests have been undermined. On the other hand, the state has orchestrated campaigns, relying on voluntary spirit and charity to meet social needs.

The case of Hong Kong is particularly illustrative of the backlash against social programmes. Such a move has intensified in spite of the deepening crisis. This backlash is seen in the cutting back of social programmes as well as the denial of proposed social programmes (unemployment insurance and a minimum wage). The authoritarian state in Hong Kong is a strong one, and it has the power to pass resolutions limiting social programmes. In the case of social assistance, the state is able to manipulate public sentiment against 'alien outsiders', and successfully amplifies the prevalence and perils of welfare dependency. Meanwhile, its privatization efforts in selling public housing will continue unabated. The state is less able to persuade the public to accept a gradual retreat from universal health provisions. Ironically, the introduction of the Mandatory Provident Fund after 2000 has been hailed as an indication of the state's concern for old people. Old or retiring people cannot benefit from this programme. As the implementation date of this programme comes closer, the only exciting news is that various private insurance companies, local and international, are vying for favourable positions to attract people to join their individual investment schemes. In this context, developmental ideology and the centralized state structure seem to be more important determinants than economic crisis in shaping the course of welfare development. The new SAR state is wholeheartedly against expanding social provisions, and is pursuing a neoliberal agenda in social programming.

We have seen that the least developed social programmes in East Asia are unemployment insurance and the family/child allowance. Few Asian tigers have ever considered setting up the latter institution. The issue of an universal child allowance was briefly raised in Taiwan during the 1994 provincial and Taipei/Kaohsiung Municipalities election by the Democratic Progressive Party (Wang, 1997). Without widespread public support, the issue faded away quietly. The lack of a strong feminist movement in these tigers in large part explains why the issue is kept marginalized.

What is the prospect of unemployment protection? Since late 1997, unemployment went up in all the tigers. With a record number of people becoming jobless, it would seem natural that the Asian states should react to this potentially destabilizing problem. Korea took the lead by expanding its employment insurance. Existing social insurance programmes in Taiwan partly cover this need, though beneficiaries have remained few. Yet there is no sign of any unemployment insurance in the other tigers. Hong Kong and Singapore, the richest of the four tigers, do not embrace this idea. In this regard, the case of Japan, the

world's second biggest economy, provides a sharp contrast. There, the economy has been in bad shape for a few years. In May 1999, unemployment climbed to a record high (4.8 per cent), with joblessness among men hitting 5 per cent. There were some worrying signals: the number of full-time jobs continued to decline while part-time positions increased. In response, the government introduced a number of measures to promote corporate restructuring and cushion the resulting job losses. This included setting aside money for unemployment programmes. With the absence of such protection, unemployed workers in East Asia will find their states rather uncaring, should their economies worsen in future.

# Notes

## Chapter 1

1. Social welfare in this book covers education, health, housing, social security, and social work services. No single definition of social welfare is accepted by most researchers. Some academics would exclude education or housing from the definition. For example, Wilensky (1975) has eloquently argued that health and welfare expenditures form a more or less coherent package, and thus they can be conveniently labelled as 'welfare programs'. To him, education is special and should not be subsumed under 'welfare'. He argues that modern education systems remain overwhelmingly meritocratic and vocational. New hierarchies and new specialities are developed, and the move to universal education has failed to bring about a major redistribution of income or 'a revolution in equality' (Wilensky, 1975: 4). He concludes that 'modern higher education is more inequalitarian in its effect on income distribution than any slightly regressive components of health and welfare programs'. In light of the fact that basic education has been the focus in the early development of East Asian little tigers, we would put it under social welfare, whose effect could be beneficial to the society at large.
2. The concept of the welfare state has been subjected to great deal of scrutiny. Some scholars have given up their search by saying that 'the concept of the welfare state is a poor analytical concept' (Oyen, 1986: 2). Recent writings by scholars in the field of comparative social policy display an increased and somewhat liberal use of the term 'welfare state' when discussions are shifted to nations of East-Central Europe, East Asia and Latin America. One leading analyst in this area, Esping-Andersen (1996: 21), has commented: '[The] East Asian [group]... [are] paradoxically both globally unique and a hybrid of existing welfare state characteristics.'

## Chapter 2

1. 'Taken collectively, the seven cases [India, China, Hong Kong, Taiwan, Korea, Singapore and Sri Lanka] discussed above indicate that neither state nor market by themselves can explain developmental outcomes. While Hong Kong constitutes an example of *laissez-faire* success and India shows the degeneration that can occur in a highly statist economy, too many strong and interventionist states have succeeded for the idea that economic competitiveness can be manipulated to be rejected. However, the statist faith in strong and autonomous developmental states does not fare very well either. Strong states failed as well as succeeded. . . . In addition, the above discussion suggests that the nature of society is an important variable in determining how well a political economy operates. The case for 'bringing society back in' appears to be a strong one. This should be viewed not so much as a rejection



of the developmental state model, but as an attempt to expand it by the suggestion that other factors can play a key role in determining how well or ill a given political economy functions' (Chan et al., 1998: 35).

2. According to Marxist analysis and some versions of the state theory, the state in advanced capitalist countries is committed to maximising national income. But in an economy dominated by a few large industry firms, there is often a convergence of interests between the state and business. This is not surprising, given the fact that the political and economic elites are drawn from the same educational backgrounds and their organisational linkages are strong.
3. In colonial Hong Kong, the governor (the executive head) had the ultimate authority to rule the colony. He was assisted by an Executive Council (with appointed members) which constantly gave him advice. However, bills still needed to go through the legislature (i.e. Legislative Council). For a long time, all the members in the legislature were appointed by the colonial government. Since the 1980s, the political system has been opened up for popular participation. A limited degree of democratization was introduced, and some legislature members were popularly elected. The opposition Democratic Party before the departure of Britain was able to garner many seats in the legislature, and formed a powerful block to governmental bills. The post-colonial government, backed by the Communist government in Beijing, which was very suspicious of the British government's motives, tried to reverse the trend toward democratization. In 1997, the new government dismantled the popularly elected legislature and introduced a system of proportional representation with the ostensible aim of limiting the number of seats that the Democratic Party could obtain in the election. They did that with much success, and the number of seats that the opposition party was able to gain was much reduced.

### Chapter 3

1. The idea of the capital investment welfare state comes from Quadagno (1999). The objectives of this model 'are to increase savings and investments, the primary beneficiaries are investors, levels of benefits are determined by an individual's investment portfolio, and benefits are skewed to favor those who are already prosperous' (p. 4). She contrasts this emerging model of welfare state with the traditional social insurance welfare state which insures workers and dependents who contributed to the system against life course risks. The latter is redistributory, and its benefits are skewed towards less affluent people. She opines that the United States is in the midst of a third transition, from a social insurance welfare state to a capital investment welfare state.
2. Since 1985, the developmental state in Singapore has given financing concessions to public housing tenants and applicants with household income of less than \$800 to enable them to purchase housing. In order to discourage rental public housing, the head of the household must be over 29 years of age before the household can apply for rental housing (Tan & Phang, 1991).
3. The Gini coefficient is a popular way of measuring inequality used by policy analysts and economists. The upper limit for this measure is 1 while the lower one is zero. Any value approaching 1 signifies high inequality, while values closer to 0 mean increasing equality.

## Chapter 4

1. A number of social insurance schemes were introduced when the KMT moved to Taiwan in the late 1940s. This was in part affected by the Japanese way of constructing social welfare. There were three programmes: labour insurance, government employee insurance, and insurance for military personnel. The largest is labour insurance, which consists of labour insurance, farmers' health insurance, health insurance for councillors, and health insurance for low-income households. Generally these schemes cover people aged between 14 and 60 years. The Amended Labour Insurance Act stipulates that all manual workers and staff employed by commercial firms, shops and department stores, industries, farms, ranches, news agencies, cultural and public welfare agencies, and cooperative enterprises with five or more employees must participate in labour insurance. Compulsory participation extends to those who have no permanent employer (e.g. fishermen and sugarcane workers). The insurance benefit includes the payments of maternity, injury, sickness, disability, old age, and death benefits. Only sickness and injury benefits are paid in kind; the rest are payable in cash. With such an extensive system of labour insurance, some writers have labelled Taiwan a 'social insurance state'.
2. In this regard, some political scientists have labelled the Taiwanese state as a form of party-state corporatism. Rigger (1996: 302) notes:

Corporatism's defining characteristics, state structuring, state subsidy, and state control, describe Taiwan's interest-group well. Most politically active groups originated within the ROC party-state and are sustained by it. To realize its goal of involving every citizen in one or other organisation, the KMT government gave its blessing to a wide range of associations, including the farmers' associations, water conservancy (irrigation) associations, labour unions, chambers of commerce, women's associations, and industrial and professional groups. With the party-state's blessing came the exclusive right to organize a profession or group. Some groups (including farmers, women, labour, and industrialists) even enjoyed reserved seats in legislative bodies.

In this regard, it would be true to argue that social welfare in Taiwan has benefitted more or less the same groups of beneficiaries targeted by the KMT.

3. The social expenditure approach is the conventional method which attempts to operationalize welfare efforts. This approach is premised on the assumption that government spending on social welfare best reflects welfare inputs. In other words, the higher the social welfare spending, the more the welfare efforts. This view has been challenged by many scholars in the field of comparative social policy. The main criticism is that there is no one-to-one relationship between welfare efforts and welfare spending: an increase in social spending may not lead to a proportionate increase in welfare efforts. Shalev (1983) holds that this approach is a narrow one because welfare efforts can better be conceived in multi-dimensional terms.
4. Despite increasing democratization, the industrial relations institutions put in place by the state to regulate labour-employer relationships has remained unchanged. These institutions operate under the strong control of the state, and in most cases workers were encouraged to rely on the state to solve problems in industrial relations. Thus, Wu (1999) finds the description 'industrial

relations under the guidance of the state' an apt one to describe labour relations in Taiwan. He further notes that the asymmetry of power between workers and employers will continue unless the state introduces new institutions that will allow workers' voices to be heard.

5. Dr Sun Yat-sen was the founding father of the Republic of China. With the aid of other 'revolutionary' groups, he successfully overthrew the Ching dynasty and turned China into a republic in 1911. He proclaimed and outlined the Three Principles of the People as foundation of national reconstruction soon after China became a republic. One of the three principles is the 'Principle of People's Livelihood', which means that the government should provide for the welfare of the people.

## Chapter 5

1. Both Korea and Taiwan show how social insurance programmes are used by the authoritarian developmental state to appease some sectors of the public. The link between welfare and political structure has been documented in many other studies by political scientists and sociologists. Often, the transformation of the political regimes (e.g. the liberalization of political structure) does not result in any change to the social insurance programmes which remain selectivist. In other words, there are some social forces in society which make the programmes entrenched.
2. Kim (1997) has noted that Korea is moving from a comprehensive developmental state to a more limited one. This is due to the inherent contradictions of the developmental state, which put limits on its intervention after economic goals are achieved. In the case of Korea, Kim underscores the growing influence of the large businesses over time. The discretion exercised by the strong state is gradually fettered by the large businesses. In effect, Kim challenges the traditional state-centred perspective which puts strong emphasis on how the dominant the state is in the course of economic development of newly industrializing countries. In a developmental state, the relationship of state and capitalists, while interdependent, is evolving and dynamic. Kim's model of comprehensive developmental state is criticized by other analysts. Recently, Lee (1998: 1118) has argued that Kim's model is subsumed 'under the static notion of the inherent contradictions of the developmental state'.

## Chapter 6

1. Unlike other industrialized countries where different social needs (poverty, unemployment etc.) are met by different institutions, the colonial government in Hong Kong used the social assistance programme to help two groups of people: the poor and the unemployed. Those who were laid off could apply to the government for financial aid provided they met the means test. The colonial government resisted the idea of unemployment insurance. The post-colonial government shared this view and continued to use the social assistance programme to help both the poor and the unemployed. However, it

differentiated the two groups, actively dissuading the able-bodied (unemployed) people from applying for welfare.

2. The establishment of a publicly supported retirements benefits scheme has been considered for over 30 years (Brewer & MacPherson, 1997). Before the colonial state decided to introduce the the Mandatory Provident Fund, there was discussion of an old age pension scheme which would be based on compulsory contributions by workers and employers. The state would contribute to the scheme. Its contribution would come from money already being spent on income support for the elderly. Every old person would be entitled to a monthly benefit of about HK \$2,300 (US \$1 = HK \$7.8). This proposal was strongly attacked by China, business and some academics. The colonial state backed down, and quickly went for a compulsory provident fund. Some details of the Mandatory Provident Fund programme have been worked out. It is a defined contribution plan where employers and employees pay 5 per cent of a worker's salary into the scheme, without any assurance as to the return. The state does not contribute to the scheme. There would be a statutory monitoring board to oversee investments and contributions.
3. The trickle-down theory is described in p. 28 in Chapter 2 above. Should this theory predict correctly, there is no need for comprehensive social welfare, since people would be rich enough to have their needs met in the private market. To some extent, this theory was revived and regained some popularity in the 1990s even in the industrialized countries. For instance, President Clinton, a believer of this theory, applied this theory in the context of the United States.
4. A good indication of the influence of businesses and capitalists is their participation in the top government decision-making body. Under the Basic Law, the Executive Council is an organ for assisting the Chief Executive in policy-making. Except for the appointment, removal and discipline of officials and the adoption of measures in emergencies, the Chief Executive consults the Executive Council on all major policy matters. If the Chief Executive does not accept a majority opinion of the Executive Council, he is required to put specific reasons on record. At present, the membership of the Executive Council comprises three top government officials (the Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice) and 10 non-official members. Seven of them are either businessmen or industrialists.

## Chapter 7

1. This characterization, 'maximalist on profit and minimalist on welfare', comes from Catherine Jones, though she has some reservations as to whether in reality the welfare states in East Asia adhere to such a principle.
2. Taiwan has been looking into the establishment of a national pension plan since 1994, establishing a number of working panels to look into different working proposals. Some preliminary thoughts which emerged from these planning activities (Lui, 1998: 203–19). These included:
  - the pension under the existing plans for military servicemen, teachers and labourers would be left intact
  - the national plan would cover people aged between 25 and 65

- the replacement rate (of average consumption) would be set at 65 per cent
- state subsidy for low income earners would be available
- basic pension would be payable at the age of 65; people who participate in the plan could access benefits in the event of disabilities
- additionally, survivors' benefits and burial grants are available

At the time of writing, there is some doubt whether this national pension plan could be introduced in the year 2000. This is largely attributed to the economic and social chaos resulting from the big earthquake (magnitude 7.6 on the Richter scale) striking central Taiwan on 21 September 1999. In the wake of massive destruction and heavy casualties, the state mobilized all its means for disaster relief measures. Political and social development might be affected. For instance, there were predictions that even the presidential election in March 2000 might be affected, though such 'rumours' were promptly dismissed by the ruling KMT state.

3. The demogrant in Hong Kong was introduced in early 1970s. It is unique in that it is one form of universal social benefit. Known as the 'Social Security Allowance', it provides universal, flat-rate allowance to recipients. The scheme comprises two allowances: an old-age allowance and a disability allowance. The disability allowance is for those who are severely disabled and meet other eligibility requirements. On the other hand, the old-age allowance is not means-tested, and is available for those aged 70 or over, though people aged 65–69 may apply, and their income and assets would be taken into consideration to determine eligibility. Criticisms of the old-age allowance scheme are not lacking, and some policy analysts have called for dropping the scheme in favour of one which provides only limited social allowance to those old people who are in poverty. In other words, they advocate more targeted means-tested assistance to the aged poor.
4. Recently, Chief Executive Tung Chee-hwa emphasized in his third Policy Address (6 October 1999) that 'a better living environment and a higher quality workforce' could help Hong Kong develop into a 'world-class city' in the next millennium. Environment and education became his new policy foci. He stated: 'we must admit that Hong Kong lags behind other international world-class cities in many respects, in particular human capital and living environment.' In contrast, his first Policy Address in 1997 identified four main policy targets: housing, education, elderly welfare, and economic competitiveness. Evidently, his policy concerns were then much more comprehensive. Here, one can also note a clear lack of consistency in his policy foci over time. Given the current economic downturn, Tung did not mention his 85,000-unit annual new housing target in his second and third Policy Addresses. Noticeably, Tung said in his third Policy Address that the economic situation had improved, although he offered no relief to the unemployed (6 per cent of the population).

## Chapter 8

1. In April, 1999, deflation was 3.8 per cent compared to the same month last year. The Social Welfare Department refused to disclose how much they had over-estimated. The new rates would affect all social assistance recipients.

2. For a long time, most economists and the government argued that the success of the colony was due to its economic policy – that of positive non-intervention. Small governments, the reliance on private initiatives, and self-help would drive the economy forward. In this regard, Huque (1999) rightly argues that the ‘positive non-intervention’ policy favoured by the Hong Kong government is a partial truth. This claim relates only to trade and commercial policies. In actuality, the government has taken a proactive role in running public services and regulating economic activities. It has also been rather active intervening in areas such as social welfare, housing, education, and health. Not unlike the other three little tigers, the colonial state as well as the new state in Hong Kong has been developmental both in orientation and in action. Seen in this light, the stepping up in the sale of public housing immediately before and after the Asian crisis demonstrates the willingness of the new government to rely more on the private sector. There is also sign that the post-colonial state wants to reduce its intervention in social life through its privatization activities.
3. The government did make some efforts to reach out to the poor hard hit by the crisis. Through its various community centres, it was hoped that those who are in need would get in touch with the social services. Further, the government reaffirmed its commitment to human resource development even after the crisis. Singapore has committed to this development in the face of globalization of the economy. The state believed that there was a need to spend monies on workers’ retraining so that the city-state could remain competitive. These actions would be in line with what the state calls ‘a compassionate society’ (Ngiam, 2000).
4. Several options are available as far as the long-term social development of these tigers are concerned: the neoliberal route, the welfare pluralism route (Gilbert, 1983), and the developmental approach. It is unlikely that they will embrace the institutional approach to social welfare, along the development of most industrialized countries in the West. At present, there is no conclusive evidence to indicate that the little tigers are going down the neoliberal road in their social welfare development. With stronger emphasis on privatization, there is a possibility that a welfare pluralist system might emerge. Thus private provision of welfare would exist side by side with those of the public sector. The privatization of housing in Hong Kong and the possible turn to cost recovery in national health in Taiwan all add some credibility to this view. In the long run, the developmental approach to social welfare might have much meanings to these states who are looking for a way to develop.

One of the most important development in the field of comparative social policy is Midgley’s (1995; 1997; 1999) articulation of the ‘developmental’ approach to social welfare. This is an approach which could appeal to the developmental states in East Asia, since these states have emphasized the productive function of social welfare in their course of economic development. Midgley sees this approach as the way out in the current welfare austerity climate. Essentially, this approach to promoting the wellbeing of people requires the harmonization of social interventions with economic development efforts. In a nutshell, Midgley argues that ‘social development cannot take place without economic development, and economic development is meaningless if it

fails to bring about significant improvements in the well-being of the population as a whole' (1997: 181). He also argues for a mixed approach which synthesizes all the existing strategies. This he calls for the institutional approach (also called 'managed pluralism') which is needed to bring together institutions such as the enterprise, the state, and the community in social development activities. Midgley believes that governments should direct the process of social development in ways that maximize the participation of communities, the markets, and individuals in the development process. There are three programmatic features in this approach: the creation of social planning agencies; the improvement of people's lives through economic development; and a preference for social programmes that contribute positively to economic development. The productivist approach in social policy which strives to bring about economic benefits through social provisions comprises the following: human capital programmes, social capital programmes, and self-employment programmes.

It stands to reason that a new approach will not win universal approval from policy-makers overnight. Critics have argued that Midgley has taken a pragmatic, middle-of-the-road approach to social policy. His developmental approach differs from the neoliberal stance in that state welfare has a strong place in society. All social needs must be met and the state has an important role to play. His approach differs from those approaches on the left end of the political spectrum by advocating harmonization of economic growth with social development, implicitly rejecting the class theory used by the Marxists. Intellectually, this approach is related more to the social administration tradition developed by scholars such as Titmuss (1963; 1974).

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