

Edited by  
Roger Goodman, Gordon White and Huck-ju Kwon



# The East Asian Welfare Model

Welfare Orientalism and the State



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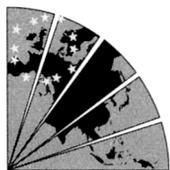
# The East Asian Welfare Model

For many politicians and observers in the West, East Asia has provided a broad range of positive images of the state's intervention in society. Neo-liberals grew excited by popular welfare systems that cost little in expenditure and bureaucracy. Social-democrats thought they had found a model for social cohesion and equality. In fact the reality in East Asia is rather different from these stereotypes.

In this book six specialists of six different societies in East Asia (Japan, South Korea, Taiwan, China, Singapore and Hong Kong) examine the role of the state in their welfare systems. There are detailed case studies on pensions, health insurance, housing and personal social services. They provide an up-to-date detailed account of how these systems have developed as well as an examination of the question of whether these welfare regimes are the natural outgrowth of cultural traditions or the result of economic and political conditions.

This broad-ranging and detailed study will be welcomed by both students and policy makers as the first proper academic study in English to have such wide coverage of this topic. Its clarity and authority should come as a welcome alternative to the more common misconceptions about Asian society.

**Roger Goodman** is a Lecturer in the Social Anthropology of Japan and Fellow of St Antony's College, University of Oxford. **Gordon White**, who died suddenly on 1 April 1998, was Professorial Fellow in Politics and Development Studies, University of Sussex. **Huck-ju Kwon** is a Senior Lecturer at the Department of Public Administration, Sung Kyun Kwan University, Seoul, Korea.



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Welfare Orientalism and the state

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## Gordon White 1942–1998

Gordon White died suddenly and unexpectedly of a stroke on 1 April 1998 while copy-editing the final proofs of this volume. He was an inspiration to us both, though it is only now that we would be able to get away with saying that he was the driving force behind the project that led to the publication of this book. We enjoyed working with him immensely and indeed were looking forward to working with him further on a new project when news of his tragically early death reached us. It is clear that many others share our sense of loss.

The highlight of the project that led to the publication of this book was a three-day workshop that Gordon arranged (with Xiaoyuan Shang) at the Welfare Ministry in Beijing in the summer of 1996. We, together with Jane Lewis and Julia Twigg from the UK, were invited to present papers to an invited audience of welfare scholars and policy-makers about social welfare reforms in a number of countries around the world, including China (see Gordon White and Xiaoyuan Shang (eds), *Reforms in Chinese Social Assistance and Community Services in Comparative Perspective*, IDS, Sussex, 1997). Gordon, who had first developed spinal tumours in the late 1960s and had been in a wheelchair since 1989, was clearly not well, but typically he never complained about his discomfort and indeed during the evenings after the workshop he often left us trailing in his wake as he set off to show us the sights of Beijing.

When the conference was reported on the Chinese national television news, Gordon joked that as his research institute gave credit for the amount of exposure that scholars gained for their work, he would now be able to retire. This of course was hardly likely. Indeed, even when he had moved from a full-time to a part-time appointment at the Institute of Development Studies at the University of Sussex, his output was widely recognised to exceed that expected of a full-time fellow. Most of his eighteen books and nearly 100 articles were on China where, as we soon discovered in Beijing, he was a very highly respected scholar. His publications concentrated on Chinese social and economic issues but, as this volume shows, he was increasingly interested in comparative research across East Asia. All of his work was based on detailed empirical fieldwork (even in a wheelchair Gordon seemed

to have been to parts of China that were considered inaccessible to others) and was grounded in political economy theory. Indeed, it was the mixing of our disciplinary backgrounds – political economy, social welfare and social anthropology – as well as our regional specialisms – China, South Korea and Japan – and perhaps even to some extent our political views that made our meetings in discussing this volume so invigorating and interesting. Gordon had read widely in our disciplines and loved to test our assumptions and to have his tested too. Similarly we would debate the merits and demerits of state intervention in welfare systems from a variety of political and economic perspectives. We soon learnt that there was no point in having anything less than half a day free when we got together to discuss even the most minor points of the project.

We held most of our meetings in Gordon's house in Oxford and, in this time of great sadness at his death, we are grateful at least to be able to acknowledge the kind hospitality of Gordon's wife, Barbara Harriss-White, and her daughters, Kaveri and Elinor, who all had to put up with having their house invaded. We trust that they will consider this book evidence that we did more than just talk during all those hours and that what we produced is a fitting tribute to Gordon's life of scholarship and teaching.

Roger Goodman and Huck-ju Kwon  
Osaka, Japan and Seoul, Korea  
April 1998

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## Notes on contributors

**Nelson Chow** obtained his MA (Econ.) from the University of Manchester in 1973 and his PhD from the University of Hong Kong in 1978, writing a thesis on the comparative study of social security systems in East and Southeast Asian countries. He has also carried out extensive research on the family support system for elderly people in Asian Chinese communities. He has published a book on *The Administration and Financing of Social Security in China* and articles in *Journal of Social Policy*, *Social Policy and Administration*, *The Gerontologist*, *Journal of Aging and Social Policy* and *Family and Marriage Review*.

**Roger Goodman** is University Lecturer in the Social Anthropology of Japan and a Fellow of St Antony's College, University of Oxford. He is the author of *Japan's 'International Youth': the Emergence of a New Class of Schoolchildren* (Oxford University Press, 1993) and author and co-editor of *Ideology and Practice in Modern Japan* (Routledge, 1992) and *Case Studies on Human Rights in Japan* (Curzon, 1996).

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**Gordon White** who died suddenly on 1 April 1998, was a Professorial Fellow at the Institute of Development Studies at the University of Sussex. A political scientist, he worked extensively on the political economy of East Asia with a particular focus on China and most recently published (with Jude Howell and Xiaoyuan Shang) *In Search of Civil Society: Social Change in Contemporary China* (Oxford University Press, 1996).

# Acknowledgements

This project has been a long time in gestation. We would like to take this opportunity to outline how it has developed since it also gives us the chance to acknowledge the enormous amount of help we have all received along the way. Its origins can be traced back to several separate roots. In the spring of 1994, Roger Goodman and Ito Peng (at that time at the London School of Economics, now a lecturer in Hokkaido, Japan) were commissioned to write a background report on East Asian models of social welfare as part of the United Nations World Summit on Poverty in Copenhagen in April 1995. This report was subsequently published in a volume edited by Gøsta Esping-Andersen (referred to elsewhere in this book), but as part of the process of writing they organised a two-day workshop under the auspices of the Asian Studies Centre of St Antony's College, University of Oxford. It was at this conference that many of the papers in this volume – most notably those on South Korean pensions by Huck-ju Kwon, the Taiwanese welfare state by Yeun-wen Ku and the Chinese welfare reforms by Gordon White – first saw the light of day. We should also like to thank the invaluable contributions to this workshop made by the papers delivered by Julia Tao, Catherine Jones and Ito Peng, even though ultimately they could not be included in this volume, as well as the help we received in organising the workshop from the then Director of the Asian Studies Institute, Rosemary Foot, and its secretary, Chloe Dobree.

In the summer of 1995, Gordon White was awarded a twelve-month research grant, under the auspices of the Asia-Pacific Programme directed by Gerald Segal, to research the development of social welfare in East Asia and he invited Roger Goodman to share the award with him. Huck-ju Kwon was quickly appointed to undertake the fieldwork element of the project – on which Part II of this volume is broadly based – and in the spring of 1996 he travelled extensively throughout East Asia gathering data. During these three months, he received help from a large number of individuals which he would like to acknowledge here.

In Singapore, different aspects of the welfare system were explained to him by Mukul Asher, Chua Beng Huat, Bhanaji Rao, M. Ramesh, Lai Ah Eng and Leon Perera. In Hong Kong, he had long discussions with Nelson Chow and Joseph

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Finally, on a personal level, Huck-ju Kwon would like to thank his parents and daughter for all their help and support throughout this project, but particularly while he was carrying out his fieldwork, and he would like to dedicate his work to his wife, Hyeryung, who gave her first public concert at Green College, Oxford, on 9 March 1996, a few days after he returned from his three-month trip.

As editors, all three of us would like to express our enormous thanks to all our contributors who have had to work to a strict timetable as we have sought to bring this volume out as quickly as possible, aware that much we are describing is in a highly fluid and dynamic state. Similarly, we would like to thank Julie McWilliam for her expert help in collating the text and Victoria Smith and her crew at Routledge for turning it into its final version. While we are grateful for all the help that we have received, ultimately, of course, we collectively accept full responsibility for what we have written.

March 1998

# Editors' preface

This book is divided into three parts, each with its own specific objective. The introductory Chapter 1 by White and Goodman in Part I sets the scene for the rest of book. It clarifies the basic purpose of our inquiry into East Asian welfare systems – whether or not there is something which can be termed an ‘East Asian welfare model’ – and briefly outlines our main comparative findings. It shows first how analyses of East Asian welfare in East Asian and Western countries have been heavily embedded in political and intellectual discourses of ‘Orientalism’ and ‘Occidentalism’. It then presents the main results of our investigation into the welfare systems of five East Asian societies – Japan, South Korea, Taiwan, Hong Kong and Singapore – in terms of answers to the following questions: (i) Are the welfare systems of these countries sufficiently similar to support the idea of an ‘East Asian welfare model’? (ii) How does one explain the structure and dynamics of East Asian welfare systems? (iii) Is the East Asian welfare experience worthy of emulation in other countries facing the challenge of welfare reform?

Part II of this volume, originally written as part of a one-year Economic and Social Research Council-funded project under its Pacific Asia Programme, has two main aims. First, it provides a context for the detailed case studies which follow in Part III by examining the general economic, political and historical background to the development of social welfare in five East Asian societies. The chapters in Part III concentrate on detailed case studies of the development of welfare policy in particular areas – pensions, health insurance, housing and personal social services. There is necessarily some overlap between what is documented in Part II and some of the chapters in Part III, since we are keen for each part of the book, and indeed each chapter in Part III, to be able to stand as a text in its own right. However, we have sought to keep this overlap to a minimum and only allowed it where it supports the second aim of Part II, namely a systematic, comparative study of welfare in East Asia. As Huck-ju Kwon states in his introduction to Part II, while there has been some work in English on East Asian welfare states, this has tended to be based on the study of individual societies or else on a straight east–west (e.g. Japan–UK) comparison. There have been few attempts to undertake genuinely comparative analysis within the region.

But this study is innovative at a second level also. Most studies of East Asian welfare systems have either been written by members of those societies, have drawn largely on local sources and often have been subject to only minimal comparative analysis, or else have been written by Western scholars often unable to use the indigenous sources, written or spoken, and hence heavily reliant on English-language sources and on Western-derived analytical tools which may not always be appropriate to internal debates. All the contributors to this volume are able to use indigenous sources and are fully aware of indigenous debates, while at the same time being fully conversant with western, comparative theoretical models.

Huck-ju Kwon in Part II of this volume is particularly keen to ally an understanding of indigenous debates with systematic comparative analysis. His main arguments are relatively uncomplicated yet crucial for developing our understanding of the nature of the state's role in the development of social welfare in East Asia. First, and put simply, if one concentrates only on government expenditure as an indicator of welfare provision, one misses the other means through which welfare is provided and which are often regulated by government, i.e. via non- or quasi-governmental agencies and companies. Second, East Asian governments of every type seem to have been much more effective than Western governments at passing on to individuals responsibility for their own welfare and simultaneously legitimating – in some case politically entrenching – themselves via their welfare regimes.

The individual chapters in Part III vividly demonstrate both points. In Chapter 3, Christopher Tremewan presents a view of the Singaporean welfare state which is dramatically at variance with the widely held perception of it in the West as socially inclusive and empowering (for example, see Sherraden *et al.* 1995). Instead, he sees it as a means for an authoritarian regime to maintain its power by demanding loyalty and support in return for inclusion and social benefits. In our view, these approaches should not be seen as competing interpretations, rather as complementary analyses of a socio-political reality which involves both coercive and consensual elements.

Kwon, in his detailed analysis of the South Korean pension programme in Chapter 4, demonstrates how the welfare system was developed both as a means of legitimating governments which had come to power through undemocratic means, and as a means of collecting large amounts of money to fund industrial development. Both aims would appear to have been successful: South Korea has become a powerful economy and has subsequently managed the transition to democratic government. What is not clear, as Kwon shows, is whether future generations will be able to pick up the bill left them by the architects of the system. A very similar story is told by Yeun-wen Ku in Chapter 5 for Taiwan which has seen a comprehensive health insurance scheme set up, almost from scratch, in a remarkably short space of time. As both these cases show, whereas Western societies developed their welfare states gradually over a long period of time, East Asian systems have recently been

evolving at speed in response to the need of political elites to maintain authority in a rapidly changing political environment characterised by the mobilisation of previously repressed social forces. The speed of development leaves questions unanswered not only as to cost, but also as to whether it will be possible to dismantle or reform a system once it has been introduced. Taiwan faces an uncertain future on both these scores and if the state is forced to reduce its welfare involvement it will be interesting to see the rhetoric it draws on as it does so.

Two possible models that Taiwan might follow are provided by Japan and Hong Kong. As Roger Goodman shows in Chapter 6, Japan is unusual in that it did manage to begin to set up, and then dismantle, a Western-style welfare state in the early 1970s. In its place, the state offered what it called the 'Japanese-style welfare society' which relied much more on the family and the community than the state and drew on ideas of the 'traditional' Japanese family in order to legitimate itself. Sheldon Garon (1997) points out that this type of internal debate about welfare has been going on in Japan since the Meiji period and Japan's first exposure to Western ideas of welfare and the state. The result has been a compromise, sometimes known as a mixed economy of welfare, between professional and voluntary institutions, best exemplified in the *minseijin* system described in Goodman's chapter.

Hong Kong's welfare system, described in Chapter 7 by Nelson Chow as of 1997, also looks like the result of compromise although in this case it was the state, in the form of the last British governor, which tried to introduce a generous and broad-ranging welfare system and certain influential elements of the populace (admittedly under heavy pressure from a neighbouring China about to reassume control) which rejected the plan. Chow puts the resistance down to a dislike on the part of Hong Kong Chinese – shared with other Chinese – of paying higher taxes to support those less well-off than themselves. Instead, a form of welfare insurance where people invest in their own future security seems much more consonant with local wishes and, Chow believes, is likely to be introduced in the near future.

Chapter 8 by Gordon White, on the vigorous welfare reform debates currently taking place in China, would tend to support Chow's conviction. China, which may at first glance appear an unusual case study in a volume on East Asian welfare states, is in fact an excellent example of our thesis about the role of the state as provider and regulator in welfare systems. In China, the state is moving rapidly from the former to the latter, leading White to wonder whether in fact we are seeing some degree of convergence of welfare systems in East Asia.

If there is evidence of convergence, this need not surprise us much since all the countries in the region have been following the progress of each other's systems as closely as they have been watching developments in Western societies. Indeed, if there is anything distinctive about East Asian societies and their welfare systems, it probably lies in the genuine desire to understand fully the realities as well as the rhetoric of the welfare states in other parts of the world – East, West, South and

North. It is no coincidence that of the authors in this volume, Chow, Ku and Kwon have all received part of their education on social welfare in Western societies and have been able to influence debate back home by introducing their knowledge into indigenous discussions. Increasingly, too, social welfare specialists in East Asian societies are studying in each other's countries in order to understand the success and failures of neighbouring systems. Sadly, few Western scholars, let alone practitioners, have returned the compliment through serious study of welfare systems outside the Western world. Instead, we have had to rely too much, as we show in Part I, on Orientalist images produced for political purposes. We hope that this volume makes a modest contribution towards redressing this imbalance.

March 1998

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# **Part I**

## **An overview of the study**



# 1 Welfare Orientalism and the search for an East Asian welfare model

*Gordon White and Roger Goodman*

Since the early 1980s the West has taken a burgeoning interest in the developmentally dynamic societies of East Asia and the lessons which might be learned from them. This interest started with attempts to explain the extraordinary success of the post-war Japanese economy. It then spread to other countries, notably the ‘newly industrialised countries’ (NICs) of South Korea, Taiwan, Singapore and Hong Kong. During the 1990s, interest has spread further to include Southeast Asian nations such as Thailand and Malaysia, mainland China and the wider web of trade and investment linking China itself with overseas Chinese business in East and Southeast Asia.

The astounding economic success of the region has prompted business competitors in the West into a search for the ‘secrets’ of East Asian success. East Asia has also become an increasingly prominent element of political discourse in Western countries. Widely varying political tendencies have constructed competing models of East Asian realities in the service of their own ideological and practical needs. A bewildering array of positive images became projected on to East Asia that have told us as much about those doing the projecting as about the societies themselves. Their arguments have tended to run thus. East Asia has the most dynamic economies in the world. They have managed to combine this dynamism with social cohesion, an apparent ‘health miracle’ and very low crime rates, while keeping their welfare expenditures low. From the perspective of societies with low growth rates, escalating social problems and high welfare expenditures, we need to seek out the secret of East Asian success and where possible reproduce it.

In Britain, for example, the New Labour Party has seen East Asia as instructive in its emphasis on the role of the government in simultaneously stimulating economic growth, maintaining social cohesion and raising popular welfare standards. The Conservative Party, by contrast, has cited it in support of an image of an enterprise society based on low levels of government expenditure and a spirit of individual self-reliance which avoids dependence on government. In international debates about alternative paths to development, agencies such as the World Bank – at least until its recent conversion to the virtues of state involvement – acclaimed the ‘East Asian miracle’ as vivid proof of the virtues of market competition and a vindication

of the tenets of neo-liberal orthodoxy. By contrast, their critics have emphasised the crucial role played by the state in the development of East Asian societies and used this to defend the viability and value of government intervention to guide and stimulate economic growth.

Nowhere is this phenomenon of positive imaging more evident than in the area of social welfare where there is much talk of an 'East Asian welfare model'. In the West, neo-liberals point to East Asian success in achieving high levels of popular welfare without high levels of government expenditure or a large bureaucracy, and laud the spirit of individual and group responsibility and the crucial role of the family in providing social insurance and services. By contrast, social democrats have argued that East Asian governments have not only acted in general to promote social cohesion and reduce social inequality, but have also taken decisive steps to provide certain key items of social welfare, such as public housing in Hong Kong and Singapore and pensions in Singapore. These debates are mirrored in East Asia itself. On the one side, conservative elites have advocated the superiority of putatively indigenous welfare practices, notably Singapore's Central Provident Fund or the self-styled 'Japanese welfare system'; on the other side, new popular forces given voice by the transition to democracy in South Korea and Taiwan have sought to extend the range of collective welfare provision along Western lines, particularly in the areas of pensions and health insurance.

Clearly, with so many contrasting images of East Asian experience being constructed and so many different lessons being drawn from it, questions must be asked about the accuracy of the pictures presented. Since these images of East Asian experience in general – and welfare systems in particular – are embedded in ideological debates and linked to competing political forces in both West and East, it is hardly surprising that they tend to be simplified and selective. This book seeks to assess the validity of these images by providing an accurate and up-to-date analysis of the structure and dynamics of East Asian welfare systems. In a nutshell, we want to explore whether such a creature as an 'East Asian welfare model' actually exists and, if so, what it is and how it developed. Social welfare is understood in a broad sense to include social insurance for pensions and health care, public housing and personal social services and assistance.

The book adopts a comparative analytical framework complemented by detailed case studies of five societies – Japan, South Korea, Taiwan, Hong Kong and Singapore – with a parallel study of the evolution of the Chinese welfare system under the impact of the post-Mao economic reform programme. Our key questions are: (i) What are the current discourses on East Asian experience both in East Asia and abroad and how have these structured perceptions of welfare? (ii) What are the key elements of East Asian welfare systems, to what extent are they shared across societies and what are the main differences between different countries? (iii) What are the basic factors which account for patterns of welfare provision in different countries – economic, political and socio-cultural? (iv) To what extent is East Asian

experience relevant to the problems of reforming welfare systems elsewhere? Is there really something distinctive about East Asia from which other societies might be able to draw lessons, either positive or negative? While we have sought to be comprehensive in the sense of delineating the general contours of each society's welfare system, the complexities of these systems and the limited scale of our research project have forced us to impose analytical priorities. We have therefore placed our main emphasis on understanding the role of the state in welfare provision rather than that of other institutions such as civil associations, companies and the family. It is our hope that these latter can be explored in more depth in future research.

### **Orientalism and Occidentalism in the analysis of East Asian experience**

We soon discovered that, to make sense of the East Asian welfare experience, we needed to place it in the context of the images which have come to structure Western perceptions of East Asia more generally and have become part of the rhetoric of Western politicians and business leaders. They function in effect as a new, positive form of what Edward Said (1985) has called 'Orientalism'.<sup>1</sup> Rather in the fashion of the Enlightenment thinkers of the eighteenth century who drew on far-away countries such as China to initiate change in their own societies, so commentators in the West have held up their own particular images of East Asia as a means of talking to and about their own societies.

In East Asia itself, we can also detect a parallel phenomenon in debates about the nature and significance of their own experience. An earlier openness to Western experience and its positive potential has been challenged by certain national political and economic elites attempting to construct a positive image of their own identities in terms of some kind of Oriental distinctiveness. To varying degrees, this is accompanied by a negative image of the alleged deficiencies of Western experience which is defined as alien and irrelevant to East Asia. Unlike Western Orientalism in its contemporary phase – a largely positive, complimentary phenomenon – this breed of Eastern 'negative Occidentalism' portrays the West in highly negative terms, as a model to be avoided at all costs. What both images share of course is a common perception of the superiority of the East Asian model.

### ***The rise of positive Orientalism and negative Occidentalism***

The emergence of positive images of East Asia in the West reflects a fundamental change in the balance of economic and political power since the Second World War. The history of East Asia, from a European perspective, prior to the end of the Second World War was largely described in terms of the 'white man's burden'. It was the duty of the more civilised – white – societies to bring some of their civilisation into the lives of those who were less fortunate; to introduce them to Western,

advanced, ways of doing things via education and training since East Asian values were, by definition, backward. The one country that consistently seemed to contradict this image was Japan which modernised itself with extraordinary speed and vision during the last quarter of the nineteenth century. Despite considerable evidence of Japan's indigenous strengths, however, the Western world explained this success – dramatically demonstrated by Japan's defeat of Russia in 1905 – as due not to Japan's superior values, but as a measure of the extent to which it had become Westernised.

Japan's success in modernisation, however, was evaluated very differently by many – including many of the elite in Japan itself – as being due not so much to Westernisation but the combination of Western technology and Japanese 'spirit' or social values. As the ultra-nationalists took over in the early 1930s, they pursued a policy of freeing Asian societies from Western colonialism and of developing a cultural bloc based on Asian, essentially Confucian-derived, 'Japanese' values. Defeat for Japan in 1945, however, was taken to mean that the Western values were unambiguously 'superior'; nowhere more so than in Japan itself, where there was little opposition to the liberal, democratic constitution and values which were introduced into the country during the early years of the American Occupation that lasted until 1952. It was the 'white man's burden' once again to help Asian societies escape the burdens of their past and their culture. New anti-militarist, pro-civil liberty authors such as Maruyama Masao came to the fore, arguing, in particular, that not only for Japan but indeed for the rest of East Asia, the yoke of Confucianism had to be removed before economic development could take place.

In the immediate post-war period, Confucianism was widely perceived as a common feudal legacy which all East Asian nations would need to overthrow if their economies were to begin to develop. All East Asian economies were economically weak and they were all Confucian societies; the syllogism was accepted positing a connection between the two. While China had moved beyond the political pale with the triumph of Communism and had explicitly rejected the legacy of Confucianism, the new regime could be seen by its opponents as a new form of traditional 'Asian despotism' which would sooner or later give way to the enlightenment of Western liberalism, while its supporters regarded it as a demonstration of the urgent need for Westernisation, albeit in a Marxist-Leninist rather than a liberal form. The Orient still remained the polar opposite of the Occident and its inferior status was again confirmed.

However, the remarkable transformation in the capitalist economies of the East Asian region since the end of the Second World War brought a fundamental change in perceptions. Between 1965 and 1980, for example, the Japanese, Taiwanese and South Korean economies grew by 6.3, 10 and 9.5 per cent respectively and the economic strength of the region began to overtake that of Europe by the 1980s. As their economies grew, so indigenous perceptions and interpretations of the relationship between Confucianism and economic growth were re-evaluated.

Confucian values, which had been perceived to be a negative common heritage of some homogenised East Asia, were now given a positive value, and values which had been so eagerly espoused and believed to be common to some monolithic West began to be seen more negatively.

This process was particularly pronounced and influential in Japan, which was the first non-Western nation to develop an unquestionably advanced form of capitalism. As the Japanese economy began to take off again in the early 1970s, there was a growth in what is generally known as the *Nihonjinron* literature<sup>2</sup> – a genre of writing detailing the essential qualities of what it means to be Japanese – providing for many in Japan a cultural explanation of why Japan was doing so well. During this period there was a parallel re-evaluation of Western values and experience. As the economies of the West began indeed to go into decline in the late 1970s and early 1980s, many of those same values – individualism, independence, rationality, universalism, logicity, insistence on rights, heterogeneity, equality and contractual relations – which had been seen as responsible for the great strength of the West began to be seen in East Asia as also responsible for its decline. Positive Occidentalism was being transformed into negative Occidentalism.

As other economies in the region emulated Japanese economic success – first the ‘four tigers’, then China itself and the second tier of Southeast Asian NICs such as Malaysia and Indonesia – positive Orientalism and negative Occidentalism achieved much wider currency. Even Communist Party reformers in Beijing laid increasing claim to their ‘traditional’ heritage and emphasised their status as an East Asian rather than as a Communist nation; political leaders in Singapore and Malaysia articulated a notion of ‘Asian values’ which challenged the universalistic claims of Western civilisation.

Positive Orientalism and negative Occidentalism of this type are two sides of the same coin and they both rest on assertions about cultural identity and the superiority/inferiority of different culturally defined entities. In his analysis of the post-Cold War world in terms of a ‘clash of civilisations’, Samuel Huntington (1997) has identified these trends in East Asia as part of a wider process of ‘indigenisation’, visible in much of the rest of Asia and the Middle East, and related to changing power realities on the world scene. In the East Asian case, the assertion of ‘Asian values’ and the like has reflected not only the growing economic strength of the region, but also the waning ability of Western powers to influence events there. In a manner redolent of Said, Huntington recognises the close link between negative Orientalist images and the spread of Western imperialism; in his words, ‘Culture follows power. If non-Western societies are once again to be shaped by western culture, it will happen only as a result of the expansion of western power’ (1997: 39). Correspondingly, the emphasis on the distinctiveness of East Asian culture has been interpreted as one aspect of the ‘counterhegemonic self-assertiveness’<sup>3</sup> of a group of Third World societies which have broken the shackles of poverty and

powerlessness, a kind of ‘emancipatory politics of culture that gives non-Euro-American cultures greater visibility and voice in a new world capitalist order that is culturally more fluid and complex than the more Eurocentric capitalism of the past’ (Greenhalgh 1994: 747).

In the West, a similar but opposite process was taking place at the same time: negative Orientalism was turning into positive Orientalism, as people sought to make sense of the undeniably impressive performance of, first, the Japanese and, later, the other East Asian NIC economies on the one hand and the relatively sluggish performance of Western economies on the other. To complicate the task of explanation, rapid rates of economic growth in East Asia had been accompanied by high levels of social stability, low rates of crime and unemployment, low levels of social unrest and relative social equality. A classic example of the new brand of Orientalism was Ezra Vogel, Professor of Japanese Studies at Harvard, who in *Japan as Number One: Lessons for Industrial America* (1980) offered a (very one-sided) account of both the successes of Japan and the failures of post-war American society. A Japan-as-model theme also developed in studies of specific areas of Japanese society: for example, law and order (Ames 1981; Bayley 1976), industrial and business management (Pascale and Athos 1981; Ouchi 1981) and education (White 1987; Lynn 1988). As the economic miracle spread to other economies in the region – Singapore, Hong Kong, South Korea and Taiwan – a voluminous literature emerged in Western countries analysing and explaining their success in the context of a broader conception of ‘East Asia’ and its attributes.

### ***The re-evaluation of Confucianism***

While several themes have dominated attempts to account for the economic success of these societies – notably their distinctive ‘developmental states’<sup>4</sup> and their heavy emphasis on education<sup>5</sup> – the most wide-ranging and popularly current explanation has been based on culture. Most cultural explanations have in turn been based on some notion of Confucianism which is held to be a key part of the shared heritage of East Asia as a whole. In an earlier era (the 1950s and 1960s), Western observers largely perceived Confucianism as a heavy constraint on economic progress because of its stress on the importance of preserving tradition, its reinforcement of a social structure which despised and restricted commercial and industrial pursuits, and its hostility to technological innovation and entrepreneurship. Since the 1970s, however, Confucianism – in a protean variety of versions – has been rediscovered as a positive historical force. It is now commonly cited as having provided the fundamental cultural underpinnings for East Asian economic success, particularly through its perceived emphasis on education, strong family relations, benevolent paternalism, social harmony and discipline, respect for tradition and a strong work ethic.

In East Asia itself, this reassessment has been spearheaded by politicians such as Lee Kuan Yew who has described the positive functions of Confucianism as

follows (Branegan 1991: 45): 'Confucianism helped in two ways: it instilled, one, a willingness to place the needs of the nation or the society above oneself and, two, the habit of seeking a consensus.' Politicians in an unlikely place – Beijing – have also begun to extol the merits of a philosophy which had been anathema to their Maoist predecessors. The chairman of the Chinese Communist Party, Jiang Zemin, has described Confucianism as a 'fine national tradition'<sup>6</sup> and other party spokesmen have commended it as an essential part of China's new social morality.

The pronouncements of politicians have been reinforced and given flesh by a school of East Asian scholars, both in the region and in the global diaspora (particularly in the United States), who have attributed much of the region's economic success to a Confucian 'familistic' economic culture or a Confucian political culture emphasising obedience, harmony and discipline.<sup>7</sup> They have been joined by a growing band of foreign scholars, including both experts on East Asia and more general commentators. Participants have come from all the major social science disciplines, producing for example a discourse which Greenhalgh calls 'Orientalist economics'. Referring specifically to laudatory analyses of the role of the Chinese family firm and drawing explicitly on Said's ideas, she argues that (1994: 747): '[This] constructs Chinese culture as a set of timeless "Oriental" essences that exist in radical separation from and opposition to the West. The cultural essence underlying the family firm is the traditional, collectivist, mutually beneficial Chinese family.'

In Greenhalgh's view, while this kind of approach has serious intellectual shortcomings, it also has 'problematic political implications . . . [in that it has] supported a conservative politics that perpetuated rather than challenged existing inequalities' (ibid. 748). Orientalist analyses of the Confucian roots of Chinese business behaviour can be found in the work of both regional experts such as Redding (1990) and comparative analysts such as Hampden-Turner, the latter arguing that his investigations led to the following conclusion:

[East] Asian cultures were virtually looking-glass lands: particular where we were universal, communitarian where we were individualist, diffuse where we were specific, and so on. . . . Despite myriad variations all east Asian cultures think holistically rather than analytically (more in terms of knowledge than of profit).

(Hampden-Turner and Segal 1997: 16, 18)

Orientalist economics of this kind has been joined by an 'Orientalist politics', produced both by East Asian and Western scholars, arguing similarly that the existence of certain fundamental political values and patterns of behaviour gives politics in the region a distinctive character. Francis Fukuyama (1995), for example, argues that, contrary to the views of people like Huntington (1991: 24) who have argued that 'Confucian democracy' is a contradiction in terms, Confucianism and democracy are in fact compatible. He adopts Tu Wei-ming's distinction (1984)

between 'political Confucianism' and 'the Confucian personal ethic', arguing that the former was never 'the essence of Chinese traditional Confucianism' and the latter can fit well with a liberal democratic order.<sup>8</sup>

Orientalism comes in different shapes. Many politicians and pundits tend towards an 'instrumental' form in that, while they accept that East Asia may have certain basic characteristics distinctive from the West which are non-transferable, specific elements of East Asian practice can be regarded as lessons for emulation in the West. This kind of Orientalism is instrumental in two senses: first, in policy terms by seeking practical experiences from East Asia which might prove useful for domestic purposes and, second, in political terms by allowing Western politicians to legitimate proposals which are domestically unpalatable by relating them to East Asian economic success. By contrast, the 'essentialist' form of Orientalism of the culturalist kind views the East Asian experience in holistic terms, as a reflection of certain essential characteristics particular to the area and therefore not susceptible to transfer or emulation elsewhere.

### **Welfare Orientalism?**

To what extent has Orientalism in the above senses affected analyses of welfare systems in East Asia? Positive Orientalism of the instrumental kind has flourished over recent years among political circles in Western societies as their populations age and the post-war promises of minimum standards of welfare guaranteed by the state look increasingly difficult to meet. Politicians from all sides have to face this increasingly bleak socio-economic reality and, once again, East Asia offers a useful 'model' on which to draw in seeking to convince the electorate of the need for welfare reform. In the United Kingdom during 1995–6, for example, politicians on both sides of the political divide turned to East Asia in search of political ideas for reforming the British welfare state.<sup>9</sup> Similar debates have taken place in other Western countries, such as Germany and Australia.

These positive images of East Asian welfare experience have been reinforced by the academic analysis of certain Western scholars. In the late 1970s, perhaps the most influential exponent of positive welfare Orientalism was Ezra Vogel (1980) who talked about the Japanese model providing lessons in offering a welfare system which provided 'security without entitlement'. Its success could be measured in terms of the longevity, good health and educational attainment of the general population; low government welfare spending through heavy reliance on the family, the firm and a large voluntary sector; little inner-city degradation and violence; an active and energetic older generation; high rates of employment and little or virtually no welfare dependency. Moreover, Japanese welfare necessitated a minimal bureaucracy (the combined staff of the Ministry of Health and Welfare and the Ministry of Education was about 10 per cent of the American equivalent), thereby

not only keeping taxation low but also preventing the development of ‘welfare professionalism’: professionals and bureaucrats who have created industries to serve their own rather than their clients’ needs. Instead, Japan has preferred to rely on a large number of voluntary, unpaid workers supervised by a small number of professionals – especially in areas such as social work and probation work – who have few vested interests in causing disruption to the establishment (see Chapter 6 in this volume). Entitlements have been kept low, a sense of a right to welfare is only minimally developed and the government – or rather the bureaucracy – has been left with the responsibility to effect the most equitable distribution of the nation’s wealth.

Vogel’s welfare message to the West – like all his messages – is uncompromisingly straightforward:

In the West . . . charity . . . has been transformed into a government-sponsored system impersonally operated, leading to a sense of entitlement. The recipient has less appreciation for what is received than annoyance at what is not received. The resulting cycle of frustration, lack of motivation for work, unattractiveness to employer, and self-depreciation has disastrous consequences to the social fabric of many Western countries.

(1980: 202)

Vogel’s analysis, in addition to explaining Japanese values, was in many ways an important element in giving them Western legitimation (he is a Harvard professor) and was even, to some extent, responsible for helping to construct them. Yet Vogel to a large extent reflected similar messages coming from Japanese commentators at the time. Nakagawa Yatsuhiko’s astonishing and oft-cited article on ‘Japan, the welfare super-power’ (1979) is a case in point: ‘Japan is the leading nation in the world in terms of provisions that it makes for the welfare of its citizens and in terms of the abundance and affluence that its citizens enjoy in their daily life.’ His message is unequivocally simple: Japanese efficiency has meant that high welfare does not necessarily mean a high tax burden or high government expenditure. Many of its elements have found their way into western discourse along with increasingly negative evaluation of what was called by the mid-1970s the *eikoku-byo*, the ‘British disease’, of over-dependence on the welfare state.

This disparaging notion of ‘the Western welfare state’ has become a key element in Japanese and subsequently other East Asian ‘negative Occidentalism’ on the welfare front. It has also become embedded in broader culturalist arguments about the alleged superiority of Eastern over Western values and institutions. Part of Lee Kuan Yew’s notion of ‘Asian values’, for example, is the idea that Western-style welfare states are not only economically too expensive for Asian states to copy but also culturally inappropriate in that they foster laziness and dependency. These problems are rooted in the Western ideology of individual rights; Eastern welfare systems work better because they rest on strong community and family values

which are strengthened, not weakened, by state action (Caplen 1995). This refrain has been taken up by welfare reformers in China (see Chapter 8 in this volume and Xie 1991: 165–8) who have likewise sought to build a negative stereotype of *le malaise anglais* and the ‘Western welfare state’ as financially wasteful, socially corrosive and economically irrational. This picture is usually counterposed to culturalist arguments about the virtues of ‘Asian traditional values’ which stress the welfare role of the family, the role of private philanthropy and the avoidance of dependence on the state. This welfare discourse draws heavily on ‘Confucian’ rhetoric both to define and legitimate policies (for example, see Baba 1978 on Japan; Chao 1988 on Taiwan; and MHS 1994 on South Korea).

What of the Western academic literature on social policy in East Asia? It is as yet weakly developed, both in quantitative and analytical terms. Careful studies by MacPherson (1992), Ramesh (1995) and Tyabji (1993) have provided detailed information on the precise characteristics of specific national welfare systems and have identified differences as well as similarities between systems. Deyo has stressed the relationship between welfare and state-directed industrialisation in the region, arguing that ‘East Asian social policy has been more strongly shaped by the developmental priorities of politically insulated states’ (1992: 304). By contrast, Midgley (1985) argues that no simple relationship exists between welfare and industrialisation in the ‘four little tigers’ and that welfare policy reflected an incremental process which varied across these societies. However, he does not suggest an alternative analytical way forward, rather providing a complex list of contingently related factors which make comparative analysis very difficult.

Studies of this nature emphasise a large number of factors conditioning welfare arrangements and policy, with culture as a more or less prominent theme. However, there have been moves in the direction of a more ‘Orientalist’ approach through the notion of ‘Confucian welfare systems’ pioneered by Jones (1990, 1993). She argues that societies in the region together ‘make up their “own brand” of welfare states’ (1993: 199) which she identifies with a ‘Confucianism’ which ‘still connotes a common set of presumptions and predispositions, not just in name’ (ibid.: 202). The essence of this is what she calls ‘corporationism’, embodying ‘hierarchy, duty, compliance, consensus, order, harmony, stability – and staying power’ (ibid.). The end result is the ‘Confucian welfare state’ with the following characteristics:

Conservative corporatism without (Western-style) worker participation; subsidiarity without the Church; solidarity without equality; laissez-faire without libertarianism: an alternative expression for all this might be ‘household economy’ welfare states – run in the style of a would-be traditional, Confucian, extended family.

(ibid: 214)

Jones regards this experience in a positive light because it embodies a ‘leaner’ and more family/community-based welfare system; indeed she concludes by saying

‘why not a variant of Confucianism for Europe?’ (ibid.: 215). The notion of a ‘Confucian welfare state’ has been accepted by other social policy analysts such as Saunders who argues that it rests on ‘the principles of familial responsibility and obligation’ (1996: 4).

In sum, we can discern three versions of positive ‘welfare Orientalism’ which are currently influential in shaping perceptions of East Asian welfare systems. First, there is an instrumental version common among Western politicians who regard East Asian welfare systems as providing useful lessons for Western societies. Second is an academic model of welfare Confucianism which has arisen within the field of comparative social policy. Third is an indigenous form which is couched in culturalist discourse and is highly influential in intellectual and political debates over welfare policy in East Asia. However, our emphasis on this indigenous form of positive Orientalism in East Asia should not give the impression of some monolithic cultural change in values. In fact, in all East Asian societies there have been – and remain – subtle and complex interactions between negative and positive evaluations of their own and Western social values.

## **Our main research findings**

### *The nature of East Asian welfare experience*

Let us now return to our original question: is there such a thing as an ‘East Asian welfare model’? Drawing on our five case studies, we find that in certain key respects, East Asian welfare systems do differ from their Western counterparts and to that extent do constitute a distinct welfare experience with shared common elements. By comparison with Western countries, East Asian governments are relatively low spenders on social welfare. However, state involvement in welfare provision is not as modest as some commentators suggest. This underestimate partly reflects the particular way in which the state participates in the financing of welfare. The state in these countries is, to varying degrees, a regulator which enforces welfare programmes without providing direct finance, whether based on social insurance schemes or a central provident fund (Hong Kong is an exception here). However, even when we broaden our calculations to allow for the state’s regulative function, East Asian governments still play a financial role in welfare provision which is significantly less than their Western counterparts.

But any view that measured the welfare role of the state purely by financial indicators would be misleading because it ignores the ways in which the state has acted pervasively in East Asia to achieve welfare goals by other means. Most notable is the strategic role of states in directing a process of economic development with distributive as well as growth objectives, resulting in a relatively egalitarian pattern of income distribution compared with other industrialising regions such as Latin America.<sup>10</sup>

There are other common features across these five societies. The notion of state-provided or guaranteed welfare as a social right of citizens is weakly developed. Rather, non-state agencies – community, firm and family – have been expected to play a major welfare role in both financing and providing welfare services in an ideological context wherein self/mutual help is encouraged and dependence on the state discouraged, indeed stigmatised. The principle of social insurance (wholly or partially funded) is favoured over other means of financing, notably through taxation-based, pay-as-you-go schemes. In ways similar to what Esping-Andersen (1990) calls ‘Bismarckian’ welfare systems, state-sponsored welfare programmes in the three Northeast Asian states – Japan, South Korea and Taiwan – have tended to develop as a fragmented array of particular schemes for core social groups, an institutional segmentation which both reflects and reinforces differentials in power and status in society.

Despite these common elements, however, the evolution of each country’s welfare system has had its own distinctive trajectory and they differ today in consequence. National welfare systems have developed incrementally over time and have been conditioned by the structure and dynamics of the social, economic and political conditions in each country. For example, social policy in Singapore was a salient part of a political strategy to enhance national solidarity and build support for the dominance of the People’s Action Party.<sup>11</sup> Welfare programmes were also introduced as part of a broad political strategy to build legitimacy for authoritarian regimes (in Taiwan and South Korea), as part of a programme of sponsored democratisation (in Hong Kong), or to forestall opposition challenges (in Japan in the early 1970s). As a result of these and other differences, individual welfare systems have their distinct characteristics: for example, the large-scale public housing programmes in Hong Kong and Singapore, and the Central Provident Fund (CPF) in Singapore, which reflect their status as city-states with migrant populations.

In broad terms, the systemic similarities between Japan, South Korea and Taiwan are more pronounced, partly reflecting the fact that the latter two countries have (un)consciously emulated the former in constructing their own welfare systems.<sup>12</sup> Hong Kong is a clear out-rider because its welfare system has a different structure from the rest and the government plays a more direct role in financing it. Singapore is also distinctive in terms of the degree of integration of welfare provision through the CPF and its close links with the hegemonic PAP. Given these differences, it is misleading to think in terms of one homogeneous, over-arching ‘East Asian welfare model’ common to these five societies.

### ***How does one explain East Asian welfare experience?***

To the extent that common elements do exist, the reasons for their development are complex. At one level they reflect the broader East Asian pattern of state-sponsored development, whereby welfare arrangements have been shaped to fit the strategic

priority of rapid industrialisation. Rather than being ‘wasted’ on ‘unproductive’ welfare expenditures, financial resources have been concentrated on economic development; governments have sought to keep expenditures on social assistance down and to design funded systems of social insurance which could also provide financial resources for investment in industry and infrastructure. In consequence, these might be called ‘developmental welfare systems’. At another level, East Asian welfare systems reflect a particular pattern of political forces and institutions in which conservative elites have been dominant and authoritarian political regimes have been the norm until recently (even including Japan which had a one-party dominant system of democracy until the early 1990s). Welfare programmes were overwhelmingly introduced by those in power rather than as a result of popular demand. The motives of those in power have focused on the priority of rapid industrialisation, partly for reasons of domestic stability and partly in response to geo-political pressures, notably the need to compete with threatening neighbours in a Cold War world. In all five countries surveyed here, forces which have influenced the evolution of Western welfare systems – notably labour unions and social democratic parties – have not had a significant influence on the making of social policy.

We found ‘cultural’ explanations in terms of Confucianism and the like, whether indigenous or foreign, unhelpful in our attempts to understand the evolution of East Asian welfare systems. When measured against the strategic impact of basic political, economic and demographic factors, ‘culture’, as presently portrayed at least, proved to be of residual explanatory value. While it is a truism that welfare systems may reflect deep-seated elements of social structure and values, it is hard to establish this empirically and take analysis beyond mere assertion or analogy. Our studies show, moreover, that popular conceptions of welfare may change over time (see Chapter 7 on Hong Kong), that alternative conceptions which may be closer to Western notions of welfare entitlements have been excluded or repressed by the elites in power, and that new conceptions have been growing with the surge of democratisation since the late 1980s. Moreover, it is unwise to over-emphasise the distinctive ‘Asianness’ of these systems since they reflect considerable learning from the West: for example, Singapore’s Central Provident Fund was initiated by the British colonial government and Japan has a long history of drawing on various elements of Western welfare experience, much of which it has passed on – explicitly or implicitly – to Korea and Taiwan.

Orientalist arguments – whether applied to welfare or other facets of East Asian societies – based on culture cannot deal adequately with these dynamics, conflicts and overlappings. In our view, they have the following analytical problems.

- They are ‘essentialist’ in the sense that they identify certain basic features of East Asian societies and imbue them with a sense of timelessness. As such, they tend to marginalise other forms of explanation or reduce them to mere expressions of these essences.

- 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 a blancmange mould on a recalcitrant reality. Operating at such lofty levels, they can easily degenerate into airy nonsense and they often operate with such low standards of evidence that they are simultaneously unconvincing yet difficult to refute.
- They tend to set up a dichotomy between hypothetical opposites or alternatives, in this case ‘East’ and ‘West’, which not only artificially denies the possibility of overlapping or shared features, but also obscures the complex ways in which societies interact and social values are constantly being reshaped by this interaction.
- They tend to homogenise regions and societies, positing some basic ‘East Asian’ identity common to the region and some shared consensus underlying social diversity. This may obscure non-marginal differences between societies which, in fact, are often riven by antagonisms based on widely different social and political values.
- They often demonstrate a kind of intellectual elasticity which reflects the ways in which a (relatively inflexible) theory struggles to come to grips with a complex and mercurial reality. Thus Confucianism comes in many forms: it can be made potentially democratic and potentially authoritarian, entrepreneurial or conservative, communitarian or particularistic. The particular version depends to a considerable extent on what the analyst wants to do with it.

In the realm of academe, if ‘culturalist’ explanations are to have any future, they have an enormous methodological task to shoulder. Our work has shown that cultural explanations play a very important political role as ideological discourses which reflect and rationalise certain basic developmental motives and political forces (cf. Goodman and Peng 1996). In this sense, ‘welfare Orientalism’ does influence the evolution of specific welfare systems, but largely as mediated through politics.

Although this book has not examined the subject in depth, we would argue that the phenomenon of firm-level welfare in East Asia also reflects this process. In Japan and South Korea in particular, company welfare – what Esping-Andersen (1990) in his classic comparative analysis of welfare states has called ‘corporatist welfare’ – has often come to be seen as the main form of welfare provision. We would argue, however, along with Gould (1993), that company welfare in both countries should not be seen simply as a strategy by employers in large companies to secure the loyalty and obedience of their employees, but also as part of a state-fostered ideology aimed at avoiding the development of strong unions and thwarting demands for greater welfare support for the population as a whole. Gould criticises as essentialist those arguments, which have been made both inside and outside

Japan since the mid-1960s, that Japan's company culture is a natural outgrowth of its 'cultural' and 'historical' practices. Instead, he sees the development of the current arrangement as more closely related to the economic and political strategies of both the state and the large companies.<sup>13</sup> His is an argument which we have made elsewhere (see Goodman, forthcoming) and are in agreement with it here too.<sup>14</sup>

In sum, welfare needs to be examined in terms of political discourses as much as, if not more than, in terms of a set of policies. It is part of the skill of political elites – in democracies and non-democracies alike – to legitimate their positions by reference to traditions and histories which are either indigenous or copies of systems elsewhere. As the expression 'welfare Orientalism' suggests, analyses of foreign welfare systems tell us a great deal about the motives of those who undertake them and the economic and political power of the countries they are looking at relative to their own. At times, these analyses serve to legitimate, even help to construct, the very systems that they purport to describe.

### ***Is the East Asian welfare experience a suitable case for emulation?***

How rational is the instrumental Orientalism of Western politicians who have been looking to East Asia for answers to their welfare dilemmas? It is easy to see why certain elements of the experience might appear attractive.

- It promotes an ideology and practice which subordinate welfare, particularly in the form of progressive redistribution and a universal and generous benefits system, to the over-riding priorities of economic efficiency and growth.
- It is relatively cheap in financial and personnel terms, allowing the diversion of financial resources to directly productive purposes.
- It creates a welfare environment (in which publicly provided safety-nets are weak or non-existent) which creates both positive and negative incentives for hard work and discipline.
- It discourages dependence on the state and makes full use of available social resources, including community, firm, group and family.
- Funded social insurance schemes provide substantial financial resources which can be used for developmental purposes under state direction, notably through investment in social and physical infrastructure.

On the other hand, the East Asian welfare experience has a steep 'down side', as some of the more careful analyses by Western politicians have emphasised.<sup>15</sup>

- The heavy reliance on the welfare role of the family has serious implications for gender relations and the position of women. The model rests implicitly on a context in which women are the main carers within the family and therefore

potentially imposes an extra load on top of their ‘double burden’ of housework and paid employment.

- These welfare systems tend to reinforce socio-economic inequalities. If you are weak, vulnerable or poor, you may not only be in trouble but even be stigmatised for being so.
- The lack of institutional integration until recently in the fragmented social insurance systems in Northeast Asia poses high efficiency costs in terms of management and co-ordination.
- Welfare policy has reflected the political logic of conservative dominance and/or authoritarian institutions and has been established and maintained on this basis.

More generally, moreover, it is important to situate any comparative evaluations of welfare systems in the context of more precise meanings of ‘cost’ and ‘welfare’. East Asian welfare systems may appear ‘cheaper’ than their Western equivalents, but this judgement is usually measured in monetary terms and usually means cheaper for government. However, substantial financial resources are being expended by other agents in society (notably through social insurance contributions) and a substantial amount of the welfare services provided – in the household and community – are non-monetised costs. Moreover, what does ‘welfare’ mean in different societies? For example, the options available to a person with disabilities in Britain or the United States, where a substantial network of state support exists, may be greater than in a welfare system where the only or main provider is the family and the state plays a residual role. The latter welfare systems may be cheaper, but are they producing less ‘welfare’, in terms of both quality and quantity? An investigation of these weighty issues is beyond the bounds of this volume, but would seem to be a priority for future work.

In spite of these problems, certain elements of the East Asian welfare experience – most notably the ideology of self-reliance and the principle of funded schemes of social insurance – may continue to attract Western politicians. However, any lessons they draw must be treated with caution since these elements are parts of a much broader model of state-dominated industrialisation and authoritarian politics which is unacceptable or unfeasible in Western contexts. Moreover, there are serious questions about the sustainability of East Asian welfare systems in the light of several fundamental trends.

- Though the extent to which these welfare systems have contributed to economic growth may be debatable since there are many other ingredients of successful economic performance in East Asia, their viability depended on the maintenance of high-growth economies with full or nearly full employment. If these conditions falter, as they have over recent years, particularly in Japan, there may be intolerable pressures on existing welfare arrangements.

- These welfare systems (including Japan's until recently) have been built in 'young' or 'very young' societies, are threatened by the onset of rapid societal ageing and may be undermined to some extent by changes in family structures.<sup>16</sup>
- While they have been constructed within a matrix of authoritarian politics, the challenges of democratisation (in Korea and Taiwan since the mid 1980s; in Hong Kong under Governor Patten; in Japan after the end of the Liberal Democratic Party monopoly) have changed the political parameters by giving space for new voices and creating greater pressures for more comprehensive welfare provision. There is also pressure for the state to play a more direct financial role rather than acting merely as a regulator, or to extend its range of direct provision from particular groups to all citizens.
- The current process of globalisation exerts pressures on companies to 'downsize' domestically or to export jobs to maintain international competitiveness, and on erstwhile *dirigiste* regimes to liberalise their commercial, financial and labour systems. These trends may be undermining the socio-economic and institutional conditions which have underpinned existing welfare systems.

Indeed, at the time of writing (late 1997), there is growing doubt about the continued viability of the 'East Asian miracle' as a whole, given financial crises in the region and stubborn structural problems in the Japanese and Korean economies. While the demise of the 'miracle' has been announced before – for example by Bello and Rosenfeld's 1990 book *Dragons in Distress: Asia's Miracle Economies in Crisis* – Western discourse on the East Asian experience has taken on a markedly more negative tone, tinged with a strong element of *Schadenfreude*. There is also evidence of a growing lack of confidence in the region itself, as economists there remark, for example, on the putative advantages of the Anglo-American policy of labour market 'flexibility'. The era of both positive Orientalism and negative Occidentalism may be waning as both sides of the divide find themselves grappling with increasingly similar and intractable socio-economic problems.<sup>17</sup>

## **Conclusion**

We can summarise our argument quite briefly. While they share certain common features, East Asian welfare systems are not homogeneous and one should be cautious about over-simplification; they have serious deficiencies as well as strong points; and they have relied heavily on distinctive social, demographic, political and economic conditions which may not be present elsewhere and are in any case under threat in East Asia itself.

The East Asian welfare experience may have greater relevance to other societies in the early stages of economic development as a recipe for 'developmental welfare'. But there are serious issues of transferability/feasibility even in these cases, since

many, if not most, developing societies lack the initial conditions and structural features of East Asian societies. With regard to its relevance to Western societies, and Britain in particular, we are comparing chalk and cheese. East Asian welfare systems have been viable because they have developed within state-directed growth economies characterised by relatively full employment, in societies with relatively young populations with more recent memories of poverty and degradation, in political contexts characterised by weak civil societies and political oppositions and strong authoritarian regimes, and in social contexts characterised by hierarchical social relations and gender inequality. They are currently under threat from the democratic political pressures which helped to create many Western welfare states in the first place and from the economic pressures which are threatening all welfare systems, not just Western ones.

In short, while East Asian welfare experience is interesting in and of itself, it is of limited substantive relevance to the West and cannot be regarded as a model for emulation, despite its superficial attractiveness. To the extent that it is relevant, it may be so more to the West's past than to its future. East Asian welfare systems were created *ex nihilo* as one part of a general process of transforming poor societies; by contrast, Western reformers face a situation in which that transition has already taken place and in which comprehensive welfare systems are institutionalised and welfare expectations deeply entrenched.

## Notes

1. This 'positive' dimension of contemporary Orientalism contrasts with Said's own argument to the effect that the Orient is in fact a Western myth that has been constructed as a negative and inferior 'Other' to establish and legitimate the putative superiority and dominant position of the Western 'Self'. He draws largely on sources from the Victorian period when Western societies, living in a world where the evolutionist paradigm predominated, took it for granted that their 'culture' represented the highest pinnacle of civilisation.
2. For a good overview of some of the common themes of the *Nihonjinron* literature and some of the problems with its methodology and theoretical assumptions, see Mouer and Sugimoto (1986).
3. The phrase is that of Arif Dirlik (1994: 341) and is cited in Greenhalgh (1994: 747).
4. The 'developmental state' literature on Japan (e.g. Johnson 1982), Korea (e.g. Amsden 1989), and Taiwan (e.g. Amsden 1985; Wade 1990) emphasises the importance of the state in the development of the region in contradistinction to the *laissez-faire* economics of Western competitors. The developmental role of the state has involved the identification and support of successful industries, the building up of a strong – but small – high-calibre bureaucracy to undertake long-term planning, the avoidance of 'waste' in terms of capital, and talent in terms of 'paper entrepreneurship', and the development of overarching bodies – between the bureaucracy, the politicians and business – to ensure the development of long-term visions. While the details vary depending on the case, the developmental state is seen as a common feature of all these societies, along with the subservience of individual interests to those of the wider national interest as determined by the state.
5. The apparent success of East Asian education systems is widely reported through the

results they achieve in comparative tests, particularly in mathematics and science. Western authors have sought to discover how these results are achieved so as to transfer the relevant features to their own systems. Typical examples for the United Kingdom are Lynn (1988) and Howarth (1991). Both authors are very positive about the Japanese education system and very harsh on the British, although they clearly come from opposite ends of the political spectrum. Similarly, governments and parties of all political hues turned their attention to these ‘newly discovered’ education systems and sought positive lessons from them. It became, in the mid-1980s, virtually *de rigueur* for any new Education Minister of any OECD country to pay a fact-finding visit to Japan, and increasingly to South Korea and Taiwan too. They all claimed to find much to admire in these systems. Those on the political right stressed their concentration on basic learning, emphasis on discipline, parental responsibility, preparation of children for the market place, competitiveness between schools and apparent low expenditures (based largely on large classes and little investment in facilities). Those on the political left pointed to the effectiveness of these same systems in producing social cohesion and social mobility (via educational meritocracies), their non-selective, comprehensive educational philosophies, high status for teachers and emphasis on equality of treatment for children regardless of their background. What is most interesting in terms of the Orientalist debate, however, is that only thirty years ago exactly the same systems of education in East Asia were being blamed for stifling economic development because of their conservativeness and denial of individual expression.

6. ‘Confucius: still a subject of interest’, *Beijing Review*, 18, 1990, pp. 32–3, cited in Chan (1996: 33).
7. For valuable discussions of this rediscovery of Confucianism by East Asian scholars, see Greenhalgh (1994) and Chan (1996).
8. ‘Orientalist politics’ is not uniformly positive. For example, Ling (1994: 393) interprets the 4 June Massacre in Beijing in 1989 as a reflection of the fact that in China ‘the Confucian script of parental governance remains the core feature of political interaction. It casts political relations as Confucian family relations’. Thus the Communist authorities that suppressed the student movement were acting as ‘benevolent but firm parent-officials’ and the students themselves were ‘filial dependants’; consequently, any attempt to encourage democratisation in China must find ways to counter this oppressive heritage.
9. For the outlines of some of these arguments by politicians, see Blair (1995), MacShane (1995), Patten (1995, 1997) and Smith (1996). For further examples and commentary on these debates, see Hutton (1995), MacWhirter (1995) and Timmins (1996).
10. MacPherson (1992) talks of this as ‘growth-mediated security’.
11. Again, one is reminded of Bismarck’s attempt to use social insurance programmes as a method of nation building, in the German case specifically to assert the authority of central over local governments (Rimlinger 1971).
12. Dwight Perkins (1994) makes a similar distinction in his assessment of overall models of East Asian development.
13. For detailed historical accounts of this process, see Clark (1979), Gordon (1985), Kinzley (1991).
14. Similarly, along with Garon (1997), we are not convinced that the family is a ‘natural’ source of welfare support in Japan, rather that the state has helped foster the idea that state-derived welfare is stigmatising to recipients, whereas family-derived support is praiseworthy. Compare the argument by Chang (1997) to the effect that notions of the family in South Korea are ideological constructs used for political purposes.
15. For example, the assessment of Singapore’s CPF by the then shadow spokesman on social security in the British Labour Party, Chris Smith (1996).

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16. By 2030 Taiwan, South Korea, Hong Kong and Singapore will have a higher proportion of citizens over 60 than the USA in 1990. In Singapore, the figure is estimated to increase from 8.5 per cent in 1990 to 29.4 per cent in 2030 (Caplen 1995). For one analysis of the threat posed by societal ageing to previous family-based systems of welfare, see Choi (1996) on South Korea.
17. For example, consider Taira and Levine's (1996) study of the growing threat of unemployment in Japan.

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## **Part II**

# **An overview of East Asian welfare systems**



## **2 Democracy and the politics of social welfare: a comparative analysis of welfare systems in East Asia**

*Huck-ju Kwon*

### **Introduction**

This research set out to investigate the evolution and character of welfare systems in East Asia to ascertain whether or to what extent they constitute a distinct ‘model’ of welfare provision. Both researchers and policy makers have suggested that the East Asian experience is distinctive (Jones 1990, 1993; Gould 1993; Goodman and Peng 1996), differing decisively from the Euro-American models current in social policy discourse (e.g. Esping-Andersen 1990). This thesis is worth exploring because there has been a good deal of discussion about an East Asian NIC model of economic development, yet analysis of its welfare component is in its infancy (for exceptions, see Dixon and Kim 1985; Midgley 1986).

This study was prompted partly by a dissatisfaction with the existing literature on the subject. As our country case-studies reveal, there have been many idiographic case-studies of social policy in individual societies. These have extended the empirical horizons of research, but have been less successful in contributing to a more comparative and theoretically informed understanding of East Asian experience. Policies and their outcomes which look unique in one country appear in other countries as well. By contrast, comparative studies which posit a distinctive East Asian model tend towards homogenisation, basing their analyses on some underlying common cause, whether this be NIC-style industrialisation or ‘Confucian’ culture. To be sure, these factors play some role, but this kind of analysis is weak in explaining the precise national profiles of social policy and differences between welfare systems. Moreover, while there are some notable attempts to identify the distinctiveness of East Asia by comparing Japan with Western societies (e.g. Rose and Shiratori 1986; Kato 1991; Gould 1993), in this ‘East–West’ format of comparison, the contrast is so overwhelming that elusive but important characteristics of social policy can escape attention. More importantly, Japan alone cannot represent East Asian experience more generally. Our project sought to capture both similarity and diversity in East Asian welfare systems through an approach which was both comparative and configurational.

In this chapter I intend to examine social policies in five East Asian societies: Singapore, Hong Kong, Taiwan, South Korea and Japan. These countries are the most industrialised in East Asia and have developed sophisticated social welfare systems. They have often been referred to as the public expenditure approach and the welfare role of the state in the political debate in the UK and elsewhere.

Table 2.1, based on what we call the public expenditure approach,<sup>1</sup> seems to support the argument that patterns of welfare provision in East Asia are distinctive. The table shows a clear contrast between two European and five East Asian countries. In 1992, in Sweden and the United Kingdom,<sup>2</sup> the figures for public expenditure are well over 40 per cent, while those of the five East Asian countries range from nearly 14 to 31 per cent. During the period 1989 to 1992, Sweden and the United Kingdom witnessed a rise in the level of public expenditure. This is accounted for partly by the rise in public spending and partly by the low (or negative) level of economic growth. There are also differences within regions: Sweden's public expenditure is at a higher level than that of the United Kingdom and levels in Singapore and Hong Kong are substantially lower than those in Japan, South Korea and Taiwan. With respect to South Korea, the level of public spending has risen by a small margin. In Taiwan, the level of public expenditure was already higher than in any other East Asian society in the table, and it rose sharply from 1989 to 1992.

*Table 2.1* General government expenditure as a percentage of GDP

	1989*	1992
Sweden	39.50	46.19
United Kingdom	35.80	43.17
Japan	23.48	23.83
South Korea	23.47	25.06
Taiwan	27.08	31.76
Singapore	14.24	16.36
Hong Kong	14.68	13.79

Sources: Sweden and UK: *International Financial Statistical Yearbook 1995*; Japan: *Japan Statistical Yearbook, 1995*; Korea: *Korea Statistical Yearbook, 1994*; Taiwan: *Statistical Yearbook of the Republic of China 1994*; Hong Kong: *Hong Kong Annual Digest of Statistics 1995*; Singapore: *Yearbook of Statistics, Singapore 1995*.

Note: \* The figures for Taiwan, Singapore and Hong Kong refer to 1990.

In Britain, there has been considerable debate on the relationship between the level of public expenditure and economic growth in East Asia. One side of the debate Patten (1995) argues that economic growth in East Asian countries is mainly due to the low level of public expenditure and he suggests that Britain should

follow this example. By contrast, commentators on the opposing side locate the source of economic growth in the strong state intervention which East Asian governments have exercised for decades (Hutton 1995). Some point to the high ratio of savings as the source of economic growth rather than the low level of public expenditure.<sup>3</sup> Others are opposed to applying any 'lessons from East Asia' to Britain, partly because the relationship between economic growth and the level of public expenditure is not strong enough to be a guide for public policy, partly because any such 'lessons' would be politically unacceptable because vulnerable parts of these societies are not adequately protected.<sup>4</sup>

As in other public debates, commentators tend to exaggerate those aspects of East Asian societies which support their arguments and disregard others which do not. For instance, there is a whole range of causal factors which could explain economic growth in East Asia and scholars in the field still disagree about how best to explain it.<sup>5</sup> But whether the best explanation lies in the low level of public expenditure or the high saving ratio, it is patently absurd to point at only one particular factor as the driving force of economic growth in East Asia. The British Conservative Party's argument that the low level of public expenditure is the cause of economic growth in East Asia is misleading because the expenditure approach does not fully capture the modalities of state intervention in East Asia; the high saving ratio on which the Labour Party places emphasis needs a clearer definition before it can be presented in terms applicable to Britain. The system of 'compulsory savings' in Singapore for instance has little meaning as savings but is, rather, a different form of taxation.

For the moment, what is clear from Table 2.1 is that overall levels of government expenditure in East Asian countries are lower than in West European nations. But there are methodological questions to be dealt with before we can go on to conclude that there is an East Asian model of social welfare which typically has a low level of public expenditure. First, is public expenditure in these Asian countries measured in terms comparable with those of European countries? In other words, can it capture all the aspects of the financing of social policy? Second, can we assume that the social outcomes of public expenditure are the same across the countries? For instance, can we regard the level of public expenditure as a measure of a government's commitment to equality and equity (OECD 1985: 26)? More importantly, the public expenditure approach does not provide any explanation for how East Asian countries have come up with particular systems of social welfare.

Some scholars have already raised questions about the methodological viability of the expenditure approach in the study of social policy, arguing that comparative research based exclusively on public expenditure necessarily provides a biased picture. There have been three strands of criticism. First, the expenditure approach cannot deal with the theoretical substance of welfare, such as power and democracy (Esping-Andersen 1990). The second strand criticises the assumption underlying the expenditure approach, arguing that higher expenditure does not necessarily mean higher levels of welfare (Korpi 1989). Third, it is argued that the public

expenditure approach does not capture all aspects of state intervention in the financing and delivery of welfare (Castles 1994; Kwon 1995). We shall explore this third criticism further, in particular by elaborating on modes of state intervention. We believe that this issue is particularly relevant to the comparative study of East Asian welfare systems.

Social policy is a mode of state intervention through which social goals such as social justice, equality and equity, the protection of vulnerable people and prudent life planning are pursued. Whether such social values are better achieved by state intervention than by people themselves has long been a focus of academic debate in political theory as well as social policy (e.g. Rawls 1972; Nozick 1974; Hayek 1960). In real-life politics, things are more complex because not only such social goals but also political goals are pursued through social policy. Politicians use social policy to gain power or to stay in power; in some cases, social policy has been used as a political measure of nation building. For instance, Bismarck's social policy in Germany was not only a pre-emptive strike against left-wing movements, but also a nation-building effort to assert the authority of central government over local governments (Rimlinger 1971). This aspect of social policy is particularly important in the East Asian context, as we see later on in this chapter.

Whether intended to further social or political goals, social policy requires resources to deliver intended outcomes. The question of how to finance the cost of social policy is crucial to achieving intended goals and affects distributional outcomes. The bias of the public expenditure approach is that it can only capture that area of social policy financed through the government account. But this is only one particular method of financing and excludes other methods. For example, the level of total expenditure by government and quasi-governmental bodies in Singapore rises from 13.79 per cent to about 20 per cent of GDP (IMF 1995) if the expenditures of the Central Provident Fund and other social programmes which are not covered by direct government expenditure are included. However, we should not regard this as a simple question of adding the figures, since the method of financing is closely related to what political goals are pursued through social policy and strongly influences the outcome of redistribution.

To clarify the method of financing, let us, first, take the case of health care. The role of the state in the financing of health care falls into two categories according to the nature of the state's financial responsibility. The first is the state as 'provider', whereby the state itself delivers health care services which are then paid for through government expenditure. The National Health Service in Britain is a classic example. A second type is the state as 'regulator', whereby the actual delivery of health care may be entirely private, although not voluntary, and the costs of services are met by public insurance agencies. In Korea, for example, the expenditure of such quasi-governmental insurance agencies is not part of government expenditure, just as the insurance agencies themselves are not part of the government, although they are established by statutory rules. Consequently, financial resources from government

expenditure are not a necessary condition for the operation of the health care system. Such models are, of course, only ideal types. In reality, a health care system as a whole can contain different combinations of provider and regulator roles of the state (OECD 1987). For instance, the Japanese government provides 30 per cent of the financial resources for health care of the aged, and in South Korea the Health Assistance Programme, which is a programme for those officially defined as poor, is mainly financed by the government.

The financing of public pensions can also be seen from this perspective. The mainstream view divides the arrangements for public pensions into three different schemes: pay-as-you-go, provident fund and social insurance systems. In a pay-as-you-go system, those currently working pay for the pensions of those at present entitled to them, and rely on the next generation's contribution for their pensions in the future. Under the provident fund system, by contrast, contributors pay premiums for their own pensions into a designated savings account. If other conditions such as productivity, inflation and the population structure remain constant, there is no inter- or intra-generational redistribution under this system, because a person simply saves money in his or her account and withdraws it later.<sup>6</sup> Pension schemes under the social insurance principle are a combination of the above two systems. While individual programmes vary enormously, in principle social insurance schemes require the insured to contribute premiums for a certain period of their working life and then provide pensions to those qualified. What makes social insurance programmes different from the pay-as-you-go scheme is that there is no automatic inter-generational redistribution. Contributions from the current working population go to a fund, which will pay their pensions later. Under such an arrangement, there is intra-generational redistribution within the programme, which does not take place in a purely funded system, such as a provident fund system, since pensioners within a social insurance programme do not receive exactly what they have previously contributed. Who wins out in the pension system mainly depends on the actuarial formula used. In Japan and South Korea, public pension programmes are arranged under the social insurance principle. These pension programmes combine elements of flat-rate and earnings-related principles so that higher-income earners who contribute higher premiums will have higher pensions in money terms, but low-income earners will receive a better return for their money.<sup>7</sup> Because of this mechanism, intra-generational redistribution can take place.

In principle, the state can play the role of provider or regulator no matter how public pension programmes are arranged. In practice, however, the state tends to play the role of provider in the pay-as-you-go system. The state collects contributions, which are treated as taxes, and then provides pensions to those entitled to them. Those who pay contributions do not have ownership of the money which they have paid; instead, they have entitlements to pensions after retirement. The money collected by the state goes to the Treasury and pensions come from public expenditure. In provident fund and social insurance pension programmes,

the state can be either provider or regulator. In the former case, which can be found in the pension programmes in France and Germany, based on the social insurance principle, the state itself runs the programme. In the latter case, the state implements rules which in turn make the programme compulsory for either all or part of the population. Premiums go into a fund managed by the quasi-governmental insurance body, which is not a part of the government. That fund, in turn, provides pensions to those who pay contributions for a certain period of time. As with ordinary savings accounts, contributors to the fund maintain ownership of the money which they have paid. If a contributor ceases to be a member of a pension programme, he or she can withdraw the money accumulated in the form of a lump-sum payment in accordance with the regulations of the pension programme.

Due to such varying methods of financing and delivery of social policy, the public expenditure approach tends to underestimate the size of the welfare state in which the state plays mainly the role of regulator. For instance, suppose a person receives medical treatment within a health care system in which the state is a provider. The cost of his or her medical treatment is a part of public expenditure and therefore the public expenditure approach captures that delivery of health care. By contrast, the same medical treatment through a system in which the state is a regulator is not necessarily included in public expenditure, since the cost of treatment is borne by a fund which is separate from public expenditure. Given the same cost of medical treatment, therefore, the public expenditure can only capture delivery of care in a system in which the state is a provider and underestimate delivery in other systems.

In a system in which the state plays the role of regulator, entitlement to benefits and social protection does not come automatically as a right of citizenship. Even though people within the system have no choice other than to pay contributions because they are compulsory, those on the outside cannot claim entitlements. The state can keep a certain distance from the fund because it is not a part of the government, strictly speaking. Subsidies to the fund from public expenditure are the exception rather than the norm. Being a citizen does not necessarily guarantee rights to social protection. For illustration, let us take the case of pensions, and visualise a pay-as-you-go system in which the state is a provider. As we have seen, people currently working pay for the pensions of those entitled to them at present, and, in turn, rely for their pensions in the future on contributions by the next generation. In this system, what the current working population has now is a social right to a pension, no matter whether and how much a person pays in contributions. By contrast, in a fund system – either social insurance or provident – in which the state plays the role of a regulator, only those who are currently paying contributions to the fund managed by quasi-governmental bodies will be entitled to pensions.

In the following sections which examine the welfare systems in the five East Asian societies, we ask first why societies have chosen a particular mode of state intervention in their social welfare system rather than another. Second, we attempt

to address the question of whether the five East Asian nations under study constitute a 'model' of East Asian social welfare. Third, we examine whether the current pattern of East Asian social welfare is a long-term attribute or a transitory reflection of the stage of development of the countries in the region. To explore these issues, we analyse the historical and political dynamics of the evolution of the individual welfare systems. To deal with the politics of social policy, we intend to take a historical institutional approach. By institutions, we mean not only formal rules, but also compliance procedures and standard operating practices (Hall 1986: 19). The institutional approach pays attention not just to the overall structure of institutions but also to intermediate institutions and established patterns of political life.<sup>8</sup>

### **Singapore: economic protection without social solidarity**

#### ***The Central Provident Fund and the role of the state***

In an address to local politicians and business leaders in Singapore in January 1996, the Labour leader Tony Blair expressed his view that for Singapore, the Central Provident Fund has been an enormous success and he went on to say that an incoming Labour government would learn lessons from Singapore's experience.<sup>9</sup> He indicated that his government's economic policy would be based on social cohesion, which Singapore society demonstrated well, and his social security spokesman described the Central Provident Fund as innovative and socially inclusive (Smith 1996). It may be a mistake, however, to assume that the CPF is either socially inclusive or socially cohesive, as we shall see in Chapter 3 by Christopher Tremewan.

This 'innovative' welfare system was actually invented by Singapore's former colonial master, the British government. The Central Provident Fund Ordinance became law on 11 December 1953, long before Singapore gained its independence. The head of the board of the CPF was a British expatriate, E.L. Peake, and in 1954 three officers from the British Ministry of National Insurance came to Singapore and began to work to establish the CPF, becoming its general manager, secretary and accountant.<sup>10</sup> At the end of 1955, the CPF had 180,000 members in respect of 12,900 employers and had received S(Singapore)\$9,075,065. In 1955, CPF inspectors made more than 1,400 visits per month to places of employment and took criminal proceedings against seventy-three employers for failing to pay contributions by the due date. The CPF was a classic funded scheme with contributions by employers and employees, of an initial rate of 5 per cent each.

In the light of our conception of state intervention, the CPF was arranged in such a way that the role of the state was essentially a regulator in both financing and operating the Fund. The authorities enforced the CPF as a compulsory programme, but provided no subsidy to it. Back in Britain, by contrast, National

Insurance was introduced after the Second World War and since then has remained a pay-as-you-go system. The state played the role of provider both in financing and operating the programme. Why, then, did the British authorities in Singapore introduce a completely different scheme in the colony? Indeed, compulsory schemes of the CPF type were also introduced in other former British colonies (Vittas and Skully 1991; Asher 1991). One possible explanation for the introduction of the CPF may lie in the 'honourable retreat' philosophy of the British Empire, an element of Britain's policy in preparing its colonies for independence.

Since the 1950s, the CPF has evolved from a simple compulsory saving scheme to a complex social welfare programme, and its impact on the Singaporean society has been profound. In 1995, the CPF membership reached 2.69 million and total savings stood at S\$66 billion. There are also 163,781 self-employed members who have made contributions under the Medisave scheme for the self-employed (*CPF Annual Report 1995*). The CPF contribution rate in 1994 was 40 per cent of wages, with employers and employees contributing 20 per cent each.<sup>11</sup> Each member of the CPF has three accounts which have different purposes: the Ordinary Account for housing and approved investment; the Medisave Account for hospitalisation expenses; and the Special Account for old-age pensions and contingencies. Of the total CPF contribution rate of 40 per cent, 30 per cent is credited to the Ordinary Account, and 6 per cent and 4 per cent go to the Medisave and Special Accounts respectively. In 1994, contributions during the year amounted to S\$11,278.6 million which accounted for 15 per cent of GDP.<sup>12</sup> Withdrawals from the fund totalled S\$7,292 million in 1994. These figures clearly show how misleading public expenditure can be as a measure of the state-sponsored delivery of social welfare.

Since 1968 when the Housing Scheme was introduced within the CPF, it has been an anchor of various social policies. The Medisave Scheme came into effect from 1984 and other minor programmes such as Edusave followed. Among these new features of the CPF, the Housing Scheme has been acclaimed as a huge success. In 1990, 90.2 per cent of households in Singapore lived in houses which they owned.<sup>13</sup> This must be the highest proportion anywhere in the world.<sup>14</sup> Despite the evolution and acclaimed success of the CPF, it remains essentially the same as when it began under colonial rule. In terms of financing, the state remains as regulator in that it enforces the CPF as a compulsory programme but provides no subvention to it. The CPF Board which operates the CPF is a quasi-governmental insurance agency and its revenue and expenditure are not part of government accounts. Despite diversification of its functions, the CPF maintains an individual account system in which each member pays contributions to his or her own account. There is neither risk pooling (between different risk categories) nor a transfer mechanism (between income groups) within the CPF.<sup>15</sup> Members of the CPF can only rely on their own account for their pensions. For instance, there is no fall-back even for those with a very small amount of savings in their CPF account for some reason such as a period of inactive membership due to unemployment or illness. In

Singapore, there is almost no social security for those who have no CPF account. Only about 2,000 people receive public assistance benefits after passing a strict means test. According to Asher's calculation, the level of public assistance is at least 25 per cent below the minimum household expenditure for more than one-person households (Asher 1993). The CPF grants no entitlement or access to benefits to those outside the system whether they are Singaporeans or foreign residents. In short, Singaporeans do not have social rights to a safety-net other than their CPF. Former Prime Minister, now Senior Minister, Lee Kuan Yew and Prime Minister Goh, among others, have repeatedly insisted that Singaporeans should not expect free hand-outs from the state.

Even though the Singapore government provides no subvention to the CPF, the latter provides a colossal amount of assets and capital as well as macroeconomic leverage to the government. In 1994, the CPF fund stood at S\$58 billion, which was 73.19 per cent of GDP in that year. Of this, S\$43,620 million (55.37 per cent of GDP) was invested in government bonds and the rest was held as advanced deposits with the Monetary Authority of Singapore.<sup>16</sup> The function of advanced deposits is as a reserve fund for withdrawal by members of the CPF. The government in turn has invested these funds at home and abroad, though the details of its portfolio are not made publicly available.<sup>17</sup> Apart from the CPF fund itself, the Singapore government has used the CPF contribution rate as a macroeconomic measure. Faced with the unprecedented recession in 1985–6, for example, the government reduced the employers' contribution rate from 20 per cent to 10 per cent along with other tax reductions for business, while leaving the employees' contribution rate at the same level (Perera 1992). The reduction effectively reduced the level of wages, even though the disposable income of workers remained the same, which, as Tremewan explains in Chapter 3, made a hard decision a lot easier for the government.

### ***Nation-building, welfare policies and authoritarian politics***

The evolution of the CPF and its continuity have hinged to a large extent on the fact that Lee Kuan Yew and his People's Action Party have remained in power since 1959. Despite this solid grip, the road which brought Lee and his party to power was never an easy one. Especially in the period leading up to self-government and eventual independence, the political struggle in Singapore could be described as an institutional crisis, since the colonial government was about to leave and all sorts of political forces moved into the political arena to win power without an institutionalised pattern of politics.

After the Japanese occupation of Singapore, British colonial rule there became untenable, and Britain decided to give way to self-government in one form or another. In 1948, after a revolt organised by the Communist Party of Malaya, a state of emergency was declared, which lasted for twelve years. Singapore's delegates negotiated the terms of decolonisation with the British government in 1956 and

1957 in London, while David Marshall's self-government ran the colony on an interim basis. In the following general election in 1959, the PAP won an outright victory, winning forty-three out of fifty-one seats, and the PAP's Secretary-General Lee Kuan Yew became Prime Minister. However, Lee had yet to consolidate the power which he has enjoyed since the 1960s. The crucial battle to be fought was an internal party struggle between the Lee faction and the left wing of the party. The PAP was formed in 1955 and was a united front between the Lee faction which consisted of English-educated, Straits-born Chinese and the progressive faction led by Lim Chin Siong. The united front in the form of the PAP was a marriage of convenience in the sense that the left wing needed moderate politicians in order to satisfy the British government that they would not be a threat to British interests, while the PAP provided the Lee faction with a party of mass appeal. The central organs of the party, mainly the post of general secretary and the Central Executive Committee, were occupied by the Lee faction while the mass organs such as the party's local branches and other grass-roots associations were led by the left wing. The internal party struggle was also closely related to the issue of the merger of Singapore with the Federation of Malaya. Lee Kuan Yew sought to take advantage of the issue of the merger to eradicate the left wing in the party. The government in Kuala Lumpur was also concerned about the emerging left wing within the PAP, which it saw as a threat to its political power. In 1961, the PAP was defeated in two by-elections and the left wing of the PAP including Lim Chin Siong formed a new party, the Barisan Sosialis (Socialist Front).

Encouraged by the by-election victories, the left wing calculated that it could now replace the PAP with the Barisan Sosialis as long as the British would not think it was a threat to their interests. The forming of the Barisan Sosialis was the ultimate test of Lee's political fate and meant a real opportunity for the left wing. Throughout the merger with Malaya and subsequent separation, however, it was subject to political repression which it could not survive. Even though the allegation that Lee Kuan Yew acted as a double agent between the British security police and the PAP remains controversial (Tremewan 1994), there is no doubt that he exercised severe political repression against the left wing, using the Internal Security Act (Kim 1985). As well as suffering systematic harassment and repression, the Barisan Sosialis made serious strategic mistakes. After the 1963 general election, it deserted the parliament and adopted mass mobilisation tactics, although the 1961 by-election wins showed that it could do well in elections despite political repression. Following the election of 1968, the parliament was dominated by Lee's PAP, which went on to win all seats in subsequent elections in 1972, 1976 and 1980. The 'Westminster' type of parliamentary system Singapore had adopted was vulnerable to one-party domination, and the parliament in Singapore became a rubber-stamping institution without effective mechanisms for checking the government. Given this overall institutional configuration, Lee Kuan Yew became the ultimate decision maker.

The Lee government introduced the Industrial Relations Act in 1967 and the Employment Act in 1968 which severely curtailed workers' rights and trade union power. These measures, *inter alia*, were part of Singapore's economic strategy which was focused on attracting the capital of multi-national corporations.

The decision taken in 1968 linking the housing scheme to the CPF shows that social policy in general and the CPF in particular began to play a crucial role in nation-building efforts, the main theme of Lee's political strategy after independence. Of course, various housing plans had been implemented since colonial times. Back in 1964, the Minister for National Development announced a Home Ownership Scheme as a part of the plan for a 'property-owning democracy' (Housing Development Board 1964: 9). After separation from the Federation of Malaya, however, housing policy became the most important measure of nation building. Internationally, Singapore was surrounded by bigger, hostile neighbours including Indonesia and the Federation of Malaya. From Lee Kuan Yew's point of view, however, the lack of a sense of nationhood among the Singaporean population was the real threat to the country. Lee believed that if people owned their own homes, they would be more likely to 'fight for the country' (Sherraden 1995: 20) and he was able to carry through a housing policy which later proved to be successful. This success, however, was due not just to the clever idea of linking housing development to the CPF. Its basis was the 1966 Land Acquisition Act, which empowered the government to acquire cheaply whatever land it might need for housing development.<sup>18</sup> If there had been a strong landlord class with a vested interest in land, the housing policy could never have been carried through as easily as it was, even though Lee's PAP dominated the parliament and government.<sup>19</sup>

After the consolidation of Singapore as an independent nation throughout the 1960s and 1970s, the government began to use the housing programme as a measure of ethnic integration, with the broader aim of nation building. The Housing Development Board (HDB) regulates the mix of ethnic groups in its housing estates through intervention in both sales and resales of public-housing flats (Ooi 1993: 7). The HDB has allocated public-housing flats to achieve a racial profile in its estates and new towns that closely resembles that of the country as a whole. There has been a body of literature reporting that this spatial mix of ethnic groups has not brought about inter-ethnic integration (Ooi *et al.* 1993; Chua 1995). Nevertheless, the Singapore government managed to prevent ethnic enclaves by maintaining the ethnic composition of housing estates according to the national profile. Even though the government has vehemently denied it,<sup>20</sup> this is effectively a form of gerrymandering since for Malays and Indians ethnic enclaves would doubtless be easier constituencies to win.

The manufactured spatial distribution of ethnic groups prevents not only politicians who might capitalise on ethnic issues but other politicians from ethnic minorities from entering the parliament. With the exception of a few ethnic-minority politicians who have already established political careers, even ethnic-minority

candidates of the PAP could not be sure of winning an election in overwhelmingly Chinese constituencies. To ensure the presence of politicians from ethnic minorities in the parliament without political threat to the PAP, a system of Group Representation Constituencies (GRC) was introduced in 1988. Under this system, parliamentary candidates stand for election not as individual candidates but as groups of four representing political parties. All members of a group must belong to a single party and they either win or lose as a single group of running mates. Each GRC must have at least one candidate belonging to a minority racial community.

This invention of political institutions aims to manicure the parliament, giving the appearance of natural representation and, at the same time, ensuring the dominance of the PAP. However, one should not forget that Lee's PAP government is not entirely based on political manoeuvring. It also enjoys widespread genuine support from the people of Singapore. The economic development which has dramatically improved the quality of life in Singapore since the 1960s accounts for much of its popularity. In particular, the CPF and its components such as housing and medical schemes have played an important role in the political success of the PAP government.

To summarise, the CPF has maintained its salient characteristics from its beginnings in 1953. In the financing of the CPF, the role of the state is that of regulator, by which the state enforces the CPF as a compulsory programme. The entire financing of the CPF is managed by a quasi-governmental body, the CPF Board, from contributions of employees and employers and there is no redistribution mechanism either cross-sectionally or horizontally between CPF members; people outside the CPF have no entitlement to benefits.

Hence, while Lee Kuan Yew clearly attempted to use the CPF and its housing scheme as part of a broad strategy to create a sense of nationhood, it has been argued that he has only managed to create a 'thin' sense of loyalty to the nation. The failure to instil a deeper sense of national loyalty finds expression in middle-class cynicism and emigration (Chiew 1990). Because of this failure, the PAP government has been waging a campaign to create 'national values' since the late 1980s. As Chua has warned, delivering economic well-being without creating 'thick' loyalty through democratisation or social solidarity cannot provide a long-term basis for the legitimacy of the PAP state (Chua 1991: 39; Rodan 1993). It is this theme which Tremewan picks up and examines in Chapter 3 of this volume.

## **The welfare system in Hong Kong**

### ***Providing minimal social security***

In a speech to the British Conservative Party in late 1995, the then Hong Kong Governor Chris Patten argued that much of Hong Kong's economic success could be accounted for by its low level of public spending.<sup>21</sup> He went on to say that this is true not only for Hong Kong but for other East Asian countries which have

shown impressive economic performance. We have argued earlier that a simple comparison of public expenditure is misleading because of the different forms of state intervention in social policy. In Hong Kong's case, however, comparison of government expenditure with Britain is relevant since the colonial government provided almost the entire funding of welfare programmes except for a small amount which came from the lottery and charities. In other words, the state was a provider in financing welfare programmes although it did not actually deliver all the programmes which it funded. However, the recent trend of government spending in the area of social welfare is sharply upwards in Hong Kong, increasing by 30 per cent in 1994 and 23.7 per cent in 1995 compared to previous years (Hong Kong Government 1996: 113). Given this, Patten's emphasis on the low level of public spending, at least in the welfare sphere, might not be entirely justifiable.

The welfare system in Hong Kong consists of four main areas of social policy: social security, health, housing and social services. The social security system is very different in its funding and management from that of Singapore which also used to be a British colony. While Singapore's Central Provident Fund has an active membership of 54 per cent of the working population, Hong Kong's social security system aims only at specific sections of the population, as Chapter 7 by Nelson Chow in this volume shows. The two main programmes are the Comprehensive Social Security Assistance scheme which provides income support to those whose incomes fall below a prescribed level, and the Special Needs Allowance (renamed General Social Security Benefit in 1992) for the elderly and people with disabilities. Benefit levels of the above schemes are shown in Table 2.2 though actual levels of payment can be higher since beneficiaries can also claim other payments such as rent allowance if they are eligible. Apart from these two programmes, the Hong Kong government classifies the Criminal and Law Enforcement Injuries Compensation Scheme and the Traffic Accident Assistance Scheme as social welfare programmes.

*Table 2.2 Levels of social welfare benefits in Hong Kong (monthly)*

<i>Schemes</i>	<i>Categories</i>	<i>Benefit range</i>
Comprehensive Social Security Assistance	Elderly over 60	HK\$1,505–1,810
	Disabled adult	HK\$1,505–3,315
	Disabled child	HK\$2,105–3,315
	Able-bodied child	HK\$1,505–1,810
	Able-bodied adult	HK\$1,045–1,210
Special Needs Allowance	Normal old age	HK\$485
	Higher old age	HK\$550
	Normal disability	HK\$970
	Higher disability	HK\$1,940

Sources: Hong Kong Government (1996), *The Five Year Plan for Social Welfare Development in Hong Kong – Review 1995*; Department of Social Welfare (1996), *1993–1995 Social Welfare Departmental Report*, Hong Kong: Hong Kong Government.

Note: The median household income in 1991 was HK\$ 9,964 (Hong Kong Census and Statistics Department 1992).

Levels of benefits were increased in 1993 after the social security schemes were rearranged. The origin of such increases can be most immediately traced back to the 1991 White Paper, *Social Welfare into the 1990s and Beyond* (Hong Kong Government 1991), which was produced by the Working Party set up by former Governor David Wilson. In the White Paper, the Working Party claimed that it had attempted to improve social welfare 'without creating the sort of dependency culture that has emerged in some developed industrialised societies'. In the end, the White Paper proposed an increase in the level of benefits of existing programmes but, despite some changes, it did not propose any new policy ideas or programmes. This is in line with Hong Kong's 'traditional' approach to social welfare, which targets specific groups of people in society, providing minimal social security with government funding. Department of Social Welfare (1996) clearly reiterates the point that Hong Kong does not aim at a more comprehensive welfare state.

In health care, the system is organised under the same welfare principle in that citizens who cannot help themselves have access to public health care, while those who can afford private health care acquire health services in the private sector. There is no public health insurance which covers or intends to cover the whole population. The majority of the working population and their families receive health care from private clinics, while patients who use services provided by the Department of Health clinics and traditional Chinese medical practices are mostly elderly and persons from low-income groups (Yuen 1995: 382). The public health care services are widely regarded as inferior to private ones which are more consumer-oriented than government clinics. The Hospital Authority is in charge of providing public health services and operates thirty-seven public hospitals. It is technically a corporation but receives 98 per cent of its income from general government revenue (Hong Kong Government 1993: 9).

While the levels and scope of social assistance are very limited, Hong Kong has a substantial public housing programme. The Housing Authority of Hong Kong is responsible for co-ordinating all aspects of public housing. It has 151 rental estates and has built 122 estates under the Home Ownership Scheme (*Hong Kong Annual Digest of Statistics 1995*). In 1995, 24.1 per cent of the consolidated public capital expenditure and 7.3 per cent of the consolidated recurrent expenditure of the Hong Kong government were devoted to the development and maintenance of public housing. Rental flats are allocated to applicants according to income bands and Housing Authority flats are also sold at a price below market value to public housing tenants and families with limited incomes under the Home Ownership Scheme.

As Chapter 7 points out, non-governmental organisations deliver various social services ranging from child and youth centres, to institutional care for mentally disabled people and residential centres for the elderly. Some of the NGOs are purely autonomous bodies, but others are not entirely non-governmental since they receive

up to 100 per cent of their funding from the government under the subvention policy. These NGOs are accountable to the government for their output and performance. Other sources of funding are the Lottery Fund, the Community Chest and private donations, but government subvention is still the main source.

### ***Quasi-democratisation and the failure of reform***

Although the White Paper, *Social Welfare into the 1990s and Beyond* (Hong Kong Government 1991), announced an increase in the level of social security benefits and improved social welfare services, it is fundamentally in line with the basic principle of Hong Kong's welfare system, which is that government revenue should provide minimal social welfare to a small group of the population who could not otherwise afford a minimal standard of living. The White Paper proposed no programmes such as pension programmes aiming at covering the whole population. Nor did it envisage such programmes in the future. But the existing programme has improved since the late 1960s, up to which time the underlying theme of social policy was to avoid making the colony 'the almshouse of the South of China' (Hodge 1981: 7). One important question arising from this is the extent to which social pressure has played a role in demanding better social welfare for the people of Hong Kong. The most common answer to this question is that 'Hong Kong people do not see the government as responsible for providing social welfare'. They expect to stand on their own feet. 'They also do not want to be dragged into providing other people's living.'<sup>22</sup> Lau (1982: 72) terms this political attitude 'utilitarianistic familism' – the normative and behavioural tendency of an individual to place his or her familial interest above the interest of society and of other individuals and groups. Due to this attitude, Lau argues, mobilising social pressure to achieve social goals is hard in Hong Kong. This reluctance to have political voices heard is also related to people's perception of Hong Kong society. Hong Kong as a British colony attracted people from China, most of whom had previously suffered destitution and political oppression. Most Hong Kong people (or their parents) have already emigrated at least once and it has always been an option for them to emigrate again to other countries such as Canada, Australia and the USA. From this point of view, it is practical for people to rely only on their families for their welfare rather than on the government or society.

Common phrases such as 'borrowed time and borrowed place' or 'Hong Kong people will vote with their feet' (meaning emigrate) clearly reflect this attitude. Surveys show that from 18 (pre-Tiananmen) to 30 per cent (post-Tiananmen) of respondents indicated that they 'hoped' to emigrate from Hong Kong (Salaff and Wong 1994: 208). Furthermore, a growing body of literature suggests that a large part of the middle class is contemplating emigration as a response to the 1997 hand-over (Kwong 1990; Scott 1989; Ng and Cheng 1994). By 1993, a record 31,288 immigration visas had been issued by the Canadian Commission alone. The majority

of those who obtain visas apparently intended to keep them until they see what happens after 1997.

Given such political attitudes, interest groups in Hong Kong such as trade unions have not been actively engaged in politics, while political parties have emerged only recently. Trade union movements in Hong Kong were marred by Chinese politics on the mainland, notably the struggle between the Communists of Beijing and the Nationalists of Taiwan. For example, the Trade Union Council (TUC) was believed to be pro-Nationalist, while the Federation of Trade Unions (FTU) was pro-Communist. In the 1950s and 1960s, the rivalry between the two movements was fierce and they generally neglected those social issues which concerned the interests of Hong Kong labourers. In 1967, the Cultural Revolution spilled over to Hong Kong and led to a so-called 'Confrontation', in which street riots and bomb attacks on rival groups took place. These incidents played a great role in discrediting trade union movements in Hong Kong.

There have been pressure groups concerned with social issues. For instance, groups such as the Meeting Points and the Hong Kong Observers monitored social affairs in Hong Kong and criticised the colonial government through articles in daily newspapers such as *The South China Morning Post*.<sup>23</sup> The Hong Kong Council of Social Service also played an important role in reviewing social policy and proposing new programmes. In 1981, the Council published a statement on the setting up of a central provident fund, which failed to become a bill. The main weakness of pressure group movements was that they lacked those political resources which trade unions have such as grass-roots organisations. Nor did they occupy strategic points in the institutional structure as the bureaucracy does. They could only adopt subtle forms of political activity such as publishing articles and producing statements, and this largely prevented them from becoming a force to be reckoned with in Hong Kong politics.

In addition to the political perceptions of the Hong Kong people and the lack of political pressure, the very nature of social policy has inhibited the development of a wide-ranging benefit programme. Some welfare programmes need to be seen from a long-term perspective, most notably pension programmes and to some extent health care services. Individuals pay the cost of these programmes now and expect benefits later, when they need them. This can take up to forty years in the case of pension programmes; in the case of health care, for a healthy person benefits from welfare programmes never match contributions. Despite these characteristics, social policy programmes are viable because most people see their life-cycles from a long-term perspective in which the uncertainties of life and the need to safeguard against them are of greater importance than short-term calculations of costs and benefits. This proposition cannot hold in Hong Kong's case simply because of the lack of permanence in people's attitudes towards their society, no matter how long each individual has actually lived there. If a large proportion of the population regards

emigration as a realistic option, it is hard to force everyone to pay social insurance premiums from which many feel they are unlikely to benefit in the form of pensions.

Despite such difficulties, Patten proposed an old-age pension programme in the wake of his effort to break the mould of Hong Kong politics. According to Hong Kong's constitutional charter, the Governor's power was similar to that of an absolute monarch (Miners 1995: 69). In practice, however, most Hong Kong Governors sought consultation and consensus, and the Executive and Legislative Councils carried out a consultative function. Until 1985 when indirectly elected members took their seats in the Legislative Council, all members of the two councils were either Official (including *ex-officio*) or Appointed Members. Most importantly, Governors and the civil service of Hong Kong maintained an administrative rather than a political stance, while the Chinese did not interfere with the business of the government. Before Patten came to Hong Kong as Governor in 1992, the Hong Kong system was described as the 'administrative absorption of politics' (King 1982) and 'a minimally-integrated social-political system' in which the bureaucratic polity stood aloof from society (Lau 1982).

The new Governor Patten brought with him drastic changes to these established institutions and patterns of political practice. His democratic reform package included the complete separation of the Executive Council from the Legislative Council, and the elimination of Official and Appointed Members in the Legislative Council allowing all members to be elected by various constituencies. He also made himself accountable to the Legislative Council as the British Prime Minister to the Parliament, although he was not constitutionally obliged to do so.<sup>24</sup> His style of governorship was also very different from that of his predecessors. He behaved like a popular politician elected to high office, while his predecessors were more like diplomats.

His reform package included an old age pension. In July 1994, the Hong Kong government published a consultation paper, *An Old Age Pension Scheme (OPS) for Hong Kong*. As we have seen in Singapore, it is not unusual for the British to introduce a pension programme before they leave a colony. However, the Hong Kong proposal cannot be treated simply as a measure for an honourable retreat since the proposed OPS was quite different from the provident fund normally introduced in former British colonies. Patten's OPS proposed a pay-as-you-go system in which the present elderly could receive immediate benefits from the contributions of the current working population. This would also have had a redistributive effect between income groups as well as generations since the contribution was to be 5–10 per cent of taxable income, with benefits at a flat rate. Such a pension proposal had never been conceived before in Hong Kong and was as radical as Patten's political reform.

The Hong Kong government argued that such a scheme was the best way to deal with the problem of an ageing population. The scheme, however, was regarded by many commentators and people alike as a political facelift for Patten's image as a democratic and populist leader. As Chow discusses in Chapter 7, by the time of

the proposal, thirty-nine elected members from geographical and functional constituencies had taken their seats in the Hong Kong Legislative Council alongside twenty-one Official and Appointed members. Among them, the Democratic Party which had fifteen seats was in favour of the OPS, while the conservative wing of the Legislative Council expressed its opposition. The *prima facie* question was whether the Governor could carry the Elected Members with him to pass the OPS. The real power of veto, however, lay in the hands of China which was to take over Hong Kong in 1997. The Hong Kong chief of China's official news agency, Xinhua, sent a stern message to the government that China would oppose the scheme.<sup>25</sup> Beijing thought that the pension proposal was much too expensive and it refused to shoulder the cost after the hand-over. The Hong Kong government decided to drop the scheme before it actually submitted the bill to the Legislative Council.

Due to the failure to introduce the old age pension, the Hong Kong welfare system remains the same as it was: a minimalist system, targeting only a small section of the population, mainly poor people over 65. Most of the funding for the existing programme is provided by the state. It remains to be seen whether the government of the Special Administrative Region, which was brought in after 1997, will introduce a programme which covers or intends to cover all the population. Chow, in Chapter 7 of this volume, however, is decidedly optimistic that although it proved impossible to implement a Western-style pay-as-you-go pension system, it will be possible to introduce a provident fund system which is more consonant with what he calls Hong Kong's 'reluctant collectivist' welfare ideology.

## **Taiwan: democracy and the new direction of social policy**

### ***The structure of the welfare system***

After the Labour Insurance programme was introduced in 1950, the welfare system in Taiwan stagnated until the 1980s, with only two major social insurance programmes: the Labour Insurance and Government Employees' Insurance programmes. Since the 1980s, however, new programmes have been brought into effect and have resulted in a somewhat fragmented and complex structure. Until 1995 when the National Health Insurance programme was introduced, the welfare system comprised fourteen main programmes for which various ministries of the central government and provincial governments were responsible, although virtually all of them were health insurance programmes. Table 2.3 shows social insurance programmes before integration into the National Health Insurance programme.

The Labour Insurance and Government Employees' Insurance programmes included lump-sum retirement payments as well as health insurance schemes. Other programmes had only health insurance schemes. Before 1995, the programmes in Table 2.3 covered 59.5 per cent of the total population. As Ku points out in Chapter

Table 2.3 Social insurance programmes and their finance in Taiwan (before 1995)

<i>Programmes</i>	<i>Contribution rate of wage (%)</i>	<i>The insured's rate of contribution (%)</i>	<i>Employers' rate of contribution (%)</i>	<i>Government rate of contribution (%)</i>	<i>Introduction</i>
LI	7	20	80	—	1950
GEI	9	35	—	65	1958
RGEI	8	100	—	—	1965
ITASPS	9	35	32.5	32.5	1980
HIGED	3.8	50	—	50	1985
HIRGE	9	50	—	50	1985
HISRGE	9	50	—	50	1985
HISTASPS	9	50	25	25	1985
FHI	6.8	30	—	70	1989
HICVA	6.8	50	—	50	1989
HIDTASPS	3.8	50	25	25	1990
HILIH	—	—	—	100	1990

Source: Department of Health, Republic of China (1994: 170).

Note: LI: Labour Insurance; GEI: Government Employees' Insurance; RGEI: Retired Government Employees' Insurance; ITASPS: Insurance for Teaching and Administrative Staff of Private Schools; HIGED: Health Insurance for Government Employees' Dependants; HIRGE: Health Insurance for Retired Government Employees; HISRGE: Health Insurance for Spouses of Retired Government Employees; HISTASPS: Health Insurance for Spouses of Teaching and Administrative Staff of Private Schools; FHI: Farmers' Health Insurance; HICVA: Health Insurance for Councillors and Village Administrators; HIDTASPS: Health Insurance for Dependants of Teaching and Administrative Staff of Private Schools; HILIH: Health Insurance for Low Income Households.

5, the 1995 National Health Insurance programme integrated all these health insurance schemes into a single programme which is expected to cover those not previously covered by one of the above programmes. There are also major changes in the Labour Insurance and Government Employees' Insurance programmes along with the introduction of the National Health Insurance programme. Apart from these social insurance programmes, there are social assistance programmes mainly run by the local governments, providing benefits to 0.5 per cent of the population and various social services to elderly people without family, homeless children and some disabled people, reaching 1.1 per cent of the total population in 1990.<sup>26</sup> Some local governments provide old age allowances to their residents although the national figure for these allowances is not yet available.

To finance the National Health Insurance programme, the government takes responsibility for providing funds in varying proportions according to job categories, paying the largest proportion for workers without fixed employers, farmers, veterans and low-income households. The government pays 40 per cent of premiums for people classified as 'Others', who did not have health insurance previously, thereby enabling the National Health Insurance programme to cover almost the whole population.

At first glance, Table 2.3 seems to show that the government began to take on the role of provider in the financing of social policy from 1958 with the introduction of the Government Employees' Insurance programme. However, the government should not be seen as a provider here since its contributions were made as an employer. In the subsequent introduction of programmes following the Government Employees' Insurance programme, no changes in the financing arrangements were made until the introduction of the Farmers' Health Insurance programme. Programmes such as those for government employees' dependants and private teachers do not represent a change of policy. For instance, for many Taiwanese, private school teachers are more like government employees, even though they are technically private employees.<sup>27</sup> For this reason, the government paid their premiums as a 'quasi-employer'. All this suggests that the welfare system in Taiwan had a strong element of what Esping-Andersen calls etatist characteristics (Esping-Andersen 1990: 123). In Taiwan, social protection against contingencies in life has long been regarded as an etatist privilege which belongs to those working for the state. This is why government employees, private school teachers and their dependants were the first group to have social insurance.

These events raise two questions crucial to the understanding of the development of the Taiwanese welfare system. First, we need to understand why the Kuomintang (KMT) government first introduced the Labour Insurance programme in 1950 at a time when industrialisation had not yet begun. Second, what motivated the state to expand the welfare system and take responsibility for financing welfare programmes for people such as farmers and others outside the state sector? These are the two main breaks in the tradition of etatism in the Taiwanese welfare system.

### ***Party competition and policy changes***

The Labour Insurance programme was introduced in Taiwan as the first social insurance scheme in 1950. The political entity introducing the programme was the Taiwan Provincial Government, not the central government of the Republic of China. This is a subtle but necessary distinction for understanding the origin of the Labour Insurance programme. The KMT government of the Republic of China fled to Taiwan after being defeated by the Communists led by Mao in 1949. This made the Provincial area of Taiwan coincide with the *de facto* territory of the Republic of China, although the KMT government was still claiming *de jure* sovereignty over the whole of China. Because of this claim, Taiwan kept some of the 'dinosaur' institutions which have legal competence over the whole of China but in fact exercise virtually no political functions. The National Assembly, which nominally represents the whole of China, was a typical example. Before being forced to retire from the National Assembly in 1994, the deputies who represented constituencies in mainland China were extremely old and played virtually no significant part in politics. Indeed the

Republic of China itself is a ‘dinosaur’ institution to some Taiwanese people as well as to the Democratic Progressive Party, which wants to see an independent Republic of Taiwan.

The Labour Insurance programme was already a part of the manifesto of the KMT government before it was forced to cross the Taiwan straits. In 1945, in an effort to outmanoeuvre the Communists, the KMT had already launched a social policy manifesto in the wake of the establishment of the Ministry of Social Affairs. This manifesto included outlines of: a national nursery policy, a labour policy, a farming policy, and a post-war primary social security system (Ku 1995: 99). It reflected the Constitution of the Republic of China, which declares, *inter alia*, that social policy should be designed to establish a welfare state, following the philosophy of the founding father of the Republic of China, Sun Yat-sen. But the KMT did not have time to implement the manifesto before being forced to move to Taiwan by the Communists in 1949.

From the point of view of the Taiwanese, the Labour Insurance programme was of outside origin, neither demanded nor necessary – like the KMT itself in the view of many indigenous Taiwanese people. The KMT government tried to use the Labour Insurance programme to enhance its political legitimacy not only with the native population but also with those who had left the mainland with it. From the beginning, the programme showed the typical characteristics of insurance schemes in which the state plays the role of regulator. The government enforced the programme, but employers and employees assumed the financial responsibility. The initial contribution rate was 3 per cent of salary, of which employers paid 80 per cent and employees the rest. In the beginning, the Labour Insurance programme was operated by a private company, the Taiwan Life Insurance Company, a decision that apparently was made by President Chiang Kai-Shek himself. He did not want to see extra governmental involvement and, in 1950, he might well have believed that his government’s retreat to Taiwan would not be of long duration and the size of the government should be maintained rather than increased. However, in 1958 the Legislative Yuan, Taiwan’s legislative body, passed the Labour Insurance Act, which designated the Taiwan Provincial Government as operator of the programme. Despite this change and the expansion of coverage since its introduction, financial arrangements remained as they had been.

After the introduction of the Labour Insurance programme, the Government Employees’ Insurance and Retired Government Employees’ Insurance programmes were introduced in 1958 and 1965 respectively. In the 1980s, health insurance programmes for private school teachers, their dependants and local councillors were introduced. Since the state had played the role of regulator in financing these insurance programmes until 1989, government expenditure showed a figure tilted in favour of employees in the state sector. Still in 1991, 74.9 per cent of the total welfare expenditure by the central government was spent on military servicemen, government

employees, teachers, veterans and retired MPs. Considering that there were no social policy programmes for ordinary citizens except the Labour Insurance programme, the state must have been seen as protecting the interests of the privileged, although, until the lifting of martial law in 1987, there was little explicit criticism.

Given this etatist orientation, the introduction of the Farmers' Health Insurance programme (FHI) in 1989 and subsequently the National Health Insurance programme (NHI) in 1995 were clear breaks from the previous policy orientation. To be sure, these new developments in social policy were related to the whole range of socio-economic changes which Taiwan has experienced over the past forty years. Taiwan's economic development, the growth of a new middle class and the rise in expectations for the quality of life undoubtedly played important parts in this development. It is also worth noting that the Taiwan government has been sensitive to external factors such as pressures from the World Health Organisation (WHO) and the UN Children's Fund (UNICEF). In response to WHO's year of 'Health for All', the Taiwan government promised a health insurance scheme for all by the year 2000 (Department of Health, Republic of China 1994: 7). The Children's Welfare Act was also introduced in 1989 after UNICEF's year of the child.

Such socio-economic changes and external pressures, however, do not necessarily result in specific programmes. It was the political reform since the late 1980s which transformed socio-economic changes into new developments in social policy. Democratisation in Taiwan has been a two-way process involving the KMT government and the political opposition, neither of which can claim all the credit for reform. In February 1986, Prime Minister Yu Gow-Haw announced that a universal National Health Insurance programme would be introduced by the year 2000. The Taiwan government had already started a pilot scheme for Farmers' Health Insurance a year before. Although there had been some pressure from opposition movements, these new initiatives in social policy should be attributed to a large extent to the KMT government.

By this time, Taiwan's political opposition movements had begun to gain the momentum to develop into a full-fledged political party. Since 1972, political opposition had taken the form of an intellectual movement. The so-called Tangwai (meaning 'outside the party') movement made its voice heard through its journals, such as *Yazhouren* ('Asians') and *80 Niandai* ('The 1980s'). From 1977 onwards, its members contested local elections and formed various united fronts: the Tangwai Public Policy Study Association in 1980 and the Tangwai Campaign Assistance Association which aimed at supporting Tangwai candidates in the 1982 election (Lu 1992: 126). In 1986, the Tangwai movement went on to found the Democratic Progressive Party, which was initially illegal. This was a critical juncture in Taiwan's move towards democratisation. Chiang Ching-kuo, then the President of Taiwan, decided not to crack down on the movement and opened the door to political reform by lifting martial law in 1987 (Tien 1992: 39).

Once the Democratic Progressive Party (DPP) gained legal status, it fought elections on a platform of democratisation, Taiwanisation and social welfare. In the Legislative Yuan the DPP successfully argued not only for democratisation but also for social welfare including the early implementation of the National Health Insurance (NHI) scheme. A speech by the DPP's legislator Yu Chen-shien illustrated one aspect of the nature of the NHI debate, when he asked 'Why can Korea afford to have National Health Insurance but not Taiwan?' He added, 'Does it mean that Taiwanese lives are less valuable?' (Hwang 1995: 204). His speech clearly struck a chord among Taiwanese MPs.

In response to political and social pressures, the Taiwan government decided to introduce the NHI scheme in 1995 rather than 2000. Once this decision was made, there was nothing really to stop the introduction of NHI, as Chapter 5 in this volume by Yeun-wen Ku documents. Although there were disagreements on some issues such as the nature of the public body which would run the scheme, there was unanimity on the introduction of the programme itself. Apart from the DPP, whose political manifesto clearly committed it to the improvement of social welfare, the President and the KMT did not want to be left out of a crucial welfare reform. Indeed, at times President Lee himself interfered with the parliamentary process in order to speed up the introduction of NHI. All in all, the KMT government's attitude was extremely pragmatic and it was prepared to adopt a social policy to help it to hold on to power.

The political parties competed for popularity through social policy issues in the 1993 election, which involved the question of old age allowances. A year before, in the campaign for the local election, the DPP candidate for Tainan county promised old age allowances. This policy turned out to be very popular among the electorate, and the DPP decided to fight for old age allowances in all constituencies. The headquarters of the party instructed all their candidates to highlight the issue.<sup>28</sup> In October 1993 the DPP announced a policy that would give citizens aged 65 or over NT (Taiwan) \$5,000 a month. At first, the KMT fiercely criticised this policy, accusing the DPP of bribing the electorate. Not long after that accusation, however, the KMT government announced an increase of benefits for low-income families and President Lee asked the government to prepare an old age pension programme, which is still under deliberation.

Taiwan's democratisation has brought about a new institutional setting, in which the development of the welfare system, *inter alia*, has gained momentum. In particular, competitive elections both at local and national levels have forced the political parties to accept social demands from the population. Political parties have also tried to utilise social policy issues for their own electoral advantage. The KMT, for instance, claims to be the only party capable of governing the country with responsible policies. The KMT's main agenda for social policy is to create a Ministry of Social Welfare which would co-ordinate the government's social policies. The DPP will continue to press for the introduction of a programme of old age pensions. It is also preparing a number of initiatives in social policy through small but strong

policy committees. The Committee for National Health Insurance, for instance, includes the General Secretary of the DPP and eight other members who are university professors, hospital specialists and trade union representatives.<sup>29</sup> This committee has been preparing the DPP's response to the review of National Health Insurance which the government promised when the National Health Insurance programme was introduced. Meanwhile, the New Party (NP), a break-away party from the KMT, is trying to change its image as a single-issue party (the unification of China), and is proposing universal nursery education for all children under school age. The NP hopes that this policy will attract young, urban and middle-class voters.

To be sure, democratisation does not necessarily guarantee new initiatives for the development of social policy. The crux of the matter in Taiwan's experience is that effective political actors such as the President, the KMT and the DPP have not tried to veto the reform of social policy. Before democratisation, the President was the ultimate decision maker who could either initiate or veto any policy if he wanted to. By contrast, President Lee now has to spend time, for example, persuading the KMT's MPs to speed up the legislative process for National Health Insurance (Hwang 1995). The single most important veto power in Taiwan politics is the government in Beijing. The Beijing government effectively destroyed the DPP candidate Pang Ming-min's chances in Taiwan's first presidential election in 1996, through military intimidation. So far, however, the Beijing government has exercised its veto only over the issue of the independence of Taiwan.

The role of the state in the financing of welfare programmes has also changed rapidly since the introduction of Farmers' Health Insurance. Although the National Health Insurance programme is not comparable with the National Health Service of Britain in which the state is the sole provider of finance, the Taiwanese state began to take some responsibility for providing resources for universal health insurance. In short, the state has become not only a regulator which imposes rules but also to a certain extent a provider of finance for social welfare. This paved the way for the National Health Insurance programme to become a universal scheme, which in turn guarantees to every citizen of Taiwan access to health care as a social right. It is, however, worth noting that the Taiwanese welfare state has only so far introduced a reform of health care, while much more needs to be done in other areas of social policy such as old age pensions.

## **Korea: the politics of legitimation**

### *The social insurance state*

The South Korean welfare system was, by and large, brought into effect by the military government which took power after a coup d'état in 1961.<sup>30</sup> The first social welfare programme introduced was Industrial Accident Insurance in 1963 along with a pilot programme for health insurance. At the beginning, Industrial Accident

Insurance covered people in workplaces of 500 employees or more. Since then, the number of people covered has increased gradually, reaching 41.3 per cent of all employed people in 1990. The Industrial Accident Insurance Fund is financed solely by contributions from employers. Contributions are related to safety records in such a way that employers in accident-prone workplaces have to pay larger contributions than those with better safety records.<sup>31</sup> There is no state subsidy to help finance Industrial Accident Insurance. Injured workers can claim compensation from the Industrial Accident Insurance Fund if an accident either happens in the process of work or is related to work.

The National Health Insurance schemes originate from a pilot programme for health insurance which was tried for ten years from 1965. The pilot programme turned out to be a failure due to the lack of a compulsory clause. It was first implemented in two companies where employees could choose whether or not to join. Most participants in the programme were people with low incomes, large families and risk-prone profiles. People who stood to lose in the social insurance mechanism stayed outside the programme. During the ten-year experiment, the pilot scheme made little progress and it is no surprise that it ran into financial difficulties (Choe 1991: 121).

Following recommendations from the USA attached to the aid loan in 1975, National Health Insurance became a compulsory programme in 1977. It started first with large-scale companies, then public employees and private school teachers. By 1987, most employees in the industrial sectors had access to health care through the National Health Insurance scheme, while the self-employed, farmers and others without employers fell outside it. This was partly because it was difficult to administer actuarial work for them. Unlike in the industrial and public sectors where information on the income levels of employees was easily available, the insurance agencies could not accurately determine the levels of income of people such as the self-employed and farmers. Another difficulty in including such groups in the National Health Insurance scheme was that they did not have employers to pay half the contributions. The National Health Insurance schemes were financed by arrangements in which both employers and employees paid contributions, which then went into funds managed by public agencies. Such actuarial difficulties, however, were not the main reason. The question of the inclusion of these people in the National Health Insurance schemes was never seriously considered until public concern over health care became a political issue in the late 1980s. Until then, social policies including Industrial Accident Insurance and National Health Insurance were aimed at efficiency gains in the economy rather than social goals such as protection against social contingencies or maintaining equality. By the time of the health care reforms of 1987, under which the government pays half the contributions for those previously not covered, National Health Insurance schemes were able to cover the entire population in conjunction with the Health Assistance Programme which is a non-contributory programme for the poor.

The National Pension Programme, which I discuss in detail in Chapter 4 of this volume, was first considered in the early 1970s, but implementation was postponed due to the oil crisis in 1973. It was eventually reintroduced in 1988, following an election promise by President Rho. It is a typical social insurance programme in which the state plays the role of regulator. The only subvention from the state is for administrative costs. Due to the insurance arrangement, the National Pension Programme, like National Health Insurance, began with salaried employees, and by 1994 it covered 26.7 per cent of the working population. Currently, employees in manufacturing industry account for more than 50 per cent of those insured. Political pressure on the government to expand the coverage of the National Pension Programme is not at the level reached in the case of National Health Insurance in the late 1980s, simply because no one yet qualifies for a full pension under the programme due to the twenty-year contribution requirement for a full retirement pension. Nevertheless, it is only a matter of time before the National Pension Programme joins the political agenda, as the country becomes increasingly aware of the social implications of ageing and retirement.

The Employment Insurance Programme is the latest social welfare programme introduced by the Kim Young Sam government which came to power in 1992. It was implemented in 1995, and no information is yet available on the number of people it covers or its financing details. It is, however, clear that this is yet another social insurance programme in which employers and employees pay contributions. It also requires the insured to pay contributions at least for a certain period of time to be entitled to unemployment benefits.

The current contribution rate is 1.36 per cent of total wages, employees and employers paying 0.31 per cent and 1.05 per cent respectively. The Employment Insurance Programme is implemented in workplaces with more than ten employees. Conditions for entitlement are fairly strict; claimants should not: (1) leave their jobs without good reason; (2) refuse job training if offered; (3) become unemployed through their own fault; (4) lack the will to seek new jobs; and (5) become unemployed without paying contributions for a certain period of time, or make false claims. The government is expected to play a part in financing job training programmes and local job centres.

These social insurance programmes have transfer mechanisms in which redistribution can take place, even though the redistributive impact is at a relatively low level. Since the level of contributions is decided in relation to income (and wealth in the case of some National Health Insurance schemes), not to actuarial risk, redistribution takes place from people with lower risk to people with higher risk, and people with high income to people with low income. It is worth noting that there are also mechanisms that limit the redistributive impact to a modest level. Regarding health care, National Health Insurance comprises more than 500 health care funds which are organised separately in each job category. Within a job category,

the gap in income and risk propensity between members is narrower than that for the whole population. For example, employees in the public sector have their own insurance fund, just as those without employers (such as the self-employed and farmers) have their own insurance schemes within National Health Insurance. There is no financial transfer between different insurance funds. This should limit the redistributive effects of the National Health Insurance schemes. The National Pension Programme has a mechanism which calculates pensions according to the combined formula of flat-rate and income-related elements. Its redistributive impact is weaker than that of a purely flat-rate system, but stronger than that of a purely income-related system.

In summary, these programmes are based on the social insurance principle under which a person has to contribute first before claiming benefits. The role of the state is typically that of regulator. The only exception to the insurance principle in the South Korean welfare system is the Public Assistance Programme, which was introduced in 1965 and has provided community and institutional care and income support to those who are officially classified as ‘poor’ (see Table 2.4). To be entitled to benefits, claimants must show a loss of income-earning ability, and an absence of private support from relatives. Personal assets must also be below an official level which the government announces every year.

*Table 2.4* Number of people covered by the Public Assistance Programme in South Korea (thousands)

<i>Year</i>	<i>Institutional care</i>	<i>Community care</i>	<i>Support for livelihood</i>	<i>Percentage of total population</i>
1965	288	72	3,563	13.66
1970	306	63	2,116	7.71
1975	375	52	904	3.77
1980	339	47	1,500	4.95
1985	282	63	1,928	5.52
1990	340	81	1,935	5.26
1995	307	78	1,369	3.90

Source: So Sang-Mok *et al.* (1981); *Korea Statistical Yearbook* (1966, 1986, 1990, 1995).

The criticism is often made that these conditions are so strict that two-thirds of the people who live in poverty receive no benefits (Chong 1995: 136). There have also been reports that a number of false claimants receive benefits (Ko 1990: 332). These contrasting problems suggest that the Public Assistance Programme is working neither effectively, in the sense that it fails to reach the people in need, nor efficiently, in the sense that money is spent on those who are not entitled to benefits. The reason for the failure is partly that the income level setting the ceiling for poverty is so low that a large proportion of poor people are not entitled to benefits. It is also partly because the selection procedure is not solely based on an income test. The local officials who are responsible for the selection of beneficiaries often

use their local knowledge and the records of previous years to identify those in need.

The fundamental cause of the inadequacy of the Public Assistance Programme is that it is similar to the English Poor Law in the seventeenth century. It does not embody a guaranteed social right to a decent life. Its aim is to provide a minimum level of relief, so that no work disincentive is introduced. This brings up the question of why the concept of social rights has not yet been brought into the area of public assistance. The answer perhaps can be found most easily in the way that the South Korean welfare system is generally financed. The programmes for pensions and health care are financed by social insurance arrangements, as are other programmes such as the Industrial Accident Insurance and Employment Insurance programmes. These financing methods give the general public in South Korea the impression that contributions have to be made if social rights are to be acquired. They do not see citizenship as entailing social rights in the way that T. H. Marshall conceived (Marshall 1964).

### ***The politics of social policy: legitimisation and democratisation***

The welfare initiative of the military government of 1961 was a pre-emptive strike to compensate for its lack of political legitimacy. The political strategy of legitimisation was, however, mainly based on economic performance. Just after the military coup d'état, President Park, then the military leader of the Supreme Council of National Reconstruction, launched the First Five-Year Economic Plan. It is not clear whether the military government planned from the beginning to achieve legitimacy by economic growth, but Park soon expressed his view about economic development to justify the coup d'état.

I want to emphasise and re-emphasise, that the key factor of the May 16th Military Revolution was in effect an industrial revolution in Korea. Since the primary objective of the revolution was to achieve a national renaissance, the revolution envisaged political, social and cultural reforms as well. My chief concern, however, was economic revolution.

(Park Chung Hee 1963: 177)

Throughout the period of the Park government, economic development was put forward as the overriding common good. The Economic Planning Board was established to co-ordinate economic strategy across ministries. The Minister of the Economic Planning Board became designated as *ex-officio* Vice-Prime Minister. The Korean Development Institute, which played an important role in making social policies, was also established to draft economic plans. Given Park's strong commitment to economic development, economic policies were given the top priority through this bureaucratic structure. The Park government set favourable conditions

for direct investment by Korean business and foreign capital through special measures on interest rates and taxes, and setting up industrial estates (Lim 1985: 76).

The political strategy of legitimation through economic performance was a long-term process. It would take time to produce visible results in economic performance. Meanwhile, the authoritarian government needed a short-term strategy of legitimation, especially after violations of constitutional rules and democratic principles. This explains why the first major social welfare programmes were introduced so soon after the military coup d'état in 1961. Similarly, the National Pension Programme was first considered after the imposition of the 'Yushin' Constitution in 1972, which further violated democratic principles. While the programme was shelved in response to the oil crisis and subsequent inflation, the government compensated partly by a temporary waiver of income tax for low-income households and by strengthening regulations on the unfair practices of employers in workplaces (Kwon 1986).

President Chun Doo-Hwan who took power in a military coup d'état in 1980 found himself in an almost identical situation to that President Park had faced twenty years earlier. Taking advantage of his position as head of the military investigation into President Park's assassination, he forced civilian politicians aside and made himself president. He then followed the same political strategy of legitimation as his predecessor, President Park. Indeed, there was a fundamental continuity between the regimes of Park and Chun in terms of institutions and the perceptions of decision makers (Haggard and Moon 1990: 220). Chun claimed that his government would build a welfare state, and this promise was placed at the forefront of his political manifesto. Despite extravagant promises, however, it did not bring about significant changes in the welfare system nor introduce new programmes.

Chun's decision in 1987 to go ahead with a popular election for the presidency brought the issue of social welfare to the centre of political debate. Social policy issues did not cause controversy in the election campaign, however, because all candidates from the major political parties to a large extent agreed on the question of welfare. They all promised that National Health Insurance would expand its coverage to include people previously outside the programme, mainly the self-employed, farmers, urban informal sector workers and the unemployed. Although National Health Insurance had increased its coverage throughout the 1980s, those who did not have employment status had no access to public health care. The majority of those not covered were people with low incomes or relatively poor health, that is those most in need of public health care, a situation which inevitably caused social discontent about the public health care system. The only reason why they were outside the system, as we have seen, was that they did not have employers to pay half their contributions. While the governments of President Park and Chun were reluctant to pay the bill for these people's public health care, the competitive presidential election in 1987 forced the governing party's candidate to take on this

responsibility. Through the health care reform of 1987, the state began to play the role of provider in the financing of health care, even if only partially. After the election, President Rho also introduced the National Pension Programme, which had been prepared under the Chun government.

After the expansion of National Health Insurance and the introduction of the National Pension Programme, the fragmented structure of the former was identified as the main problem of the welfare system. The coverage of National Health Insurance had been increased gradually since it was introduced in 1977. In this process, new members of the National Health Insurance system formed their own health insurance funds while the existing system remained intact (see Table 2.5).

*Table 2.5 Health funds under National Health Insurance in South Korea in 1994*

<i>Health funds</i>	<i>Number of funds</i>	<i>Number of people insured</i>
Industrial workers	150	16,416,000
Employees in the public sector and private school teachers	2	4,784,000
Community and job associations	266	22,058,000

Source: *Korea Statistical Yearbook* (1995).

The outcome of this process was a fragmented system of health insurance which gives rise, *inter alia*, to two shortcomings. The pooling of risk was so narrow that National Health Insurance could not flatten the rate of contingencies across the different risk categories. For instance, public employees, who tend to have good health, have their own National Health Insurance fund, while farmers, who are less healthy on average, had their own separate funds. The expected medical cost will be higher in the farmers' insurance fund than in the public employees'. If these two groups were integrated into one health insurance fund, the expected cost of health care would be the mean of the expected costs of the two funds, but this did not happen in the National Health Insurance system. Indeed, the fragmentation of National Health Insurance also raises the issue of social solidarity. Social insurance programmes can bring about social solidarity by pooling different risk groups, so that people in need can get help from the better-off. Under the prevalent system of National Health Insurance, such redistribution could not take place. As well as these shortcomings, the absence of any transfer mechanism between health insurance funds led to a high level of financial inequality between them.

After the general election following the presidential election in 1987, the opposition parties dominated the National Assembly for a short time, as the governing party failed to win an overall majority. The opposition parties formed a coalition to pass an amendment to the National Health Insurance Law which would integrate all health insurance funds into a single National Health Fund. President Rho vetoed the bill because he feared that he might lose support from the middle

class if he signed it, and, for the same reason, the current President, Kim Young Sam, seems to have neither the intention nor the political power to integrate the funds.

In the era of democracy, the welfare system in South Korea cannot be reformed overnight, as it had been by former authoritarian presidents. The politics of social policy is now more like a tug-of-war in which no one holds an overwhelming advantage. However, it is worth noting that local governments have entered the arena of social policy as significant new political actors. The newly elected Mayor of Seoul who was endorsed by the opposition parties has initiated a series of social policy measures, including benefits for the disabled and the elderly. It remains to be seen whether this initiative will have a major impact on the welfare system as a whole. The longer-term financial future of the whole South Korean welfare state, however, is taken up in Chapter 4.

## **Japan: the ideas of social welfare**

### *The Japanese style of welfare society*

The Japanese welfare system has evolved through several stages into its present form, which is both fragmented and complex. Three different concepts of social welfare have played an important role in shaping the recent history of its development. In 1973, the then Prime Minister Tanaka promised that his government would make rigorous efforts to catch up with the welfare states of Western societies. He declared 1973 as the first year of significant progress towards the welfare state, an ambition that was short-lived mainly because of the oil crisis and the economic recession that followed. Since then, many Japanese have questioned whether a Western-style welfare state would be desirable for their country.<sup>32</sup> In contrast to Tanaka, Prime Minister Ohira launched the idea of the 'Japanese-style of welfare society' in a speech to the Diet (the Japanese parliament) in 1979 (Tabata 1990: 2). The LDP argued that Japan should not follow the Western style which only caused 'welfare disease' (Hashimoto 1979). Instead, Japan needed a welfare system in which the family would play a key part; in such a system, the government had to resist tendencies towards expansion and the market would play a major role in providing welfare (Anderson 1993: 133).

In the 1980s, however, Japan came up with yet another idea for social welfare under the slogan 'preparing for an "ageing society"'. The Ministry of Health and Welfare pointed out that one in five Japanese would be over 65 years old by the year 2025.<sup>33</sup> Faced with an imminently ageing society, Japan had to be prepared to deal with an extremely high demand for welfare, particularly in the form of pensions and health care. It also had to recognise that irresponsible promises of social welfare today would impose heavy burdens on future generations and might lead to the collapse of the whole welfare system (Ministry of Finance 1986). In 1994, the Council

on Welfare Vision for an Old-aged Society, set up under the Minister of Health and Welfare, published a report entitled *A Welfare Vision for the 21st Century*, which seeks to offer a new idea of social welfare for the coming century. From a comparative perspective it would be fruitful to examine whether the Japanese welfare system has in fact been shaped by these new ideas, or whether they are merely political rhetoric. In doing so, we will focus on changes in the financing of welfare programmes.

In its present form, the Japanese welfare system can be divided into four categories: medical care, income maintenance, social services and housing. In this section we will deal only with pension and health care policies.<sup>34</sup> If we look first at pension programmes, in 1992 79 per cent of people between the ages of 15 and 64 were paying contributions to various pension schemes including the Employees' Pension, the National Pension and Mutual Aid Pension (Ministry of Health and Welfare 1995: 288). Calculated against the total working population, pension coverage is slightly over 100 per cent and this means that universal rights to a pension have been established in Japan. Japan had actually achieved universal coverage in 1961 when a residence-based National Pension Insurance (NPI) was introduced (Hoshino 1988: 256).

The public pension schemes in Japan, which were restructured by a reform in 1985, comprise the National Pension, the Employees' Pension, Mutual Aid Pension and the National Pension Funds. The National Pension financed by the state guarantees a basic pension to every Japanese (Ministry of Health and Welfare 1995: 286). The Employees' Pension scheme, which includes various pension programmes (see Table 2.6), provides pensions which are supplementary to the National Pension. These supplements are earnings-related. Contributions to the Employees' Pension scheme go to the Employees' Pension Fund which provides the supplementary pensions for employees. For the self-employed, the National Pension Funds were established in 1991 to supplement the National Pension. There have been three types of National Pension Funds: the Community Type Funds are organised by the self-employed living in the same prefecture and are established on the basis of one per prefecture; the Occupational Funds, by contrast, are organised on a national basis by the self-employed in the same type of work; the National Pension Fund Association is for both those who have withdrawn their membership from the above funds and those who have membership as residents. Thus, the Japanese pension system has a two-tiered structure in which the National Pension provides basic pensions to all those entitled and the Employees' Pension schemes and National Pension Funds give supplementary pensions to their members, i.e. employees and the self-employed respectively.

To understand the characteristics of the current pension programmes, we need to examine the arrangements for the financing of pensions which the reform of 1985 introduced. Some commentators believe that this was mainly aimed at cost containment by freezing pension benefits close to the level of 1985 (Hoshino 1988). But what makes the 1985 reform significantly different is the role of the state in its

Table 2.6 Public pension schemes in Japan

<i>Tiers</i>	<i>Schemes</i>	<i>The insured</i>	<i>Insurer</i>
National Pension scheme (1st tier)	Basic pensions	All citizens	The state
Employees' Pension schemes (2nd tier)	Employees' Pension	Private salaried workers	The state
	National Public Service MAA	National Public Services	MAA
	Local Public Services MAA	Local Public Services	MAA
	Private Teachers MAA	Private teachers	MAA
	Agricultural and Forestry MAA	Agricultural and forestry co-operative employees	MAA
National Pension Fund (2nd tier)	Community Type	Self-employed	Community funds
	Occupation Type	Self-employed	Occupation funds
	National Pension Fund Association	Self-employed	National pension funds

Source: Ministry of Health and Welfare (1995).

Note: MAA = Mutual Aid Association. The Mutual Aid Associations are in fact quasi-governmental public insurance agencies for public employees.

financing. In the previous regime of public pensions, various pension schemes such as the National Pension programme, the Employees' Pension and the Mutual Aid Association schemes were run separately, without any financial transfer between them. The role of the state in this arrangement was to enforce public pension programmes as compulsory schemes and to provide subsidies. In this respect, the state acted mainly as regulator and partly as provider. By contrast, under the new regime, the state plays the main role as provider of basic pensions to all those entitled, since the National Pension has become the foundation of the public pension system. But this change did not necessarily mean that public pensions would be more generous than before. Estimates suggest otherwise. But some pension schemes, such as those for the self-employed, would definitely be financially sounder and the inequality between pensioners belonging to different schemes would be reduced.

In terms of the politics of social welfare, the grip of the Ministry of Finance on social policy expenditure may be firmer than under the previous regime. This is in line with continuous efforts by the Ministry to introduce a consumption tax to be used to finance increasing social welfare expenditure (Kato 1994). The tax was successfully introduced in 1989 after two failed attempts in 1979 and 1987. With this

success, the Ministry of Finance looked to secure its control of both revenue and expenditure. What the Ministry did not anticipate, however, was that it could be a target of political criticism because of its ever increasing power. This indicates that the shift of the role of the state from regulator to provider can make social policy more political, since the state now stands in the front line of political debates over social policy.

The state is taking a different role in health care from public pensions. In a broad sense, the Japanese health care system comprises two categories of insurance although it includes various schemes. Work-based health insurance schemes cover people organised in workplaces, while community-based schemes form insurance groups among the residents of each locality. Government-managed health insurance covers mainly the employees of small- and medium-sized companies and society-managed health insurance is arranged for those working in large-scale companies. Public employees in national and local government have their own Mutual Aid Associations. Seamen also have their own insurance managed by the government. National Health Insurance covers those who do not have employers, such as farmers, the self-employed and the retired who were previously covered by work-based insurance. One scheme distinctive to the Japanese health insurance system is the Health Service for the Aged. This provides health care for those over 70 or those over 65 who are bedridden. Until 1983 this scheme provided virtually free medical care to the elderly and has been a main target of reform (Campbell 1992).

Like the public pension system, the Japanese health care system is fragmented and complex (see Table 2.7). Some programmes organised by the Mutual Aid Associations and health care societies have sound finances, partly because they have levied contributions from members, which are automatically collected from salaries, and partly because their members are relatively healthier than others such as the retired and elderly. By the same token, National Health Insurance has experienced difficulties in collecting payroll revenue due to the nature of their members' jobs and their relatively high health costs. Despite different financial situations, all health insurance schemes except the Health Service for the Aged collect contributions which go to the various health funds and pay the health costs to mostly privately-run hospitals through a system of fees-for-services. The Health Service for the Aged used to be the Medical Care Aid for the Elderly before it took its present form under the 1983 Health Care for the Aged Act. Under the regime of the Medical Care Aid for the Elderly, those aged over 70 had free medical care services regardless of their health insurance status.

National Health Insurance bore 70 per cent of the medical cost and the rest was funded by the central and local governments. For the elderly over 70, the Japanese health care system guaranteed complete health care rights. The Medical Care Aid for the Elderly caused two immediate setbacks. First, there was no doubt that National Health Insurance would be faced with a financial crisis, since National Health Insurance schemes were already in a difficult situation financially due to their low

Table 2.7 The health insurance system in Japan

<i>Schemes</i>	<i>The insured</i>	<i>Insurer</i>
Government-managed Health Insurance	Employees of small- and medium-sized companies	The state
Society-managed Health Insurance	Employees in large-scale companies	Health Insurance societies
Seamen's Insurance	Seamen	The state
Mutual Aid Associations	National and local public employees	Mutual Aid Associations
National Health Insurance for farmers and self-employed	Farmers, self-employed, etc.	Local governments or associations
National Health Insurance for the retired	Retired persons who used to be covered by work-based insurance	Local governments
Health Service for the Aged	Persons aged over 70 and the bedridden aged over 65	Heads of local government

Source: Ministry of Health Welfare (1995).

revenues and high costs, mainly because they had a disproportionate number of retired and elderly members compared to other schemes. Second, a considerable number of the aged went to geriatric hospitals and occupied medical facilities and the time of medical personnel. These problems provoked a welfare backlash and were among the factors which prevented Prime Minister Tanaka's idea of the welfare state from being revived by the political parties, either the Liberal Democratic or the opposition parties. Many Japanese people cynically called hospitals 'nursing homes for the elderly'. The public relations campaign about the ageing society, which is still the most important theme of the Japanese welfare debate, would not have been so persuasive without the failure of the Medical Care Aid for the Elderly.

The 1983 health reform<sup>35</sup> eventually came into force and the Health Service for the Aged replaced the Medical Care Aid for the Elderly. This reform demanded that central and local governments and insurers of health care schemes should bear a greater share of the health care cost, which used to be mainly paid for by the National Health Insurance scheme. All insurers of health insurance programmes such as the government-managed Health Insurance, the Mutual Aid Associations and other insurance funds bore 70 per cent of the medical care cost, the central government 20 per cent, and prefecture and municipal government pay 5 per cent each. The elderly also had to share the medical cost when they visited health care institutions; this was expected to deter elderly people from visiting hospitals to a certain extent.<sup>36</sup>

As in the case of public pensions, the role of the state in the financing of health care programmes has moved slightly towards that of provider. This trend, however, should not be overemphasised since the aggregate data on all programmes tell a rather different story.

In health care, among the three main sources of revenue, the insured, i.e. ordinary Japanese citizens, pay a slightly higher share of finance than in the past, although the trend has been generally stable. The employers' share of the burden has been reduced, if only to a small extent; the share of subvention from the state has been reduced slightly more. All in all, the sharing of health care financing has been fairly stable (Table 2.8). The same story goes for the public pension. But Table 2.9 clearly shows that the state contribution has been reduced further than in the case of health care. The relative proportion borne by the insured and employers has been stable since the 1970s.

Throughout the 1970s and 1980s, Japanese people witnessed three different concepts of social welfare: catching up with the welfare states in the West, constructing the Japanese-style welfare society, and being prepared for the ageing

*Table 2.8 Trends in the sourcing of medical care costs in Japan (%)*

<i>Year</i>	<i>The insured</i>	<i>Employers</i>	<i>The state</i>	<i>Other public authorities</i>	<i>Income from capital</i>	<i>Others</i>
1970	32.2	29.9	29.4	4.6	0.7	3.2
1973	31.1	28.3	31.7	5.6	0.7	2.6
1976	31.1	27.6	32.7	5.3	0.6	2.6
1980	31.6	26.3	33.5	5.1	0.7	2.7
1983	32.4	26.0	31.8	5.7	1.0	3.1
1986	34.1	26.1	28.5	7.2	1.2	2.9
1990	34.7	27.3	26.4	7.3	1.4	2.9

Source: The Social Development Research Institute (1993), *The Cost of Social Security FY 1969–FY 1990*.

*Table 2.9 Trends in the financial sources of pensions in Japan (%)*

<i>Year</i>	<i>The insured</i>	<i>Employers</i>	<i>The state</i>	<i>Other public authorities</i>	<i>Income from capital</i>	<i>Others</i>
1970	27.0	34.0	19.0	1.3	18.3	0.3
1973	26.6	34.3	19.1	1.2	18.5	0.2
1976	25.4	33.1	21.8	1.1	16.5	2.1
1980	26.0	31.8	22.2	0.9	17.7	1.5
1983	26.1	32.9	18.3	0.6	21.3	0.8
1986	24.5	33.6	17.4	0.5	22.7	1.3
1990	26.5	35.1	14.6	0.1	20.6	2.8

Source: The Social Development Research Institute (1993), *The Cost of Social Security FY 1969–FY 1990*.

society. After all the political rhetoric about social welfare reform, the only clear achievement was the reduction of state responsibility for the direct financing of social welfare programmes. As shown in Tables 2.8 and 2.9, state spending on health care and pensions has been reduced, albeit to a relatively small degree. Compared to Britain, for example, where the Conservative government failed to contain the scale of public spending despite rigorous political rhetoric, Japan has been successful in restraining the level of spending. The real winner in this battle was the Ministry of Finance. The Ministry of Finance has tried to exercise power over state finances. They competed (and of course co-operated) with the politicians of the Liberal Democratic Party (LDP) and the Ministry of Health and Welfare. The strategy of the Ministry of Finance was neither to interfere with politics in regard to LDP politicians nor to supervise the policy making of the Ministry of Health and Welfare. Rather, it tried to put pressure on politicians and ministries such as the Ministry of Health and Welfare to keep spending within its designated size in the overall budget (Kato 1994: 62). Campbell calls this strategy macro-budgeting compared to micro-budgeting (Campbell 1977).

### ***The politics of welfare policy***

The political promise to constitute a welfare State in the Western style was initiated by Prime Minister Tanaka in 1973. He made this promise not because he was a social reformer but because he had to respond to citizens' movements and the emergence at the time of leftist local governors. In the early 1970s, the issue of environmental pollution, which was dramatically politicised by the *itai-itai* disease in Minamata city in Kyushu, stimulated citizens' movements (Tsutani 1977). Many local governments were more responsive to environmental pollution than the LDP central government. For example, the Asukata administration in Yokohama designed the so-called Yokohama formula which introduced voluntary control over pollution.

In gubernatorial elections of the early 1970s, leftist candidates performed impressively, including Minobe Ryokichi's victory in Tokyo. Under his governorship, free medical care for the aged was introduced in Tokyo, an idea first implemented in Nishine town in 1964 that became very popular across the country (Shinkawa 1990: 93). The low degree of political accountability of the Japanese political institutions underlay the emergence of citizens' movements and leftist local governments. Throughout the 1960s, the LDP's electoral support had decreased considerably. For example, in 1955 the LDP won 63.2 per cent of the votes and returned with 63.6 per cent of seats of the House of Representatives in the Diet. In 1967, for the first time support for the LDP was lower than for the opposition parties,<sup>37</sup> though it managed to obtain an overall majority in the Diet. Lee (1982: 67) explains this in terms of the change in the Japanese electorate which had become fragmented and issue-oriented – concerned with the environment, health care and tax issues – rather than ideologically driven in its voting. Due to this change in

social and political attitudes, a large part of the Japanese electorate which did not support the LDP voted for the smaller centre parties instead of the Japanese Social Democratic Party, the main opposition party.

In spite of this change in electoral behaviour, the LDP was favoured by the multi-member constituency system in which more than two candidates from each constituency won seats in the Diet. This system also encouraged the survival of smaller parties, because it allowed candidates who came second or third in the election to be returned to the Diet, but crucially it enabled the LDP to dominate the Diet despite its decreasing support against the background of socio-economic changes in the 1970s. Consequently, the Diet could be neither an effective point of decision making nor a veto point, and the LDP's factions and government bureaucrats emerged as the effective decision makers. For the bureaucrats who prepared policy proposals, the real issue was whether or not they could convince their political masters to back their policy.

After the 1972 election, the situation was different since the LDP's overall support was smaller than that of the opposition parties. The LDP feared that the opposition parties would be able to form a coalition government unless it did something about it. Tanaka's welfare promise was a pre-emptive strike to change the political fortunes of the LDP. The Ministry of Finance, which had been reluctant to commit itself to policy proposals which might lead to an expansion of the budget, had to back Tanaka's 1972 budget for the welfare state, which included a proposal to increase pensions and introduce Medical Care Aid for the Elderly. Even though the government performed a U-turn in 1973–4, Japan had to struggle for many years to come to terms with the legacy of the Tanaka government's welfare promise, which was in the eyes of many both expensive and ill-conceived (see Noguchi 1997: 87–9).

The Ministry of Health and Welfare was often caught in the middle of the battle over welfare policy. The Ministry saw that the Japanese welfare system was backward compared to that of other industrialised countries and tried to develop policy proposals to modernise the system (Goodman and Peng 1996). At the same time, it was not prepared to undertake an explicit political battle with the Ministry of Finance, which had been a strong opponent of budget expansion. Rather, the Ministry of Health and Welfare carried on the battle through the medium of special committees and councils. To counter resistance from the Ministry of Finance over introducing a free medical care programme for the aged, the Minister of Health and Welfare, Sonoda, formed a project team on policies to deal with societal ageing in 1971. This project team prepared a proposal to introduce nation-wide free medical care for the elderly (Shinkawa 1990: 103). Minister Sonoda also established advisory councils such as the National Pension Council and the Round Table Conference on Pensions. Similarly, when Prime Minister Ohira called for a 'Japanese-style welfare society' in 1978, the Ministry of Health and Welfare formed a committee to review policies for elderly people's health and medical care. After that a number of committees and

forums were established to review the welfare system within the Ministry of Health and Welfare, the Ministry of Finance and the Liberal Democratic Party. These reviews resulted in the 1983 health care reform and the 1985 social security reform.

The White Paper on *Japanese Economy 1985* raised the issue of the ageing population and pointed to a double-edged threat. First, welfare demand in the future would increase sharply, while not all the welfare burden could be passed on to the next generation. This gave rise to the need for the consumption tax which the Ministry of Finance eventually introduced in 1989. It is widely expected that the rate of this tax will rise from the current 3 per cent to 7 per cent (Iwabuchi 1994: 2). Second, it was resolved that the welfare system should be reformed to ensure that the welfare burden<sup>38</sup> should not go beyond 50 per cent of national income in future (Iwabuchi 1994: 2). To achieve this aim, the Ministry of Health and Welfare formed an advisory panel, the Council on a Welfare Vision for an Old-aged Society. This panel was chaired by Isamu Miyazaki, Director General of Daiwa Institute of Research, and produced a report in March 1994 entitled, *A Welfare Vision for the 21st Century: An Ageing Society with Decreasing Numbers of Children*. This report includes, *inter alia*, three main points for the future of social welfare. First, it argues that the Japanese welfare system should improve social service programmes for senior citizens and for working parents with young children. Second, society has to find ways in which people over 60 can find work more easily if they want to. Third, the report warns that government efforts to keep public spending (including social security costs) below 50 per cent at the peak time of ageing are likely to fail.

The report, however, lacks substance about how to finance social service programmes for senior citizens and working parents with small children. Nor does it propose any measures for improving employment for elderly people. Moreover, one cannot say that the report puts forward a 'welfare vision' for the twenty-first century. This failure seems to be related to the political uncertainty when the report was prepared. In June 1993, the LDP government of Miyazawa collapsed after a no-confidence vote, giving way to a non-LDP coalition government for the first time in fifty years. Since then, four Prime Ministers have come to office, and political reforms including the small-constituency system have been carried through. Amid political changes, the long-established co-operation between bureaucrats and LDP politicians has broken down under non-LDP coalition governments. For example, a Ministry of Finance proposal to increase the rate of the consumption tax from 3 to 5 per cent was never seriously considered even though it was backed by Prime Minister Hosokawa. In regard to the report on a welfare vision for the twenty-first century, it is probable that the Ministry of Health and Welfare did not want to be embarrassed by putting forward a policy proposal which might fail to get through the Diet. After the 1996 election, the LDP formed a minority government without coalition partners. It remains to be seen whether the working relationship between the LDP and the bureaucrats will be revived. It also remains to be seen how Japan will deal with the

problem of its ageing society. Chapter 6 by Roger Goodman later in this volume sets out some of the options – in terms of welfare personnel – that Japan has open to it.

## Conclusion

In this chapter, we have examined the welfare systems of five East Asian nations: Singapore, Hong Kong, Taiwan, South Korea and Japan. There is no doubt that their systems share important characteristics.

First, with the exception of Hong Kong where the minimalist welfare system is financed by the state, the role of the state in the financing of the welfare systems is largely that of regulator. Instead of state agencies, quasi-governmental bodies manage the various funds to which social welfare contributions are made.

Second, this method of financing social welfare has resulted in a fragmented welfare system in which the pooling of risk is narrower than in an integrated system. In the South Korean health care system, for instance, the public employees, the industrial workers, the self-employed and the farmers have their own health insurance schemes between which there is no financial transfer. In varying degrees, this is the case in Japan and Taiwan. Even in Singapore where the welfare system is integrated into the Central Provident Fund, there is no transfer mechanism between members' accounts within the Central Provident Fund. It should be noted, however, that the role of the state in the financing of social welfare in these countries is expanding.

Third, the redistributive outcomes of social policy differ in East Asia from countries in the West such as Britain, due to their different methods of financing welfare. Elsewhere, I have compared the redistributive effects of state intervention in Japan and South Korea with those in Britain (Kwon 1997). That study showed that the distributions of market income and disposable income in Japan and South Korea are more equal than in Britain. Social policy intervention in Britain, however, is more redistributive than in Japan and South Korea where the better-off get the lion's share of social policy benefits. This is, *inter alia*, largely due to the regulator type of welfare financing. In short, these welfare systems are less effective in redistribution.

Last, but not least, the political battles behind the welfare system in East Asia have been largely dominated by conservative political forces. In all five countries under discussion, the absence of any significant influence from labour unions and social democratic parties is an important characteristic of decision making on social policy. The absence of progressive political pressures explains to a certain extent why these five countries have ended up with particular systems of social policy.

The history of East Asian welfare states, however, is most importantly determined by the distinctive institutional matrix of politics in each country. In Singapore, social policy played an important role in a nation-building strategy and in maintaining Lee Kuan Yew's government and the dominance of the PAP. In Taiwan and South

Korea, the welfare systems were integrated by the authoritarian governments into political strategies of legitimation. As these countries have undergone democratisation new programmes have been introduced and their welfare systems have become more inclusive, protecting people who were previously outside their remit. More importantly, the welfare systems have been increasingly financed by the state, i.e. the state as a provider, although states in the region remain predominantly regulators. In Japan where democracy is well rooted, the state took a greater role in welfare financing when the dominance of the conservative Liberal Democratic Party was challenged. Hong Kong is no exception to this trend, although the quasi-democratisation initiated by Patten failed to carry through a welfare reform which might have brought about a more redistributive welfare state.

Despite their common characteristics, therefore, each of these welfare states has had its own distinctive history of development and still has its own distinctive features: we must be wary of talking about a single, homogeneous 'East Asian welfare state'. Each system developed along its own trajectory and, given the current challenges all these societies face, it must be expected that their welfare systems will undergo considerable change over the next few years. The directions in which they are likely to go – and implicitly whether they are likely to go along similar paths – is the subject of the individual country case-studies which constitute Part III of this volume.

## Notes

1. The public expenditure approach is possibly the most common method for measuring public policy delivery. It is an indirect measurement of the welfare benefits which the government aims to deliver. The standard method is to calculate the share of public expenditure in Gross Domestic Product (GDP). The reason it has been widely used is partly because data on public expenditure are easily available and partly because it presents a clear comparison of expenditure between nations at one point in time. Through a time-series data set, we can also follow trends in the size of government expenditure in a nation. In many countries, this has been one of the most sensitive political indicators often used as a measurement of government performance.
2. Sweden is one of the relatively high-spending countries, and the UK belongs to the group of low-spending countries, in Western Europe.
3. See the article by the leader of the British Labour Party, Tony Blair, in *The Sunday Times*, 29 October 1995.
4. For example, Andrew Higgins's article in the *Guardian*, 28 October 1995.
5. For the debate, see Little (1979); Deyo (1987); Hughes (1988); and Haggard and Kaufman(1992).
6. For more discussion, see Barr (1987: Chapter 9).
7. For more detail on the South Korean National Pension Programme, see Chapter 4.
8. For the institutional approach, see Ikenberry *et al.* (1988); Immergut (1992, 1992a); and Steinmo and Thelen (1992).
9. *The Straits Times*, 9 January 1996.
10. Legislative Assembly, Singapore, Sessional paper No. S. 2 of 1956.

11. This rate is for those up to age 55. Those in the 'above 55 to 60' group contribute 20 per cent (employers 7.5 per cent and employees 12.5 per cent) and those above 60 contribute 15 per cent (employers and employees pay half each).
12. This figure is calculated from the sources of *The CPF Annual Report 1994* and the *Yearbook of Singapore 1994*.
13. Much of the figure is accounted for by holders of ninety-nine year leases on flats.
14. For an explanation of the working of the Housing Scheme, see Chapter 3 in this book and Chua (1991).
15. There are three exceptions. First, intra-family transfer schemes allow topping-up of parents' minimum-sum accounts by children and transfer from parents' accounts to children's Edusave accounts. Second, tax exemption for CPF contributions and withdrawals effectively subsidises the CPF members. Due to its nature, this subsidy is regressive in the sense that the richer would get more benefits. This tax exemption under the CPF accounted for 18.8 per cent of income tax in 1987 (Deutsch and Zowall 1988). This inevitably raises the issue of equity (Asher 1993). Third, the government occasionally provides one-off top-ups to CPF accounts. For instance, in 1992 the budget announced a S\$200 top-up for CPF ordinary accounts.
16. *The Central Provident Fund (CPF) Annual Report 1995*.
17. It is widely believed that a huge sum of investment by the Singapore government on the Suzhou project in China came from the CPF fund.
18. Land Acquisition Act, section 5 (1) reads:  
Whenever any particular land is needed: a) for any public purpose; b) by any person, corporation or statutory board, for any work or undertaking which, in the opinion of the Minister, is of public benefit or public utility or in the public interest; or c) for any residential, commercial or industrial purpose, the President may, by notification published in the Gazette, declare the land to be required for the purpose specified in the notification.
19. The Singapore government owns more than 70 per cent of the land of Singapore.
20. For example, Minister of National Development, S. Dhanabalan's speech in 1989. See Parliamentary Debate cols. 650–6.
21. This speech was delivered at the Conservative Party's Central Office on 24 October 1995.
22. Interview with Henry Tang Ying-yen, a Liberal Member of the Legislative Council, on 29 January 1996.
23. See Hong Kong Observer (1981).
24. Patten spelled out his reform package in his 1992 speech to the Legislative Council, 'Our Next Five Years: the Agenda for Hong Kong (The Constitutional Package)'.
25. *South China Morning Post*, 28 January 1995.
26. *Taiwan Statistical Databook*, 1991.
27. This is the case not only in Taiwan but also in Korea and Japan.
28. From the interview with Professor Wan-i Lin of the Taiwan National University, who is also the Secretary-General of the DPP. It was conducted in February 1996.
29. From an internal memorandum of the Committee.
30. The succession of the presidency is as follows: President Park (1963), Choe (1979), Chun (1981), Rho (1987), Kim (1992).
31. Up to  $\pm 40$  per cent of the premium can be reduced or added to the basic premium according to the accident rate of the workplace for the previous three years. The accident rate (%) = (the gross of compensation/the gross of wages)  $\times$  100.
32. Even after this abortive idea of constructing a Western style of welfare state, Japan has always shown keen interest in learning from the experience of welfare states in West European societies (Goodman and Peng 1996).

33. According to the Ministry of Health and Welfare (1981), in 2025 people aged between 0 and 14 would be 17.2 per cent, between 15 and 64, 61.5 per cent, and over 65, 21.3 per cent of the population).
34. This does not mean that social services and housing policies are not important, but merely that this section has only limited space. For the Japanese social service policy, see Anderson (1993) and Goodman, Chapter 6 of this volume.
35. For the political process of the reform, see Campbell's (1992) work.
36. Outpatient: 1,000 Yen per month; inpatient: 700 Yen per day (300 Yen for a low-income individual).
37. *Japan Statistical Yearbook 1980*.
38. This includes not only government expenditure but also individual and employer contributions (Social Development Research Institute 1993).

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## **Part III**

# **Country case studies**



### 3 **Welfare and governance: public housing under Singapore's party-state**

*Christopher Tremewan*

The notion that the almost universal consumption of state welfare has been a central feature of governance and social regulation in Singapore is far removed from its international image. For much of its history since Lee Kuan Yew's People's Action Party (PAP) came to power in 1959, Singapore's reputation has been that of a booming economy with its success guaranteed by a disciplined labour force and an upright, authoritarian government. There have been debates about the extent of government intervention in the economy and the relative significance of various growth factors in order to situate the Singapore 'model' within the theoretical frameworks of neo-liberal, world systems and Marxist analyses.<sup>1</sup> Partly as a result of this debate, the role of the state in Singapore's success has come to be more widely recognised in recent years in the international media as well as by scholars (e.g. Wade, 1990; Rodan *et al.*, 1997). However, senior politicians there have never been reticent about the ruling party's long-term influence through the state apparatus.

I am often accused of interfering in the private lives of citizens. Yet, if I did not, had I not done that, we wouldn't be here today. And I say without the slightest remorse, that we wouldn't be here, that we wouldn't have made economic progress, if we had not intervened on very personal matters – who your neighbour is, how you live, the noise you make, how you spit, or what language you use. We decide what is right. Never mind what the people think. That is another problem.

(Speech by Prime Minister Lee Kuan Yew, National Day Rally 1986, *The Straits Times*, hereafter *ST*, 20 April 1987)

Also few writers could ultimately ignore the role of the Singapore state as the exclusive or major provider of infrastructure (utilities, communications, media, industrial estates, port and airport services) and of social services (housing, health, education, pensions). Approximately 75 per cent of the land is under some form of government ownership and the government has the power to acquire the remainder compulsorily. The government is a major player in the domestic capital market, oversees huge state enterprises, trading companies, investment companies and

joint ventures with foreign partners. Unions, regulation of labour supply and wage setting are all under the government's control (Lim, 1983, 754–5).

At the same time, insufficient attention has been given to the apparent contradiction between the PAP leadership's public perception of the reasons for its success (wise and honest leadership, meritocracy, a majority Chinese citizenry imbued with Confucian ideals, individual and family provision of social security) and the very high levels of consumption of state welfare. Singapore's political leaders rarely miss an opportunity to contrast the economic success of their rugged self-reliance with the soft welfarism of Western states whose populations have lost their pioneering vigour and are now on the slippery slope to decadence.

Developed countries in Europe, Australia, New Zealand and Canada once proudly called themselves welfare states. Now they have to revamp their welfare systems in order to remedy the disastrous side effects of state welfare: weakened family bonds, diminished incentives to work, and impoverishment of the country's finances. . . . Their problems confirm that we have chosen the right approach.

(President Ong Teng Cheong's speech at opening of the parliamentary session, *The Straits Times Weekly Overseas Edition*, hereafter *STWOE*, 15 January 1994)

Or, as a journalist, Chua Huck Cheng, averred in a *Straits Times* article on the impending extinction of 'welfarism': 'Asian politicians have extended the ills of welfarism to include promiscuity, dissolving of family and community ties, and a crippling of the spirit of frugality and striving. Most of all, a sapping of economic vitality' (*STWOE*, 12 February 1995, p. 15).

Yet, while Singapore is not a welfare state in the commonly understood definition of that term (social amelioration through income redistribution as a right of citizenship), the large-scale provision of state welfare has been a fundamental factor in its sustained economic growth.

On its expulsion from Malaysia in 1965 and the loss of an internal market of any size, Singapore had little option but to pursue an export-led growth strategy and quickly became the most hospitable country in Southeast Asia to foreign capital. The incentives to foreign investment included not only tax holidays, repatriation of profits and the provision of physical infrastructure, but also the creation of an industrial labour force whose discipline and social reproduction were guaranteed by Singapore's party-state. As the political leadership wrestled in the 1960s with its inheritance of a militant union movement underpinned by a plethora of community associations and Chinese educational institutions demanding jobs and better housing as part of a socialist political agenda, it began to elaborate existing welfare mechanisms such as public housing and pensions in a way designed to achieve the objectives of its partnership with foreign capital. Three decades later, over 86 per cent of Singapore's population was in public housing (Ministry of Information and

the Arts, 1996, p. 190) – the entire working class and the great majority of the middle class. This has been heralded as the PAP-state's greatest achievement. 'In Singapore, housing is a symbol of pride, of nationhood, of the political achievement of the People's Action Party, and of government benevolence towards the public interest' (Pugh, 1989, p. 837).

The public housing programme of Singapore's Housing and Development Board (HDB) is certainly worthy of these accolades. A fractious electorate in a declining city-state entrepot was successfully inducted into the routine of an industrial life-style as labour power for the more than 7,000 transnational corporations which operate in Singapore. The provision of public housing has not only stabilised working-class subsistence but also generated political loyalty for the PAP. This chapter examines how this was done.

First, it surveys briefly some of the relevant theoretical writing before proceeding to an explanation of the public housing programme and its related welfare scheme, the Central Provident Fund. The intersection of these two mechanisms provides the basis for an examination of the politics of housing welfare. Finally, the questions which hang over the long-term viability of this system of governance through welfare are raised.

### **Theorising housing welfare**

Studies of Western welfare states have produced a wide range of theoretical understandings and a number of typologies. Among the most recent research is Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990) which examines eighteen welfare states, classifying them as liberal, conservative or 'social democratic', and employing the term 'welfare-state regime' to denote 'the fact that in the relation between state and economy a complex of legal and organisational features are systematically interwoven' (Esping-Andersen, 1990, p. 2). The narrow approach to the welfare state of focusing on traditional areas of income transfers and social services is broadened in favour of examining the state's larger role in managing and organising the economy, more of a political economy of welfare. He identifies the keys to each welfare state's identity as the decommodification of labour, social stratification and employment, and notes that 'the history of political class coalitions is the most decisive cause of welfare-state variations'. It is the latter observation which resonates with the Singapore case. The economic partnership between the Singapore party-state and foreign capital can be understood as the economic form of a class coalition or political alliance across national boundaries which has functioned to the general benefit of both partners.

However, Esping-Andersen's study, like many previous ones, does not include any Asian country. Perhaps the popular view of East Asian nations as exhibiting the unacceptable face of capitalism (or as the exemplars of social development, depending on your view), as raw frontiers where welfare of any sort is a low priority,

has been influential in this omission. More prosaically, it may be due to the relatively recent development in the region of welfare systems, narrowly defined.

But when attention has been given to East Asia, there has been a tendency, even on the part of Asian scholars, to view countries such as Japan in terms of the extent to which they conform to existing Western welfare systems without sufficient attention to the particularities of each country's social and political history. The trend towards explaining Asian welfare in terms of cultural inheritance shows a desire to move beyond this but has mixed results. Thus Jones offers the additional category of the Confucian welfare state or the 'household economy' welfare state to cover Japan, Korea, Taiwan and Singapore (Jones, 1993, p. 214). Asian welfare states are compared to Western ones through a series of contrasts: conservative corporatism without worker participation, solidarity without equality, subsidiarity without the church, *laissez-faire* without libertarianism.

Some useful insights are gained into aspects of governance and welfare in East Asian countries. But the recourse to Confucian tradition to explain social and political realities in societies with very different histories from each other as well as from Western countries appears as the product of an Orientalism which seeks mainly cultural explanations, relegating the underlying politics to the level of secondary causation. This kind of explanation has its uses of course, not least to East Asian governments who may claim the moral sanction of cultural exceptionalism for policies advanced on other grounds.

The Confucianism of modern-day Singapore is part of a carefully constructed state ideology and testifies to the party-state's ideological hegemony. In the 1950s and for much of the 1960s, Singapore had a very active civil society with a highly politicised populace. Certainly, the intrinsic respect for legitimate authority was present as a cultural norm but the associations and identifications springing from a Chinese upbringing and education were exactly what the English-educated PAP leadership had to defeat to secure political supremacy. This took many years and high levels of coercion. Once achieved, the PAP was able to begin the process of channelling the energies and associations of 'Chineseness', repackaged as a cultural Confucianism endorsing hierarchy and patriarchy, to support the PAP-state. This transfer of cultural authority to the state was assisted by the rapid involvement of the vast majority of Singaporeans in the mechanisms of state welfare.

It is this ability to organise an ideological consensus to legitimise the ruling party's authority which Jones (1993), Chua (1995) and Hill and Lian (1995) note as a significant achievement of welfare and social policy. However, they differ over the question of the 'depoliticisation' of governance owing to the appearance of the government 'as a provider of services to the economy' (Jones, 1993, p. 454) and to the near-universal provision of state housing, education and other services. Jones notes that 'successful government in this context, is government, with least appearance of politics' (Jones, 1993, p. 451). Acknowledging that the Singapore party-state aims for such an ideological effect, Hill and Lian note that the large-scale provision of housing does not depoliticise housing especially when the

governing PAP and the state's administrative functionaries 'are the same entity in the public perception' (Hill and Lian, 1995, p. 131). Chua prefers to note the conditionality of the ideological consensus which is never complete and may only be maintained as long as economic growth enables the government to deliver a high standard of housing welfare (Chua, 1995, pp. 24–9).

The depoliticisation thesis therefore helpfully draws attention to the nexus between the state provision of welfare and ideological legitimacy. The emphasis on depoliticisation in terms of uniting social classes or interest groups behind some overarching nation-building objective (Chua, 1995, p. 125; Dunleavy, 1979, p. 419; Offe, 1984, p. 159) might also draw attention to the PAP's relative autonomy from the weak local capitalist class (Rodan, 1989, p. 54) as it strengthened its hold on the state from 1959 and organised cooperative elements of this class behind the government's political agenda through contracts for large-scale public housing construction (Tremewan, 1994, p. 49).

Nevertheless I would maintain that, on a deeper level, these observations attest to the fact that public housing in Singapore has remained highly politicised under the PAP-state. The politics of the relationship between the extension of the wage relation in the industrialisation process, the reproduction of labour power and its regulation are of critical importance in comprehending public housing in Singapore and the relationship between welfare and governance.

Both the level of the wage paid to workers and the method by which it is paid are crucial to the degree of control that can be exercised over them. In general, the wage must not be so high as to threaten profitability or so low that workers cannot consume enough to be reproduced or are pushed into rebellion. Thus, capital has an interest in keeping wages as low as possible to raise the level of profitability, but not so low that stable and efficient production is affected. The wage level is therefore dependent on the rate of accumulation. However, it may be higher than the rate of profitability allows at some times or with some workers, as when the PAP-state raised wage levels at the beginning of its 'Second Industrial Revolution' in the late 1970s in an attempt to phase out labour-intensive, low-technology industries.

The way that such conflicting tendencies between profitability and reproduction are managed through the mix between company and state regulation depends on the specific mode of production. In Singapore, the PAP-state's alliance with foreign capital has involved the latter supplying the capital investment for production and the former guaranteeing cooperation with the accumulation process. Singapore's attractiveness to foreign capital was a package: a continuing supply of relatively cheap, disciplined workers with appropriate skills, a relatively developed infrastructure being rapidly improved, a state policy constantly to upgrade the technical level of production, a strategic geographical location, and a reliable government administration whose governance was largely uncontested by the end of the 1960s.

As the industrialisation process proceeded, the PAP-state's interest in maintaining this political hegemony required the ability to adjust wages up or down

in accordance with its growth strategy. From suppressing wage levels in the late 1960s, the government moved, as noted above, to a policy of increasing wage levels. Two of the formal mechanisms for regulating wage levels have been the National Wages Council (NWC) and the Central Provident Fund (CPF). The NWC has consisted of government representatives (Ministries of Finance and Labour, Economic Development Board and National Trades Union Congress) plus representatives from the American Business Council, the Japanese Chamber of Commerce and Industry, the German Business Group and the Singapore Federation of Chambers of Commerce and Industry (Rodan, 1989, pp. 106–7; Lim Chong Yah, 1989, p. 214). The NWC has been referred to as a tripartite body but, with the Secretary-General of the National Trades Union Congress being a member of cabinet, in fact it has been a coordinating body of the PAP-state and foreign capital to regulate the core of their partnership. The CPF, as will be explained later, has provided the government with the means not only to guarantee the reproduction of labour by the means of a pension, but also to vary current wage levels without appearing to do so.

However, central to an understanding of welfare consumption in Singapore is the notion that capital has an interest not only in the level of the wage, but also in how it is spent.

There is, therefore, a potential conflict between the need to economise on outlays on variable capital in order to increase the rate of exploitation, and the need to control the labour force by strong economic ties of dependency. Only when the workers are totally dependent upon the capitalist for the maintenance of a reasonable standard of living can the capitalist fully claim the power to dominate labour in the workplace.

(Harvey, 1982, p. 162)

As I have noted elsewhere (Tremewan, 1994), there are some goods that workers must have if they are to survive: housing, education, health, pensions and other social services. Through the way these welfare items are provided and alternative means of subsistence to wage labour are eliminated, control of workers can be increased. The provision of essential wage goods through state welfare can be seen as the collectivisation of consumption in order to manage consumption in a manner consistent with accumulation (Harvey, 1982, p. 91). That is, welfare is provided in such a way as to maximise profitability and also control over workers.

Where welfare is provided largely through companies, workers are bound to them; where a great deal of welfare is obtained through the state, as in Singapore, political loyalty to the state may be induced. Singaporeans have had to purchase a large proportion of their subsistence requirements from the state. As we will see, this gives the PAP-state considerable power to ensure profitability on behalf of foreign capital, to manage crises by lowering or raising the level of welfare and to generate political loyalty.

The consolidation of an effective system of welfare provision also renders less and less necessary the use of overt state violence to cement control. Furthermore, the way welfare is provided by the state has the ideological appearance of philanthropy from which the PAP has also gained legitimacy. That is, institutions such as housing and education manage the provision of welfare so as to minimise the contradictions between the PAP-state's functions of guaranteeing accumulation and maintaining social control, and to legitimise both its own role and the entire economic system. This is a dynamic given emphasis by the notion of 'depoliticisation' referred to above.

The PAP-state's control of wages and welfare has enabled it to stabilise working-class subsistence to ensure a level of material security that minimises political dissent. The state welfare system has linked the need for a livelihood to the necessity to engage in wage labour and to be loyal to the governing party. The way this happens in Singapore by means of public housing and its connection to the state pension scheme now requires examination.

### **Singapore's public housing scheme**

Over 86 per cent of Singaporeans live in public housing flats provided by the Housing and Development Board (HDB), a statutory board under the Ministry of National Development. This compares with 9 per cent living in public housing when the HDB was formed in 1960, the year after the PAP came to power. By the end of 1995, 766,569 apartments had been built by the HDB, with 26,185 constructed in 1995 itself. Today 90 per cent of occupiers own their flats (Ministry of Information and the Arts, 1996, pp. 190–1).

As the early need for low-cost public housing was met, the HDB began to increase the quality and range of its housing stock so that it now constructs a variety of flats, many of them large (four- and five-room apartments), while phasing out the smaller flats which were a feature of the early years (Phang, 1995, pp. 114–15). The HDB has also placed emphasis on 'better planning and design, efficient estate management and housing administration, and the upgrading of older HDB estates' (Ministry of Information and the Arts, 1996, p. 190).

The HDB is also involved in estate management, construction and sale of markets, industrial properties, construction technology and site management, and land reclamation, and in cooperative arrangements with the much smaller Housing and Urban Development Corporation (HUDC) (which provided more upmarket flats to middle-class professionals during a period when they were unable either to qualify for low-cost housing or to purchase private apartments on the very expensive local market) to privatise the higher end of the public housing through an Executive Condominiums scheme.

A complex set of regulations, which is constantly adjusted, has developed around the allocation, financing, pricing, purchase and ownership, resale and upgrading of flats and the management of housing estates. In a country where the

vast majority of citizens have their flats as their main asset and one which is linked to their retirement provision, all these matters are highly politicised.

Some writers have observed that the HDB's status as a statutory board enables the PAP government to maintain distance in terms of political accountability and to argue that 'the acquisition of a public housing flat is a business transaction between client and vendor' (Hill and Lian, 1995, p. 129). This distinction has some limited utility, as Hill and Lian state, only in so far as it enables the government to claim that it is not in the game of universal welfare provision and that citizens are purchasing private property. In practice, it is well understood that the HDB is an arm of government and that political and social objectives are assiduously pursued through housing policy. The government's own publicity specifies, somewhat modestly, that 'fifteen per cent of newly-built flats are set aside for special housing schemes to promote social objectives like multi-tier [more than two generations] families' (Ministry of Information and the Arts, 1996, p. 191). Other regulations establish the state definition of a normal family household by preventing single people below middle age from renting or purchasing flats (thereby denying public housing to unmarried couples, single mothers or young gay couples), give priority allocation to families wishing to upgrade their flat after the birth of their third child (an incentive to the middle class to have more children), set racial limits for minority representation (non-Chinese) in estates to prevent concentration of the anti-PAP vote, and specify in detail acceptable usage of flats and social behaviour in them by every owner or tenant (Hill and Lian, 1995, p. 123; Yap, 1995, p. 133; Ministry of Information and the Arts, 1996, p. 192; Tremewan, 1994, pp. 57–8, 66).

It is not possible here to examine the details and implications of all the major features of the HDB's regulatory regime. However, the financing of house ownership through the Central Provident Fund has developed as an essential structural mechanism for governance through the consumption of state welfare.

### **The Central Provident Fund**

Established under legislation by the colonial administration in 1953, the CPF became operative in 1955 as a straightforward savings and withdrawal retirement plan whereby 5 per cent of an employee's wage was compulsorily saved and an equivalent amount contributed by the employer. The proportions have changed dramatically over the years in accordance with the government's economic strategy (see Table 3.1). From 1994 the contributions have been set at 20 per cent each for both employee and employer, with a maximum contribution from each of S\$1,200. Above the salary ceiling of S\$6,000 per month, no CPF is payable. This total contribution rate of 40 per cent (which the government proposes to keep for the long term) is easily the highest internationally with the next highest being 20 per cent in Malaysia, Nepal and Sri Lanka (Asher, 1994, p. 156).

Until 1986 nominal interest rates were paid on employees' CPF balances as rates were set independently of the market rate. Since then the interest rate has been calculated as the average rate of that offered by four major local banks, still a comparatively low figure (3.1 per cent in 1995) (Ministry of Information and the Arts, 1996, p. 244). Therefore, during the process of industrialisation, the Singapore government has had access to a huge flow of cheap capital for infrastructural development including public housing and has not needed to raise foreign loans. The CPF had 417,000 contributors in 1966 with total compulsory savings of more than S\$440 million. This total stood at S\$26.8 billion by 1985 with 1.89 million contributors (Ho, 1989, p. 677) and at S\$32.5 billion by 1988 with 2.06 million contributors (Ministry of Communication and Information, 1989, p. 293). The end of 1995 saw the total savings swell to S\$66 billion with 2.69 million CPF members (Ministry of Information and the Arts, 1996, p. 243). It is not surprising therefore that Singapore's reserves are the highest in the world on a per capita basis even though official figures have been seen as grossly understated (*Far Eastern Economic Review*, hereafter *FEER*, 25 May 1989, p. 68). In 1990, gross national savings made up 44.6 per cent of GDP and 30.1 per cent of these savings that year was through the CPF which was thus 'an integral part of macroeconomic management' (Asher, 1994, pp. 156–7).

Table 3.1 CPF ratios of contribution (as a percentage of monthly wage income), 1955–94

<i>Year</i>	<i>Contribution by employee</i>	<i>Contribution by employer</i>	<i>Total</i>
1955	5.0	5.0	10.0
1968	6.5	6.5	13.0
1970	8.0	8.0	16.0
1971	10.0	10.0	20.0
1972	10.0	14.0	24.0
1973	11.0	15.0	26.0
1974	15.0	15.0	30.0
1977	15.5	15.5	31.0
1978	16.5	16.5	33.0
1979	16.5	20.5	37.0
1980	18.0	20.5	38.5
1981	22.0	20.5	42.5
1982	23.0	22.0	45.0
1983	23.0	23.0	46.0
1984	25.0	25.0	50.0
1986	25.0	10.0	35.0
1988	24.0	12.0	36.0
1989	23.0	15.0	38.0
1990	23.0	16.5	39.5
1991	22.5	17.5	40.0
1992	22.0	18.0	40.0
1994	20.0	20.0	40.0

Source: Annual Reports, Central Provident Fund Board.

This mandatory scheme for all employees (Singapore citizens and permanent residents) is still a scheme of compulsory saving for retirement but it also has evolved over the years into a comprehensive scheme for home ownership, health care, home insurance, provision for dependants' welfare in the event of injury or death, investment in government-owned or approved companies or investment schemes, financing of tertiary tuition fees, property investment and also a means for the government 'to reward older Singaporeans for their valuable contribution towards Singapore's economic success' by topping up their Ordinary or Medisave CPF accounts (Ministry of Information and the Arts, 1996, p. 248). By 1990, 67.4 per cent of the total labour force were contributors to the CPF (Asher, 1994, p. 155). In 1992, the CPF was extended to include all self-employed persons earning a net trade income of more than S\$2,400 a year who must contribute 6 per cent of their income to a CPF Medisave account.

The CPF is a state system of forced saving and, since savings are deducted from employees' wages, it is also a scheme for withholding wages.

The worker's contribution to the CPF represents that part of the wages paid by capital for the reproduction of labour power in the present but diverted by the state for delayed payment. The contribution by the employer is a state tax taken from the value generated by workers themselves in production. The combined workers' and employers' contributions along with the remaining portion of the wage comprise the total wage (immediate and delayed) necessary for the workers' subsistence.

(Tremewan, 1994, p. 53)

The CPF compels Singaporeans to pay in advance for their survival needs (housing, health care, pension) when they are no longer productive and aims to ensure that these needs of retired employees do not become a charge on the government. More than this, the CPF has also provided the government with the capital to meet current expenditure and to advance its growth strategy through such activities as infrastructural development, development of the services sector and offshore investment. As the employed Singapore labour force numbers 1.7 million and total contributors to the CPF number 2.69 million, it is apparent that the PAP-state benefits from the delayed wages of a considerable number of non-citizens for whom it has no long-term welfare responsibility.

It should be noted that foreign workers on work permits (construction labourers, domestic maids) are not members of the CPF and have no access to state welfare through retirement, housing, education or health. Presumably, this exclusion accords with the policy of discouraging labour-intensive industry through the suppression of wages in that sector and it also keeps construction costs highly competitive, maintaining the low level of government subsidy for public housing and construction

of industrial infrastructure. For the more skilled foreign employment pass holders, membership of the CPF acts as an incentive to come to Singapore as they are able to take out the full amount of their savings upon departure.

The CPF is not a welfare mechanism for redistribution of wealth. Rather, it reproduces inequalities because an employee receives only that amount paid into his or her account plus interest. There is no guaranteed minimum income for retired persons and there is therefore no intraclass or interclass transfer.

As noted previously, the CPF, with its separation of employee and employer contributions, provides the government with a means to vary the level of the total wage in accordance with its economic strategy. The most obvious example was the sudden reduction of the employer contribution during the 1985–7 recession from 25 per cent to 10 per cent. This was a substantial pay cut for Singapore employees but it was represented as a necessary relief for employers in order to ‘reduce the costs of production, making goods produced in Singapore more competitive in international markets, thus reviving the Singapore economy’ (Tay, 1995, p. 266). Therefore the ideological representation of a part of the wage as a contribution by employers in addition to the total wage rather than as a component of it (which could be clawed back by income tax) enables such a cut with minimal consequences.

The regulatory power of the CPF stems from several other factors as well. First, it is not possible for Singaporeans to avoid it unless they are extremely wealthy, a dependant (usually of a contributor) or not an employee. Being a city-state, there is no rural hinterland where people might seek to subsist away from the industrial lifestyle and eke out a living on the margins of society. Wage labour is essential for survival, and employment requires membership of the CPF.

Second, for the majority, there is no alternative means of providing for their retirement. Welfare payments are restricted to those utterly bereft of family, the abandoned and those who are physically or intellectually unable to find and hold a job. It is very difficult to qualify for such payments, which only provide, at most, 50 per cent of minimum household requirements of a single person, therefore ensuring that any recipient is reliant on a charitable institution for survival (Lim, 1989, p. 187).

In addition, the CPF is administered by the party-state. As PAP political leaders never tire of reminding the populace, a reliable, clean government is the best guarantee of the proper administration of their major savings and assets. Support for the governing party is therefore a significant factor in providing for one’s future retirement and guarding against poverty. Conversely, non-cooperation with or opposition to the government potentially threatens both current and future income. Therefore, employees have an interest in continuing political stability and this is constantly defined publicly in terms of the continuance of the PAP’s governance. The act of providing for citizens’ retirement is naturally understood as a positive act of social responsibility by the government and its political legitimacy is thereby reinforced.

The fund simultaneously accomplishes three important goals: the government gets a huge pool of investment capital, which at the end of 1990 stood at twenty-three billion [US] dollars; workers gain a stake in the capitalist system through their stock purchases, and help support it at the same time; and Singapore becomes a nation of homeowners – and homeowners want prosperity and political stability.

(Sesser, 1992, p. 52)

As Asher has observed, the CPF has wider objectives than the provision of social security because

through the system the government seeks to influence the avenues of consumption and savings, as well as exert enormous social, political and economic control. In the process the government is provided with an excellent data base (particularly in conjunction with data bases of other statutory boards and ministries) for planning.

(Asher, 1994, p. 158)

The CPF has therefore become an extraordinarily powerful regulatory mechanism, controlling as it does the major savings and assets of the majority of Singaporeans. This power also derives from the nexus between the provision of retirement welfare and of housing welfare which constitutes a crucial means for the delivery of state welfare and therefore warrants closer examination.

### **Financing public housing**

In 1964 the HDB introduced the Home Ownership Scheme to encourage the long-term leasing ('ownership') of public-sector dwellings. Low interest payments and long repayment periods did not yield a strong result because few could afford the downpayment of approximately 20 per cent. Out of 11,000 public housing tenants, only about 1,500 moved to buy their flats.

Following legislative amendment in 1968, CPF members were able to use their CPF payments to finance downpayments and loans on low-cost HDB flats, 'making it possible to own a flat for ninety-nine years without any reduction in monthly disposable income' (Chua, 1995, p. 133). In 1968 the proportion of tenants deciding to buy their flats jumped to 44 per cent, then to 63 per cent in 1970 and 90 per cent in 1986. As the CPF savings could not otherwise be withdrawn until retirement, the option of purchasing a flat was immediately attractive. The use of the CPF for purchasing public housing was gradually extended to public housing built by other government bodies: in 1970 to the Jurong Town Corporation, in 1975 to tenants of middle-income flats built by the HUDC, and to the Ministry of Defence in 1977 (Phang, 1995, p. 115–16; Tay, 1995, p. 268). It is after 1968 that the level of employer

and employee contributions to the CPF begins to rise quite sharply, jumping from 13 to 33 per cent of the monthly wage by 1978, compared to a rise from 10 per cent to 13 per cent during the previous decade (Table 3.1).

The success of these adjustments and of the progressive elimination of access to land (the Land Acquisition Act, 1966) as well as to other forms of housing – semi-rural squatter settlements, Malay villages, and inner-city tenements were rapidly demolished – can be seen in the huge waiting list for HDB flats that quickly developed and the rising incidence of HDB home ownership to its current level of 90 per cent of all public housing dwellings. Other schemes have since been introduced to encourage home ownership and to assist the higher-income sector of the middle class to use their CPF to finance private housing.

As the income ceiling of S\$8,000 per month for eligibility for public housing covers more than 90 per cent of households, the reach of state housing welfare has made the HDB virtually a monopoly provider for the nation and a universal welfare system. Through the provision of varying standards and types of housing and the integration of the consumption of state housing welfare and state pensions, social inequalities have been reproduced by the HDB ‘market’ in public apartments. Low-income families can afford only the smaller apartments and, with the relatively high cost of HDB housing, have less disposable income than the middle class. In other words, the type and standard of housing (the latter usually related to the age of the housing block) are dependent on the ability to pay. Some studies have shown that public housing in Singapore has therefore not merely reproduced inequality but increased it, exacerbated social alienation and unwittingly promoted ‘shelter poverty’ whereby people deprive themselves of necessities in order to meet housing costs (Salaff, 1988; Bello and Rosenfeld, 1990, p. 331). The home ownership schemes have resulted in all income sectors purchasing rather than renting their flats, ensuring that all have an interest in caring for them and an interest in their resale value. During the decade or so after 1968, the PAP-state reconstituted ‘the lower classes into an urban proletariat physically located in government housing which it could pay for only by working in the nearby factories of the transnational corporations’ (Tremewan, 1994, p. 56). A migrant society was swiftly stabilised.

The imperatives of this system have made it very difficult for the PAP-state to evict defaulters from HDB flats for either falling behind in payments or for criminal acts although there are penalties prescribing the downgrading of owners to tenants or the eviction of tenants (for such crimes as dropping ‘killer litter’ from high-rise blocks). Invoking such penalties would create tenants with less of an investment in public housing and therefore in the system of social order, and families rendered homeless would be unable to qualify for the very limited welfare assistance provided by the state, results sharply at variance with the government’s objectives. This problem has rarely been publicly admitted other than by PAP leaders noting that any families falling behind in payments would be given the chance to meet arrears in staged instalments. In this sense as well, the HDB is a system of universal welfare

provision even though the government's refusal to acknowledge public housing as a universal entitlement and the HDB's status as a statutory board militates against such a claim.

It should be apparent that the PAP government is actively preventing public housing from becoming a social welfare institution in the conventional sense of the responsibility of the state to the well-being of the citizens, while at the same time subsidising housing provision to practically the entire nation. In this sense, Castells (1988) has suggested that Singapore is a social welfare state *sui generis*. (Chua, 1995, p. 138)

The relatively high cost of housing and its link to the forced saving regime of the CPF have compelled a high level of social discipline in that people have had to remain in formal employment in order to meet increasing costs and to provide for their future subsistence. Two or more household members may need to pool their incomes in order to meet housing costs. Thus the CPF and HDB have, *in tandem*, given strong momentum to the proletarianisation of the population, putting people physically in their places for the state's economic strategy and making their labour available to foreign capital (Tremewan, 1994, pp. 45–73).

The social groups not involved in the consumption of state housing welfare through the CPF and HDB are at opposite ends of the spectrum. The small but very expensive private housing market is naturally the preserve of the very rich or those fortunate enough to have inherited freehold property which has not been compulsorily acquired by the state. Private housing is one of the goals of meritocratic striving in Singapore. The industrialisation process has succeeded in transforming class struggle from worker militancy against colonialism and the state to the struggle to improve one's class position. The private market therefore plays an important ideological function and is mirrored within the HDB system where upgrading to a better flat is a common objective.

At the other end of the social scale are migrant workers who do not contribute to the CPF and who have little or no access to public housing. Reliable statistics on these workers and the various categories they fall into are notoriously difficult to obtain from official sources, but one estimate stated there were more than 135,000 work permit holders in Singapore excluding foreign maids and foreigners on employment passes in 1994. The total of all categories must be well over 200,000 in Singapore, 12 per cent or more of the labour force (Tremewan, 1994, p. 69). Maids generally are housed with their employers, employment pass holders are either provided with housing or can afford the private market. About 7,500 HDB flats were set aside for employers to use for the other foreign workers in 1994 (*Singapore Bulletin*, June 1994, p. 7). However, in 1996 it was stated that such flats 'which corporations buy to rent to foreign workers are meant for skilled workers holding single work permits, such as Malaysian women working in Singapore' and that a

diminishing stock of 5,000 to 6,000 HDB rental units was being set aside each year (*ST*, 19 March 1996). HDB housing 'will not be used to house foreign workers in the construction or heavy industries' (*ST*, 19 March 1996). Corporations have been allotted state land on which to build their own dormitories for these foreign workers especially within industrial or warehouse sites, thereby ensuring the persistence of the familiar substandard accommodation on site for construction workers.

Foreign workers on work permits are excluded from the CPF and from access to public housing except in the minority of above cases where employers rent flats on their behalf for limited periods. Consumption of public housing and the purchase of flats is restricted to citizens and permanent residents, with employment pass holders having access to HDB rentals. This reflects the fact that the government has no responsibility for the retirement or social reproduction costs of foreign workers. On the contrary, it has every interest in ensuring that foreign workers are deprived of public housing and thereby remain without roots in Singapore as an easily revolved temporary labour force. Of note is the raising of the income ceiling for work permit holders to S\$2,000 per month which has enabled a wider range of skilled workers and technicians (e.g. computer programmers from India) to be controlled by the harsher regulations applicable to work permit holders and to be excluded from access to public housing (*STWOE*, 8 January 1994, p. 1).

Therefore the method of financing public housing has provided a huge amount of cheap capital to the PAP-state which it has used, among other things, to consolidate its political base through financing the local construction industry. To some degree this may have offset the discrimination against local landlords who, in the early phases of the housing programme, had their land compulsorily acquired while corporate capital received assurances that commercial properties would not be touched (Chua, 1995, p. 131).

In contrast, the reproduction of inequalities through the CPF and HDB and the exclusion of foreign workers from these welfare mechanisms have fragmented a previously militant labour force. The provision of almost universal public housing of an increasingly high standard and cost has reconstituted Singapore society in consonance with the industrialisation strategy and has endowed the governing party with a high degree of ideological hegemony. Provision of the essential welfare for the export-led growth strategy through the state has been represented more as benevolence than necessity, its continuing provision contingent on PAP governance in perpetuity.

### **The politics of housing welfare**

While the mechanisms to finance ownership of public housing have been central to the entire welfare regime, the nexus between welfare and governance has been overlaid by additional incentives to social conformity and political loyalty. These

include the nature of HDB ownership, its connection to electoral behaviour and the imposition of PAP-state social organisation on the housing estates where most Singaporeans live. Together with other welfare goods connected to social reproduction and regulation (e.g. education and health), these characteristics of state housing welfare account for the extraordinary degree of cooperation the PAP enjoys as well as for the systematic neutralisation of non-cooperation and dissent.

Ownership of an HDB flat deepens involvement in the state welfare system and should not be taken to indicate the greater independence implied by a freehold title to property. Purchase of a flat means the purchase of a ninety-nine-year lease which reverts to the HDB upon termination or expiry. The investment involved in a purchase with its long-term payment commitment to financing through the CPF constitutes, in most cases, an employee's most significant asset. Owners therefore have a greater interest in the care and maintenance of public housing, in their social responsibilities which arise from owning this asset and in its market value within the internal HDB market, than any tenant is likely to have. Therefore, unlike public housing schemes in some Western countries where it has been made possible for housing tenants to purchase their properties and thereby become small landowners with an interest in the development of the market, in Singapore HDB apartment owners acquire an interest in a market regulated by the state and in the ruling party's governance. Ownership opens them to a higher degree of social regulation by the PAP. This is the particular political potency of the Singapore 'model' of state housing welfare consumption.

Both owners and tenants are subject to the petty rules and regulations of HDB estates which specify in considerable detail what may or may not be done with and within each flat. The greater susceptibility of owners to control is indicated by the risk of losing one's major asset and savings, something not of concern to a tenant.

[T]he HDB imposes limitations on the number and family status of people who can live in the units, has to approve their renovation, rental and resale, the conduct of business in the units, and has the right to evict residents found guilty of morally inappropriate behaviour, not necessarily with compensation for their equity in the unit.

(Linda Lim, 1989, p. 183)

The resale market for HDB flats has also given owners, 90 per cent of HDB occupiers, a greater stake in property values which, owing to the way the PAP government has configured the 'market' it completely controls, has translated into a strong interest in exhibiting political loyalty. Owners may sell their flats subject to certain stringent conditions (Ministry of Information and the Arts, 1996, pp. 191–2) to realise a capital gain. The value of a flat is related not only to its size, standard of outfitting and convenience of geographical location but also to its political location.

In other words, the government has engineered a number of ways in which voting behaviour in parliamentary elections affects public housing values.

From the time of the 31 October 1981 Anson by-election which saw the first opposition member in parliament since 1966 (and this partly because of the eviction of tenants in order to construct a container port and the mishandling of the highly politicised waiting list for HDB flats), the PAP became concerned that an increasing number of Singaporeans were withholding electoral consent by voting for the minuscule opposition. From the PAP point of view, a generation which was now stable and comfortable was indulging in the extravagance of putting all Singapore's gains at risk by the foolhardy act of voting against the government. The one act of political dissent which Singaporeans can legally exercise is casting such a vote and the government cannot outlaw this act if it wishes to continue to derive legitimacy from the forms if not the substance of parliamentary democracy. In the general elections of 1984, 1988 and 1991, the percentage of Singaporeans not voting for the PAP rose sharply from 24.45 per cent in 1980 to 37.05, 38.24 and 40.69 per cent respectively (Ministry of Information and the Arts, 1996, p. 333).

The PAP-state has dealt with this phenomenon in three ways, the third of which is of particular relevance here. It maintained its unrelenting harassment of opposition or potential opposition, it gerrymandered the electoral system by the creation of Group Representation Constituencies in order to neutralise opposition votes should they be cast, and it acted to provide Singaporeans with additional material incentives not to vote for the opposition in the first place. The latter was achieved in the first instance by the creation of town councils in 1986, foreshadowed during the 1984 election campaign during which Lee Kuan Yew threatened that constituencies returning an opposition candidate might lose some government services (*Asia Yearbook*, 1986, p. 226). Later Deputy Prime Minister Goh Chok Tong justified legislation establishing town councils in terms of neutralising the threat of 'protest votes' and forcing Singaporeans 'to think a little more carefully before they cast their votes' (*Asia Yearbook*, 1988, p. 223).

The result was the gradual introduction of a system of town council administration for housing estates organised on the basis of electoral boundaries and led by members of parliament (all PAP except for one). This was presented as a form of grass-roots democracy, the election of MPs in the general election apparently providing the democratic credentials for councils appointed largely from PAP functionaries at the local level (*ST*, 14 September 1986). As they were formed, town councils progressively took over the myriad tasks of maintenance, renovation, rubbish collection, roads and car parks, care of the surrounding environment and the formulation of the rules and regulations governing residents' behaviour in the estate. The message was that the way Singaporeans voted in the next election would affect the value of their HDB apartment because PAP-led councils could expect the full cooperation of the highly efficient government apparatus while

opposition town councils would flourish or perish according to the degree of government cooperation afforded to them.

A well-run estate can flourish, while negligence and poor service will result in run-down flats, poor facilities, not to mention dangers of corruption. Property values of such estates will rise or fall depending on how well or how badly they are run, the Government explains. . . . Opposition parties which are financially weak and lacking in human expertise view it [the introduction of town councils] as a serious threat to their political aspirations. . . . Politics will be an entirely new ball game in Singapore.

(Editorial, *South China Morning Post*, 5 September 1988)

The 1988 and 1991 election results showed that the opposition vote had been contained but the trend had not been reversed. Therefore, this connecting of public housing values to political loyalty was further refined in the mid-1990s through tying the order of precedence for upgrading housing estates to voting patterns. The potential for such an elaboration was indicated in Lee Kuan Yew's last National Day address as Prime Minister in 1990 when he promised Singaporeans that 'the Government could double the value of their assets in 20 years provided they treated life like a marathon and stayed the course' (*STWOE*, 1 September 1990).

A public authority overseeing housing stock would naturally be required to have a rolling programme for renovation of older estates in order to maintain its original investment and improve the level of service in response to higher standards of quality. The PAP-state took the opportunity of such a routine programme and of its budget surpluses to use upgrading to shore up its political support. A Main Upgrading Programme for blocks more than seventeen years old was begun in 1989 and involved improvements to the flats, the block and its precinct. Forty-five precincts were included in this programme (Ministry of Information and the Arts, 1996, p. 195). Upgrading only proceeds if 75 per cent of owners vote for it and the costs are split between the government and owners (another advantage for the government of the home ownership scheme over tenancy). Voting for or against upgrading uses a mechanism of liberal democracy which converts a choice made in highly restrictive circumstances into consent while reinforcing the ideological context of acknowledging state benevolence.

In the months preceding the January 1997 general election, the government announced that 'asset enhancement' through upgrading HDB flats would increase resale values of flats by between 40 and 50 per cent. It further introduced an Interim Upgrading Programme for flats between ten and seventeen years old which would be fully paid for by the government and would involve, provided 75 per cent of owners in each block agreed to participate, over 68,000 HDB flats in seventy-nine precincts (*STWOE*, 30 November 1996, p. 2). Together with the Main Upgrading Programme in progress, this initiative ensured that a considerable number of

Singaporeans who were about to cast their vote in a general election were concerned with the possible enhancement of their major asset.

The negative example of Block 326 in Ang Mo Kio Avenue 3, which had missed out on upgrading because only 73 per cent of occupiers voted in favour, was cited prominently, with the recalcitrants who lobbied against the upgrading being identified as residents 'from the 16 units along the block's common corridors on the 6th and 11th floors' (*ST*, 13 September 1996, p. 39). Their opposition was based on the fact that they had recently bought resale flats and did not wish to be forced to pay again for renovating them when they participated in the Main Upgrading Programme – the estimated cost to owners being around S\$20,000 per flat. There was also discontent that this cost was higher than for a similar project elsewhere (*ST*, 8 September 1996, p. 1). A disappointed resident who wanted the upgrading drew the moral for all when he said, 'I guess we will just have to learn the bitter lesson and vote carefully the next time' (*ST*, 13 September 1996, p. 39). Brigadier General Lee Hsien Loong, Deputy Prime Minister, had already drawn attention to the case. 'Singaporeans should realise that every vote counts and that the overall result is final, whether for Housing Board upgrading or the General Election' (*ST*, 8 September 1996, p. 1).

Subsequently the National Development Minister stated that 'community spirit' would be the factor that gave one precinct an edge over another in the waiting list for upgrading. The criteria for upgrading would continue to be the age of the precincts, geographical position and cleanliness, also, from 1997, the additional factor of community spirit. This would be judged in four areas: the strength of community leadership, the quality and quantity of activities organised by Residents' Committees, the rate of residents' participation in grass-roots activities, national campaigns and National Day celebrations and, finally, the level of communication between grass-roots leaders and their residents (*ST*, 18 September 1996, p. 1).

In practice these four areas require HDB occupiers to demonstrate more explicit support for the PAP government and its local organisations in the HDB estates. Since the 1960s, the PAP has used state organisations in housing estates as its party apparatus, thereby monopolising the social space where most people live and preventing the emergence of autonomous social organisation. These PAP-dominated organisations include the People's Association, Community Centre Management Committees, Citizens' Consultative Committees, Constituency Committees, Town Councils and Residents' Committees. The usual route to membership of these 'grass-roots' bodies has been by recommendation of a PAP MP or other senior functionary, vetting by the Internal Security Department and appointment by the Prime Minister's Office (Tremewan, 1994, pp. 48, 67). For the purposes of priority for upgrading, the extent of community spirit in each precinct will be judged by the People's Association (which oversees the Residents' Committees) while Town Councils continue their task of judging cleanliness (*ST*, 5 October 1996, p. 14).

On the electoral level, the initiative to tie housing value increases through upgrading to political loyalty constituted the PAP's attempt to overcome a tactic

adopted by the opposition parties at a general election. That is, the opposition would concede a bare majority of seats and contest only a minority of seats, thereby enabling Singaporeans to cast a vote in favour of a stronger opposition without any possibility of the PAP being defeated. It was this tactic that contributed to the sharp decline in the PAP's share of the vote at general elections. The PAP response was to ensure voters would pay a higher cost for an opposition vote in the next election.

Although the upgrading programme had been announced before the 1991 election, it was still somewhat nebulous and the potential rise in property values was seen as rather long term. After 1991, according to *Straits Times* columnist Cherian George,

Anxiety over property values has reached obsessional proportions. Property prices rose fastest in 1993 and 1994. . . . [T]he value of one's flat relative to others is an immediate concern. It is taken for granted that property values are on the up-escalator; what matters is how fast one's escalator is travelling. If it does not move as quickly as other properties, one's ability to upgrade is hit hard. Thus any hint that HDB blocks in opposition wards will be on a more sluggish escalator – by being placed lower on the HDB's upgrading schedule for example – will be taken seriously

(*ST*, 26 October 1996, p. 13)

In the first quarter of 1996, S\$1.3 billion was taken out of the CPF for both public and private housing schemes, more than a 50 per cent increase on the same period the previous year. Buyers used S\$771 million to purchase HDB flats, a 77 per cent increase over the previous year (*Singapore Bulletin*, June 1996, p. 6). The government had successfully established its own housing market in which owners were frenetically engaged in attempts to improve their standard of housing.

The upgrading initiative was combined with the customary harassment of the opposition parties with legal suits and the minimal coverage of their activities during the election campaign as well as the fine-tuning of the Group Representation Constituency gerrymander by means of a constitutional amendment shortly before the election to enable up to six MPs to stand in a GRC (*ST*, 29 September 1996, p. 1). The amendment cut the number of electoral divisions from thirty-six in the 1991 election to twenty-four – nine single-member constituencies and fifteen GRCs. That is, the eighty-three seats of the unicameral legislature were allocated among the twenty-four divisions, seventy-four of the seats in the fifteen multiple-member GRCs. The opposition conceded forty-seven seats and contested the rest. The PAP ran an unusually aggressive campaign especially in the Cheng San GRC where it had to bring the weight of its senior leadership and media monopoly to bear to prevent an opposition victory. The announcement on the eve of polling day that the votes would be counted by precinct and that results could be accessed on the

Internet generated anxiety regarding the secrecy of the ballot. Far from indicating freedom of information, the announcement was taken by many citizens, according to one of the two successful opposition MPs, Low Thia Kiang, as informing the electorate that the government would know how people living in a small area voted (*STWOE*, 1 February 1997). In the end, all these efforts paid off.

On 2 January 1997, the PAP won all but two of the contested seats, giving it eighty-one out of eighty-three seats, cutting the opposition members by half and expelling the strongest opposition party from parliament. With 65 per cent of the valid votes, it reversed the trend in favour of the opposition. For this victory the government was clearly willing to pay the price of a reproach from the US State Department regarding its use of housing values to influence voters (*FEER*, 2 January 1997) and of such international headlines as 'Goh buys his way back into power' (*Daily Telegraph*, 4 January 1997).

On 5 April 1997, the next ten precincts to be upgraded were announced along with their election performances. Seven had been in uncontested constituencies, with the remaining three precincts giving between 66 per cent and 75 per cent of their votes to the PAP. As part of the statement it was also noted that the two opposition electorates were low priorities for upgrading (*ST*, 5 April 1997).

### **The future of PAP governance through welfare**

The ability of the PAP-state to draw together so many of its regulatory mechanisms to produce a desired election result may at first glance indicate a well-entrenched yet highly manoeuvrable system of governance which is assured of longevity. There are indications, however, that the PAP's use of a complex of welfare institutions to mediate a wide range of political objectives and to regulate many forms of non-cooperation and dissent does not necessarily produce a stable equilibrium. On the contrary, there appears to be a tendency for an attempted solution to a crisis in one part of the complex to stimulate another elsewhere, thereby exposing the underlying risk of the whole system unravelling. While not wishing to exaggerate the threat to PAP governance, there are serious unresolved issues which require attention and for which the government appears to have no comprehensive solution.

The first is the most obvious. Will the consumption of state welfare through the CPF-HDB nexus provide the retirement security required for an ageing population? To the extent that information is publicly available, the evidence indicates a number of problems. Asher's work on the CPF has shown that 'In spite of high rates of growth and over-full employment . . . [CPF] balances of the vast majority of contributors are low. . . . Of particular significance for the provision of social security are the low balances of those nearing retirement age' (Asher, 1994, p. 158).

In 1989, just under 25 per cent of CPF contributors had balances below S\$10,000, with almost 75 per cent having balances below S\$60,000. Furthermore, the 49.1 per

cent of the cohort of 45–55 year-olds approaching the official age of retirement and CPF withdrawal (55 years) were earning less than S\$1,000 per month. Over all age groups, 45.6 per cent of employees fell within this income range in 1990, with 80.3 per cent of wage earners earning less than S\$2,000 per month (Asher, 1994, p. 158). Asher concludes that in 2030 when 29 per cent of those of 60 years old will be over 75 years old, many elderly will be in one- and two-person households and, with the low level of compulsory savings, many of those nearing retirement now will not be able to make provision for their retirement needs (Asher, 1994, p. 158).

A number of steps taken by the government indicate an awareness of the possibility that it may be subject to pressure for supplementary retirement support if nothing is done. The government has attempted since the mid-1980s to keep the elderly in work longer and to prevent them from having access to the full amount of their CPF savings immediately upon retirement. It learned in the early 1980s that raising the age for CPF withdrawal was an electoral flashpoint (Tremewan, 1994, p. 62), but has achieved the same goal by other means. It has adjusted total contribution rates to the CPF for those aged 55–60 years to 20 per cent, 60–65 years to 15 per cent and those over 65 to 10 per cent. It raised the retirement age to 60 while maintaining the age for CPF withdrawal at 55 and announced its intention to raise the retirement age further (*STWOE*, 15 January 1994). At the same time it legislated for a minimum sum to be set aside in the CPF accounts of non-HDB owners after retirement age and later indicated that this sum, S\$34,600, would be raised substantially (*STWOE*, 22 January 1994).

Other measures to solve the problem of retirement welfare included a CPF scheme which enables children to top up their parents' retirement accounts. The government itself gave a top-up to the elderly's accounts from its budget surplus in recognition of their service to Singapore, thereby demonstrating the seriousness of the situation (*STWOE*, 30 November 1996) and assisting its electoral fortunes. The passage of the Maintenance of Parents Act which provides for parents to sue their children for maintenance also targeted the same problem, albeit with a blow to the state ideology of Confucianism (*STWOE*, 15 June 1996). These initiatives constituted a tacit admission of the failure of previous policies of trying to induce three-generational family units either in the same apartment or in close proximity as a means to displace responsibility for the welfare of the elderly directly on to current employees. They also established mechanisms for inter-generational transfers from younger to older Singaporeans, tying down the young even more.

Subsequent to the January 1997 election it can be expected that further adjustments will be made to the CPF minimum sum, the age for CPF withdrawal and the retirement age. Yet it is unlikely that these measures will overcome the problem even for those retired persons who have an HDB apartment. With the rising resale market and the elimination of small apartments, it will be difficult to realise a capital gain in cash by downsizing to a more modest flat.

The second unresolved issue, related to the first, is that of the rapidly rising cost of living in general and of the cost of public housing in particular. These matters became highly politicised at a public level during 1994–6 as the new leader of the Singapore Democratic Party (SDP), Chee Soon Juan, raised them in his book *Dare to Change* and in his public pronouncements, although there was every indication that the PAP already recognised rising costs and increasing income inequality as serious issues for political management prior to the next election (*STWOE*, 22 January 1994, p. 12; *ST*, 1 May 1996, p. 1).

The government introduced a range of HDB schemes for low-income families and first-time buyers ('young couples') including incentives to tenants to buy and upgrade to larger flats, the granting of priority in flat allocation, increases in the CPF housing grant for first-timers (a higher grant for those buying near their parents), and an Executive Condominium scheme for couples earning more than the S\$8,000 HDB ceiling income but unable to afford the private market (*ST*, 19 March 1996, p. 20).

The SDP and the Singapore Malay National Organisation (PKMS) claimed that there had been a 100 per cent increase in new HDB flat prices between 1990 and 1994 even though wages, construction materials and the size of flats had not changed, and that this increase had driven up the price of resale flats (*ST*, 15 June 1996, p. 26). In positioning itself for the election and replying to this opposition articulation of widespread concern, the PAP government set up a parliamentary Cost Review Committee to examine the reasons for the rapid increases in living costs. After conducting a series of hearings where opposition leaders were cross-examined as if in court (and subsequently fined for providing inaccurate information), it concluded when it reported shortly before the election that household spending rose by 76 per cent between 1988 and 1993, with housing costs rising on average by 139 per cent (from 17.5 per cent of the household budget to 22 per cent), but that these increases were largely due to Singaporeans' expensive tastes in housing and consumer goods (*ST*, 17 August, 8 November 1996; *STWOE*, 9 November 1996).

Underlying this political management and the incomplete statistics it provided are two long-standing issues: the equity of the CPF and the transparency of HDB funding. The CPF appears to treat all contributors generously because there is no income tax on contributions, interest or withdrawals. However, the scheme favours the high earner.

Since post-rebate income tax rates range from three to 33 per cent, exemption or deduction from income tax implies an upside-down subsidy, that is, tax saving is greater for those earning higher wages. This, in conjunction with the fact that a major part of the tax saving occurs in the year of contribution while the interest rate on the CPF balances is on average much lower than the return on investments allowed from the CPF, means that returns on funds contributed and quickly withdrawn are much higher than on long-term accumulations in the

CPF. Because of the requirement of a minimum sum before withdrawal for investment or other schemes can be made, the higher income groups are likely beneficiaries of provisions for quick withdrawal. Non-taxation of capital gains accentuates the negative impact.

(Asher, 1994, p. 157)

Therefore, the CPF, and the complex of schemes related to it, provide the middle class with opportunities to improve their financial status while tying down the working class through long-term debt and the inability to access their compulsory savings. By this means the PAP-state has been able to consolidate its political support, and demands to close the income gap cannot easily be met without putting this at risk.

The second underlying issue is whether the PAP government subsidises public housing (as it claims) or makes a profit from it (which it denies). As HDB accounts are not publicly available, it is not possible to tell conclusively one way or another but it has been a matter of public concern for a long time. In 1983, one analyst noted that 'all apartments of three rooms or more make a profit over their construction and administrative costs, with only the smallest flats being subsidized' (Linda Lim, 1983, p. 755), whereas the government claimed in 1996 that three-room flats were subsidised S\$40,000 on average and that buyers of executive condominiums would be subsidised up to S\$140,000 (*ST*, 19 March 1996, p. 20).

Chua has observed that the HDB home ownership scheme has enabled a low level of subsidy ('about two per cent of the annual budget estimates since 1975') owing to the return to the government from sale, rents of residential, commercial and industrial buildings and revenue from other services like car parks (Chua, 1995, p. 135). Opposition leader Chee Soon Juan of the SDP claimed that 'Closer scrutiny suggests that the cost of building HDB flats is actually much cheaper than building private apartments. In other words, there is no subsidy for HDB flats' (Chee, 1994, pp. 84–5). Chee points out, as others have done, that the government pays little or nothing for the land on which it builds housing estates, that the majority of construction workers are foreigners on low wages and employers pay a monthly levy to the government in order to employ them, that HDB residents have to finish their flats with flooring, kitchen cabinets, painting of walls (in contrast to private apartments), that HDB residents have to pay for car parks and at the end of ninety-nine years the apartment reverts to the government (Chee, 1994, p. 85).

Without access to the statistics it would seem highly probable that the government makes a considerable gain from the difference in the price it pays for land and the final market price of the flat. In a context of widening income disparities and of rising housing costs the issue of whether a profit is being made from HDB housing and by whom is a highly sensitive one. The lack of transparency is likely to ensure it remains so. Also the inability of many to realise the benefit of the asset enhancement process except on paper, because they have no alternative but to

continue to reside in their current accommodation, no doubt exacerbates public feeling and calls into question the long-term effect of the PAP's strategy.

Finally, although the PAP's governance has been strongly supported by the political effects of the public housing programme, its increasingly explicit connection to the electoral process may indicate the waning of PAP legitimacy. However, the politicisation of housing ensured a serious blow to the clean image of the PAP leadership when the details became known of discounts received by Lee Kuan Yew and his son for the purchase of several private condominiums from a company in which Lee's brother was a principal. Lee himself brought the issue into the public arena subsequent to extensive rumours among the business community and convened a special sitting of parliament to justify the purchases. The fact that no legal boundaries were transgressed is less important than the fact of the leading family being a player and therefore having an interest in the super-heated property market while most Singaporeans struggle to pay off their HDB flats (*ST*, May and June 1996). The 1996–7 electoral campaign with its tying of political loyalty to housing values therefore had an additional salience. When opposition candidate Tang Liang Hong raised the condominium issue in his campaign meetings, a dozen defamation suits were lodged against him by the Lee family and members of cabinet (*FEER*, 6 February, 6 March, 20 March 1997). During the preliminary hearings it was revealed that the judge sitting on the case purchased a condominium in the same complex on the same day. He refused to rule himself out of sitting on the case (*ST*, 6 March 1997 and following). This incident has threatened the ideological containment of public debates on public housing which usually have been limited to discussion on the internal workings of the HDB programme and its refinement.

Singapore's stability since the 1970s may be accounted for in large part by the provision of state welfare in consonance with the PAP's political strategy including its partnership with foreign capital. However, there are now many unresolved issues which threaten to undermine this pattern of governance and which will require a series of interrelated adjustments by the PAP. Already moves have been made to distance accountability by 'privatising' parts of the state administration without relinquishing substantive control. It remains to be seen whether the increasing public concern over rising costs and the uneven distribution of the benefits of economic growth will be effectively contained by further adjustments to the consumption of state welfare and the mechanisms by which it induces political obedience.

## Note

1. For this debate see Chen (1983); Ariff and Hill (1985); Deyo (1981, 1987); Robison *et al.* (1987); Yoshihara (1988); Chia (1989); Lim Chong Yah (1989); Rodan (1989); Sandhu and Wheatley (1989); Bello and Rosenfeld (1990); Milne and Mauzy (1990); Steven (1990); Tremewan (1994).

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## 4 The South Korean National Pension Programme: fulfilling its promise?

*Huck-ju Kwon*

The aim of this chapter is to explain the political origins and structure of the South Korean National Pension Programme (NPP). This analysis should reveal a great deal about the country's welfare system as a whole since the NPP is one of its twin pillars.<sup>1</sup> Furthermore, it embodies, *inter alia*, what appear to be the two typical goals – developmental and social – of an East Asian welfare system: it has a developmental goal as part of a national economic strategy and a social goal to protect the quality of life in old age.

The question underlying this chapter is whether the East Asian welfare model is sustainable in the long term. To be sure, we cannot elicit a conclusion about the future of East Asian social welfare systems simply through an analysis of the South Korean National Pension Programme. Nevertheless, it may provide interesting clues. The question we attempt to answer is: 'Will the National Pension Programme fulfil its promise?' As an old age pension programme, the NPP has promised to deliver pensions to its contributors in some twenty years or more. The contributors expect to receive pensions when they retire and it would be very problematic for any government if its pension funds were unable to provide the pensions promised. Indeed, if such a possibility seems very likely, it may allow us to raise, albeit cautiously, the issue of the sustainability of the whole East Asian welfare model. To analyse the future of the NPP, we shall use a simulation method. But first it is necessary to outline the structure of the National Pension Programme and explain its political origins.

### **The structure of the National Pension Programme**

The South Korean NPP is the main public pension programme covering 26.7 per cent of the working population in 1994.<sup>2</sup> Compared to Singapore's Central Provident Fund which covers about 54 per cent of the working population (Asher 1991), it is a small programme, but its coverage has been increasing, albeit at a relatively slow pace. It is a social insurance programme based on a funded system. The National Pension Corporation, a quasi-governmental body, is responsible for operating the National Pension Fund, which is a separate fund from the general government

account. By 1994, the Programme had accumulated funds of 12,766 billion *won*, which is 4.2 per cent of GDP. The NPP requires the insured to pay premiums for twenty years for entitlement to a full pension. The contribution rate was 6 per cent of wages<sup>3</sup> in 1994, of which 2 per cent each was paid by employees, employers and retirement funds reserved within companies.<sup>4</sup> Initially, the contribution rate was 4 per cent and it is expected to increase to 9 per cent (National Pension Corporation 1995). Since it was introduced in 1988, only survivors' pensions, invalidity benefits and lump-sum refund benefits have been paid; no full pension payment has been made yet. Because the number and amount of these benefits are on a relatively small scale, the Programme will continue to accumulate funds for the time being. However, from the year 2007, it is committed to begin delivering full pensions. But pension payments are expected to rise rapidly from the year 2002 since those who pay contributions for fifteen years are eligible to partial retirement pensions. In sum, the National Pension Programme is still immature and what social impact it will make remains to be seen.

### **The origin of the National Pension Programme**

Although it will take some time to see the effects of the NPP because of its immaturity, its political and economic origins may well reveal a good deal of its nature, showing not only how social policy decisions have been made in South Korea, but also what the goal of the Programme was when it was introduced. This will also explain why the NPP took on its present form. Well before its implementation in 1988, the bill for a National Welfare Pension Programme became law in 1973, but soon after legislation its implementation was postponed indefinitely. To understand the reason for this postponement, it is necessary to read the political as well as the economic situation in the early 1970s. In October 1972, then President Park changed the Constitution in order to stay in power after winning the presidential election by a narrow margin. The new Constitution paved the way for President Park to be in effect a President for life. He declared martial law and banned all political debates on constitutional matters. This so-called 'Yushin Constitution' effectively blocked the institutional channels for opposition parties to challenge the government and denied them the chance to take power. Furthermore, since the Constitution stipulated that one-third of the Members of the National Assembly were appointed by the President, opposition parties had no chance to block government proposals in the National Assembly. Because of this institutional setting, crucial decisions were already made before they reached the legislature. In a nutshell, the President and his bureaucrats occupied the effective point of decision making (Immergut 1992).

President Park argued that constitutional revision was necessary to be prepared against the North Korean threat and to mobilise resources for economic development. Despite the oppressive measures he took against political opposition<sup>5</sup>, it was crucial for him to demonstrate a strong economic performance to justify the revision, and

it was no coincidence that his economic strategy shifted its emphasis towards building up heavy and chemical industries which aimed at markets abroad as well as the domestic market<sup>6</sup> (Haggard and Moon 1990; Deyo 1987). Because heavy and chemical industries require a great deal of initial investment for manufacturing plants, Park had to find ways to finance them to implement his economic programmes. On 25 November 1972, President Park met Kim Manje who was the head of KDI (Korean Development Institute), which played a key role in drafting the country's economic strategy. Kim proposed a national pension programme which would mobilise capital as well as contribute to social security, both of which President Park desperately needed to justify his authoritarian regime. Following this discussion, the President formally requested KDI to undertake research to develop a framework for a social security programme for pensions to be outlined in his New Year press conference.

The NPP was initially called the National Welfare Pension Programme as it passed through the National Assembly in 1973. The Programme was due to be financed solely by contributions from employers and employees. Because of the twenty-year contribution requirement for pension entitlement, it was very clear that the Programme would accumulate a huge amount of capital before it started to provide pensions. A senior policy expert at the KDI, who was deeply involved in designing the Programme, made it clear that the NPP could be considered an efficient means for increasing the rate of savings out of current income. He also pointed out that social security contributions would encounter less political resistance than taxation (Park 1975: 90).

The Programme was launched on 24 December 1973, only for President Park suddenly to postpone it. Although it is still not completely clear why he made this decision, high inflation due to the sudden and unexpected rise in the price of oil in 1973 must have been responsible to a large extent. Even with his authoritarian style of politics, it would have been difficult for Park to force people, whether employers or employees, to put aside part of their income into the pension fund at a time of such high inflation.<sup>7</sup> Post-oil shock inflation had a great impact on the development of social welfare not only in South Korea but also in Japan, as discussed in Part II of this volume (Shinkawa 1990; Tabata 1990).

The National Pension Programme was not reintroduced until 1988, following an election promise by President Rho. It is important to remember that this election only took place after civil and opposition movements had pressed the authoritarian government to carry out constitutional reform in 1987. In terms of economic conditions, the inflation rate in the 1980s was kept at a low level, in contrast with the 1970s. Since low inflation implies the likelihood of a good return on present contributions in the form of the real value of eventual pensions, economic conditions thus turned in favour of the NPP. The structure of the Programme which was implemented from 1988 on was virtually the same as that of the initial programme. In other words, the newly introduced Programme aimed at mobilising capital as well as providing old age pensions.

In fact, the previous government of President Chun had already examined the feasibility of introducing the National Pension Programme (Min 1986). It is tempting to conclude that the Rho government simply brought the programme into effect because economic conditions were favourable at a time of high political pressure. In most cases of policy making, however, government proposals are likely to meet criticism from various sections of society, and compromises have to be made in response to various kinds of social demands. The Rho government was elected through a democratic process in which candidates were able to debate all sorts of social issues. In fact, the government made an important concession regarding National Health Insurance in the run-up to the election.<sup>8</sup> Two important issues regarding the NPP which were not raised during the election campaign and therefore did not have to be confronted by political parties are pension entitlement for the current elderly and the accountability of the National Pension Fund. Since the introduction of the NPP, these two issues have in fact been raised by various social groups, although they have still not become part of the political debate. What are the reasons for this 'non-politicisation' of the NPP?

The answers seem to lie in the following two socio-economic factors. First, the South Korean economy has enjoyed a period of high growth and full employment since the 1960s. Most South Koreans, including the poorest, are better off in the 1990s than they were in the 1980s, let alone the 1960s. This has given most South Koreans confidence in their future well-being, including post-retirement. The South Korean people have lived through a period of *Pareto improvement*, but not *Pareto optimality*; that is, the rise in the living standard of the better-off has not adversely affected that of the less well-off. Income inequality has not increased during this period of economic growth (Kwon 1997). In these circumstances, redistribution, whether between income groups or over the life-cycle, may well not be a crucial political issue.

Second, the demographic structure is also an important factor in explaining why pensions have not become a political issue. In 1990, those over 65 accounted for only 5.1 per cent of the total population whereas the UK figure, for instance, was estimated at 15 per cent (OECD 1988; *Korea Statistical Yearbook* 1991). From a comparative point of view, South Korea has not yet been faced with the problem of an ageing society.

But conditions determining these two factors are now under heavy pressure and will continue to be so for the foreseeable future. In the late 1990s the Korean economy is not expected to go on growing as fast as it has for the last thirty years. Inevitably, unemployment will rise. Full employment cannot be taken for granted.<sup>9</sup> Not all South Koreans can feel confident about their future, since the current faltering of the country's economy is not simply cyclical but structural.<sup>10</sup> In terms of demography, the number of older people is expected to grow as fast as in Japan and Taiwan. Many of those who have already reached old age have no pension entitlement at all, since the NPP will only start to pay retirement pensions in 2002. Unless other factors intervene, social welfare, including the National Pension Programme, will become a major political issue on account of these socio-economic

pressures. Moreover, there will be further political debates about the internal contradictions of the NPP, to which we now turn.

### **Will it fulfil its promise?**

The South Korean National Pension Programme is based on a similar principle to the Central Provident Fund in Singapore in the sense that it is a funded system in which people currently working pay contributions into a fund which will provide them with pensions when they retire from work. There is no inter-generational social contract, unlike in the pay-as-you-go system. While these funded programmes accumulate funds from the initial stage, they give no entitlements to those who have already reached old age, since the current generation of older people did not pay contributions. By the same logic, those who are paying contributions to the pension fund will have no claim on the next generation if their pension fund should collapse for some reason. This is one of the characteristics which make the funded system different from the pay-as-you-go system which assumes a contract between generations.<sup>11</sup>

There is, however, an important difference between the Singapore provident fund system and the social insurance system which operates in South Korea. In the Singapore system, each contributor owns the money in his or her savings account exclusively, although contributors cannot always dispose of the money as they wish. In short, what you have is what you save. This prevents systematic redistribution between members of the Central Provident Fund. Under the South Korean NPP, by contrast, the insured do not own the money which they contribute to the fund, but they acquire rights to pensions, which are not directly related to the amount of money they put in. The amount which each pensioner receives on retirement is calculated as follows:

$$\text{Monthly pension} = \frac{2.4 \times (M + 0.75 \times A) \times (1 + 0.05 N)}{12}$$

where  $M$  is the mean wage of all participants in the NPP;  $A$  is the average wage over the working life of the pensioner; and  $N$  is the number of years of contributions (twenty).

This pension formula has two opposing elements which influence the amount of pension received. Because of factor  $A$ , the higher the income over a working life, the larger the pension. At the same time, due to factor  $M$ , those on lower than average incomes will have a higher rate of return for the contributions made over their working lives. In theory, therefore, there will be redistribution between members of the NPP due to the impact of factor  $M$ .

This author has conducted a study of the NPP using a relatively simple simulation to find out the redistributive effects of the Programme<sup>12</sup>(Kwon 1995). The simulation

introduces two fictional individuals, a 'Professional, Technical and Related Worker' and an 'Electrical Fitter and Related Electrical and Electronics Worker', who represent high- and middle-income earners respectively. The study assumes that their income over their working life will follow the age-specific average income of each job category, based on the data set published in *The Yearbook of Labour Statistics 1990*. In other words, this study projects the income levels of two typical wage earners in 1990, one middle and one high,<sup>13</sup> over a period of fifty-four years. The study assumes that other conditions will remain constant at 1990 levels (Kwon 1995: 178).<sup>14</sup>

According to the simulation results, the Professional will receive a bigger monthly pension than the Electronics Worker.<sup>15</sup> The replacement rate (calculated as monthly pension at age 61 divided by the wage of last month at work), by contrast, shows a different picture. The Electronics worker's replacement rate is 0.42 while that of the Professional is 0.31. These two results seem not to be out of line with what can be anticipated from the formula above. The crucial point, however, is the direction of redistribution. Will redistribution take place from higher to lower income earners?

To calculate redistribution between income groups, the study draws on the concept of 'gain rate'.<sup>16</sup> Put simply, if the total amount of pension one receives is bigger than the total amount of contributions one has paid, one's gain will be positive. In the opposite case, one's gain will be negative. The gain rate indicates the gain per unit contribution, which in turn makes possible inter-personal comparisons. From this, we can assume that redistribution takes place from people with negative gain rates to those with positive ones. The simulation makes another important assumption: that the two individuals would have invested rather than spent their contributions if there had been no public pensions programme. Therefore, the cost of participating in the pension programme comprises their contributions and the interest which they would have earned from the alternative investment. It also assumes that contributions from employers and the retirement funds of companies would go to employees in the absence of the public pension programme (Kwon 1995: 180). In short, the gain rate is dependent on three factors: the gross amount of contributions, the average interest rate over a lifetime, and the gross amount of pensions. Since contributions and pensions are given in the simulation, the results in fact depend on the interest rate. If we assume that all investors such as commercial banks and institutional investors including the National Pension Fund perform as well as others in the long term, there will be no speculative gains for any particular investors. This also means that the interest rate is dependent on the real growth rate of the economy. According to the simulation, both the Professional and the Electronics worker have positive gain rates at interest rates of 3 per cent and 7 per cent. Only if the average interest rate is 12 per cent will the gain rate of the Professional be negative while that of the Electronics worker remains positive. These results mean that both individuals who represent typical members of the National Pension Programme will gain through the National Pension Programme under modest and relatively high economic growth. Only under

conditions of exceptionally high economic growth will the Professional have a negative gain rate.

Unless the simulation has serious faults, it suggests two scenarios for the future of the NPP. On the one hand, if all conditions set in the projection are valid, the Programme promises financial gains to all members. To fulfil such a promise, the NPP will collapse financially simply because it cannot give people more money than it has. In other words, it cannot deliver its promise. On the other hand, if the National Pension Fund as an institutional investor outperforms all other competitors in the market, it will earn extra money while other investors will lose out. Such extra earnings might finance the gains which it has promised to its members.

Which is the more realistic scenario? Unfortunately, the first is more likely. From the beginning, policy makers saw the NPP as a way to mobilise cheap capital for public investment, which is likely to have lower returns than investment in the private sector. In 1994, for instance, 51.32 per cent of the National Pension Fund was invested in the public sector (National Pension Corporation 1995). Furthermore, the Kim government which was elected in 1993 passed the Public Fund Management Law, which allows the government to invest public funds in social infrastructure at its own discretion as part of an economic programme called the 'New Korean Economic Plan'. The prospect of financial collapse looms large if the government just sees the National Pension Fund as easy money.<sup>17</sup> In short, the NPP will have financial difficulties not only because the rate of economic growth will not be fast enough to finance the Programme, but also because its performance as an institutional investor will be poor. This poor performance is an intrinsic drawback because of its developmental nature, i.e. its role in mobilising capital.

In this situation, there are three possibilities for the future of the NPP. First, the National Pension Fund will simply collapse and will not deliver the pensions it has promised. This is not a politically viable option, and no government would choose it if it had any other possible alternative.<sup>18</sup> Second, the government may either increase contribution rates or subsidise the National Pension Fund from the Treasury to finance the pensions it has promised. This option in effect passes the burden of the current generation on to the next one. It appears socially unjust because people who are currently working, who have left the currently elderly without a pension entitlement, will be relying on the next generation for their own old age pensions. The third option is to reform the NPP sooner rather than later to avoid the old age pension crisis projected. Whether the reform will be carried out will in turn depend on the politics of social welfare, an issue which is likely to become more intense, as socio-economic factors put it under greater pressure.

## **Conclusion**

We have argued that the National Pension Programme will face financial difficulties. Exogenous factors such as changes in the economic and demographic structure of

South Korea will put a great deal of financial pressure on it. In addition, the NPP has promised what it cannot deliver and we have argued that it is necessary to reform the NPP before things get out of control. A World Bank report, which has studied the funded system of public pension programmes, suggests the replacement of social insurance by mandatory savings schemes to avert a pension crisis (World Bank 1994). Roger Beattie and Warren Macgillivray (1995) criticise the report, saying that it would be more efficient and less disruptive to rectify design deficiencies and inequalities in existing schemes. Although this exchange of ideas does not particularly have the South Korean NPP in mind, it seems to embrace the terms of the debate regarding the old age pension crisis. In this debate, which may well go on for some time, we should not forget that the reform of pension programmes is not simply a matter of economic policy. It also involves social policy and thus needs to consider how to protect the weaker sectors of society. It is also a political issue in the sense that the final decision will reflect the power balance in society.

However, we do not expect sudden and drastic changes in the NPP since our analysis is based on a long-term projection. Nor do we anticipate radical reform in the South Korean welfare system in the near future.<sup>19</sup> What is clear from our analysis in this chapter, however, is that East Asian welfare systems will change not only as a result of economic, social and political transformations in the region, but also as a result of the internal structure of the system itself, as the South Korean National Pension Programme has shown.

## Notes

1. The author is grateful to Gordon White and Roger Goodman for their comments on this chapter. National Health Insurance is the other main programme in the Korean welfare system.
2. The two other public pension programmes are the Government Employees' Pension and Private School Teachers' Pension Programmes, which cover 4.74 per cent and 0.86 per cent of the working population respectively.
3. The level of wage is calculated according to the Standard Monthly Income Bands, which wrap neighbouring wages into one band. In 1994, there were fifty-three bands of monthly income.
4. Before the introduction of the National Pension Programme, many companies had reserved retirement funds. These funds will be phased out through the payment of premiums to the NPP.
5. For politics in the wake of the constitutional revision, see Hak-kyu Sohn (1989).
6. For the debate on whether Korean economic growth can be attributed to state intervention see, for example, Little (1979); Wade (1988) and Amsden (1989).
7. The average inflation rate during the period of 1971–5 was 15.46 per cent, reaching its highest point of 29.62 per cent in 1974.
8. For details of the concessions, see Part II of this volume.
9. This does not necessarily mean that the South Korean economy will certainly face economic difficulties, or suggest that its competitiveness is bound to decline. See *The Economist*, 'Asia's precarious miracle', 1 March 1997.
10. John Burton, 'Chaebol fall sick on surfeit of debt', *Financial Times*, 20 March 1997.

11. For the characteristics of different pension schemes, see Barr (1987).
12. For the assumptions of the simulation, see Appendix 1.
13. The reason why this study does not include a low income earner is that such a person is unlikely to be a member of the NPP since the Programme mostly covers employees in workplaces with more than ten employees.
14. This simulation takes into account the scheduled increase in the contribution rate to 9 per cent in 1997.
15. Appendix 2 shows the projected contributions and pensions of the two individuals and Appendix 3 shows the details of the simulation results.
16. Gain rate =  $\frac{P-(C+I)}{(C+I)} = \frac{P}{(C+I)} - 1$   
 where P = gross pension received;  
 C = gross contributions;  
 I = gross interest;  
 C + I = total cost of participation.
17. Another study by the Korean Institute of Social Welfare also predicts that the National Pension Fund will be in deficit from the year 2029, although it does not show how this projection was arrived at (Ko *et al.* 1994).
18. The 1997 Albanian crisis seems to illustrate this point dramatically, although it did not involve public pension programmes.
19. At the time of writing, the South Korean government announced that it would set up a committee of experts to review the NPP. It did not, however, make clear the direction of reform.

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**APPENDIX 1: THE ASSUMPTIONS OF THE SIMULATION**

1. The Professional enters the labour market at the age of 25, and the Electronics worker at the age of 20, in both cases in 1988.
2. They join the National Pension Programme in 1988. This allows them to take advantage of the transitional contribution rates set for the first ten years of the National Pension Programme.
3. Both individuals in the simulation will remain in their jobs until retirement. The Professional will retire at the age of 60 and the Electronics worker at the age of 55.
4. The wages of the Professional and the Electronics worker by the ninth year of their working life will be the average of their job categories by career specified by the 'Average Monthly Wage of Workers by Occupation, Sex and Career (June 1989)', *Yearbook of Labour Statistics 1990*.
5. The Professional will be promoted to higher positions step by step until his retirement and his salary after the ninth year will increase over his working life due to promotion as well as the annual increase of salary. The Electronics worker will receive promotion to a limited extent, remaining in the middle of the organisational pyramid at his retirement. His wage in his late working life will increase on an annual basis rather than by increase due to promotion.
6. The Professional will die at the age of 74 and the Electronics worker at the age of 70. Their wives will survive for four years after their husbands' death.
7. We disregard tax relief on pension contributions, because the two men would receive the same tax relief on the long-term deposits used for comparison as an alternative to the pension programme.
8. Price is the constant price of 1989 and we do not count either inflation or indexation. Therefore interest rates will be real interest rates. We also assume that their children will not stay with their parents at retirement.
9. Both men's pensions will include a wife supplement but not a child supplement, because we assume that their children will not stay with their parents at retirement.
10. All pension receipts are assumed spent and none saved, and therefore no interest is estimated on pensions in retirement.

Source: Kwon (1995: 179–81).

**APPENDIX 2: CONTRIBUTIONS AND PENSIONS IN THE SIMULATION**

<i>Professional</i>				<i>Electronics worker</i>			
<i>Age</i>	<i>Contribution/ year (won)</i>	<i>Age</i>	<i>Pension/ year</i>	<i>Age</i>	<i>Contribution/ year (won)</i>	<i>Age</i>	<i>Pension/ year</i>
25	154,800	61	5,202,641	20	97,200	56	2,935,381
26	162,000	62	5,202,641	21	118,800	57	3,131,073
27	183,600	63	5,202,641	22	133,200	58	3,326,765
28	205,200	64	5,202,641	23	140,400	59	3,522,457
29	216,000	65	5,202,641	24	154,800	60	3,718,149
30	453,600	66	5,202,641	25	324,000	61	3,913,841
31	475,200	67	5,202,641	26	345,600	62	3,913,841
32	496,800	68	5,202,641	27	345,600	63	3,913,841
33	518,400	69	5,202,641	28	367,200	64	3,913,841
34	554,400	70	5,202,641	29	367,200	65	3,913,841
35	885,600	71	5,202,641	30	583,200	66	3,913,841
36	939,600	72	5,202,641	31	583,200	67	3,913,841
37	939,600	73	5,202,641	32	615,600	68	3,913,841
38	939,600	74	5,202,641	33	615,600	69	3,913,841
39	939,600	75	3,085,585	34	648,000	70	3,913,841
40	1,047,600	76	3,085,585	35	648,000	71	2,312,305
41	1,047,600	77	3,085,585	36	648,000	72	2,312,305
42	1,101,600	78	3,085,585	37	680,400	73	2,312,305
43	1,101,600			38	680,400	74	2,312,305
44	1,177,200			39	680,400		
45	1,177,200			40	680,400		
46	1,177,200			41	712,800		
47	1,252,800			42	712,800		
48	1,252,800			43	712,800		
49	1,252,800			44	712,800		
50	1,252,800			45	712,800		
51	1,328,400			46	745,200		
52	1,328,400			47	745,200		
53	1,404,000			48	745,200		
54	1,404,000			49	745,200		
55	1,404,000			50	745,200		
56	1,404,000			51	777,600		
57	1,404,000			52	777,600		
58	1,512,000			53	777,600		
59	1,512,000			54	777,600		
60	1,512,000			55	831,600		
<b>Total</b>	<b>35,226,000</b>		<b>85,179,315</b>		<b>20,689,200</b>		<b>65,021,455</b>

Source: Kwon (1995: 227).

**APPENDIX 3: THE RESULTS OF THE SIMULATION**

Contribution rate (percentage of wage contributed by employees, employers and retirement fund of the company):

First five years (1988–92):	3.0%
Second five years (1993–7):	6.0%
The rest:	9.0%

Total cost of participation:

Actual contribution:			
Professional:	35,226,000	Electronics worker:	20,689,200

Total cost of participation including interest:

Interest rate:	(3%)	(7%)	(12%)
Professional:	50,119,308	67,977,052	94,799,232
Electronics worker:	29,910,888	42,206,742	57,575,952

$$\text{Monthly} = \frac{2.4 \times (M + 0.75 \times A) \times (1 + 0.05 \times N)}{12} + 5000$$

where M is the mean wage of all participants in the NPP in 1989; 451,259.5

A is the average wage over working life (Professional: 985,555.6;

Electronics worker: 587,777.8);

N is the number of years of contribution 20;

5,000: wife supplement.

Survivor’s pension = 60 per cent of full pension with no supplement

Pension at the age of 61:

Professional:	433,553.4	Electronics worker:	326,153.4
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Replacement rate (monthly pension at age of 61/the wage of last month at work):

Professional:	0.31	Electronics worker:	0.42
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Gain rate (total amount of gains/total amount of contributions):

Interest rate = 3%

Professional:	0.70	Electronics worker:	1.17
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Interest rate = 7%

Professional:	0.22	Electronics worker:	0.54
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Interest rate = 12%

Professional:	-0.10	Electronics worker:	0.13
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Source: Kwon (1995: 184).

# 5 Can we afford it? The development of National Health Insurance in Taiwan

*Yeun-wen Ku*

In the 1980s, Taiwan experienced a series of political changes towards democratisation in which state power was no longer monopolised by the Kuomintang (KMT) and a formal opposition party, namely the Democratic Progressive Party (DPP) founded in 1986, competed with the KMT on a more equal footing. Although *The Economist* (10 October 1992) described this process as a transition ‘from dictatorship to democracy in just five years – and without revolution’, it has not been quite so smooth: a series of social movements has developed and made demands on the state through street demonstrations and even riots. As one commentator observes: ‘there is hardly any peaceful social group except the military, police and civil servants’ (Chang, 1989: 12).

One response to this situation has been the creation of National Health Insurance (hereafter NHI) which was announced in 1987, one year after the founding of the DPP and at a time when social upheavals were heating up. The scheme was finally realised in 1995 and marked the most significant welfare effort by the Taiwanese state in the post-war era. However, disputes over NHI did not end with its realisation. A detailed examination of NHI will help us to clarify the nature of the evolving Taiwanese welfare system, which is the main task of this chapter. First, we explore the emergence of NHI within the Taiwanese politico-economic context; then analyse its operation, impact and problems; and finally outline a recent policy debate over the future development of NHI.

## **1 The emergence of NHI in the politico-economic context of Taiwan**

It has become a recognised fact that the Taiwanese state has reluctantly become a welfare state, characterised by limited social expenditure and an incomplete social security net. Moreover, there is a radical imbalance in welfare allocations between the various groups covered, favouring those who are deemed important to the stability of the government, such as military personnel and civil servants. The main reason for this development has been Taiwan’s political isolation in the international

community – at China's instigation – which forced the KMT to consolidate Taiwan's security via economic growth. National resources have been mostly prioritised to accelerate capital accumulation, to fund certain social measures with a rich potential for improving economic productivity, such as education, and to increase state capacity, for example by providing benefits for servicemen and civil servants (for a detailed discussion, see Ku, 1995).

Although an institutional welfare system had been gradually forming in the post-war period, notably a social insurance system, it was selective rather than universal in that it mainly focused on protecting particular social groups according to their occupations. Many disadvantaged groups, such as children, the unemployed and the retired, have been excluded from social insurance, while social assistance existed only for very poor families with relatively low benefits. Why then did the former premier, Yu Kuo-hua, raise NHI onto the political agenda and why did this become government policy immediately? In particular, NHI is the first case wherein the KMT has tried to establish an institutional and universal welfare system for all citizens regardless of their sex, age and status. This is an interesting question to be examined within the politico-economic context of the time.

First, the radical increase in the number of social movements in 1986 further damaged the legitimacy of the KMT, whose reputation had sharply fallen because of a series of defeats in foreign affairs, leaving Taiwan in political isolation. These social movements not only called for the reversal of martial law and a more open political atmosphere, but also focused on particular social problems which they felt the state should tackle. These included five social movements directly relating to the welfare needs of women, labourers, farmers, the handicapped and the homeless (Lin and Yeh, 1992). Through various street demonstrations and protests in front of the Legislative Yuan, the public were made aware of the hardship facing disadvantaged groups and of the fact that the government paid too little attention to improving their welfare. This agitation led to changes in the political debate over welfare. In the 1970s, the focus in the Legislative Yuan was mainly on the improvement of welfare for servicemen, civil servants and teachers (Chiu, 1985). But during the 1980s, this situation changed to emphasise welfare for the disadvantaged. By the end of the decade such issues ranked higher than welfare for servicemen and related groups (Kao, 1990).

Second, the rise of social movements, particularly the labour movement and anti-pollution protests, forced capitalists to improve working conditions and to spend huge amounts of money on pollution prevention. This slowed down the speed of capital accumulation and caused complaints among capitalists, who asked the KMT to restore social order in favour of economic production. For example, a survey conducted in 1989 among the owners and general managers of firms found that 72 per cent of enterprises in Taiwan were dissatisfied with economic conditions, especially with social disorder and the labour movement. Also, 49.5 per cent of surveyed enterprises thought that the KMT should take responsibility for dealing

with these problems. Business anger reached a peak in 1989 when eight of the biggest capitalists joined together to declare in the newspapers: ‘Whoever can create a fair and reasonable development environment for us, we will do our best to support them in this year’s election’ (Wang, 1992: 12–13). Under increasing pressure from capitalists, the KMT had to find a way to restore social order as quickly as possible.

Finally, repressing social movements with force was not acceptable to the KMT because this risked a more powerful backlash from subordinate groups and the DPP, and could damage potential domestic support among Taiwanese voters. Moreover, because of the island’s political isolation the KMT was not able to gain sufficient support from abroad. Furthermore, repressive action could make the political isolation even worse. Although the KMT has always been hostile to social welfare due to its emphasis on economic growth, increasing welfare provision seemed to be a better solution to this problem. Hence the development of NHI.

Former Premier Yu, as an economic technocrat stressing the importance of economic growth, was not likely to favour NHI due to worries about the increase in government welfare spending. Indeed, in 1987, when NHI was announced, he did not say that the government would implement the scheme: instead he said that ‘we expect to achieve the ideal of national health insurance by 2000’ (*Bulletin of the Legislative Yuan*, 1987, No. 16: 25). This implied uncertainty over whether or not NHI could be realised. However, widespread social movements and the inability of the KMT to restore social order for capitalist production had put the government in a dilemma. It was faced with pressure from two sides. Consequently, Yu Kuo-hua was forced not only to demonstrate clear government goodwill in this scheme, but also to realise it by 1995, five years earlier than the original schedule. He said in 1989, ‘The realisation of NHI is . . . an important social policy . . . to meet the eager expectations of all in society. The government is determined to realise it five years earlier, by 1995’ (*Bulletin of the Legislative Yuan*, 1989, No. 17: 40). NHI is thus regarded by the KMT as a means of retaining support from both capitalists and the public at large in a more democratic political environment. As the *China Times* commented: ‘Due to changes in the political and economic situation . . . Premier Yu must search for a breakthrough in successful reforms and for people’s support in order to control power continually and effectively’ (*China Times*, 1 March 1989).

However, this is not the end of the story. The policy of NHI was confirmed, but how to realise it remained the question. The task of planning the NHI system was first assigned to the Council for Economic Planning and Development (CEPD), resulting in a formal planning report submitted to the government in 1990, in which three principal goals and nine strategies were presented. The goals included providing a proper health service for everyone, keeping medical expenditures within a reasonable range, and making efficient use of medical resources. To achieve these goals, nine strategies were identified (Hwang, 1995: 206):

1. The new NHI system must cover the entire population through a model of compulsory social insurance.
2. The new NHI system should be separated from other social insurance programmes.
3. Premiums for the new NHI should be set with each insured person as a unit regardless of the number of their insured dependants.
4. Total medical expenses should be set at a level below a definite ratio of total national resources.
5. Under the principle of 'neither waste nor loss', cost sharing and financial accountability should be introduced into the new NHI scheme.
6. A single unified 'pipe' payment system for medical treatment should be designed and a global budget should be introduced.
7. A referral system should be implemented, and the availability of medical resources in remote and rural areas should be promoted.
8. A sound NHI administrative system should be set up in order to make efficient use of medical resources.
9. Public knowledge about NHI should be improved through education and propaganda.

The CEDP report set a basic framework for the development of NHI, though the planning task was handed over to the Department of Health (DoH hereafter) in 1990. In the light of the CEDP schedule, the DoH was further to develop a detailed draft document on administrative networks and the NHI Act. After being approved by the government, the NHI Act was finally sent to the Legislative Yuan for enactment in 1993. Apart from this official version of the NHI Act, at least five other versions, proposed by different legislators and backed by various interest groups, such as doctors, employers and workers, were also on the agenda for enactment. This shows that many disputes arose during the planning and legislation period until the NHI Act was finally passed in 1994.

Generally speaking, money was always at the core of these disputes. Government officials were very worried about the costs of NHI and the resulting pressures on government finances, and they did their best to keep medical expenses under control. This is one reason why the government adopted a contribution-based model, which shares welfare responsibilities with employers and employees, rather than a taxation-based model, which is proclaimed in the Constitution. Also, this objective is clearly expressed in the nine strategies proposed in the CEPD report, especially concerning the introduction of cost sharing, a global budget and a referral system. However, there were no accurate figures for global medical expenses in Taiwan and it proved very difficult to set a reasonable global budget (Hwang, 1995: 228). The effort to control costs in turn induced a dispute on contribution sharing between employers and employees and led to conflict with the interests of doctors' groups.

Who should pay the premium, and how much, is the issue of most concern to both employers and employees. To employers, paying premiums for employees and

their dependants would have a deep impact on production costs. To employees, an increase in their contributions would be detrimental to living standards, particularly since they were still paying the premium for Labour Insurance covering risks other than health care. This led to a confrontation between the government, employers and employees. In general, employees fought for contribution shares to remain at the current ratio – 20 per cent paid by employees and 80 per cent by employers. However, employers insisted that the ratio should be shared equally (50:50). In order to accommodate both parties, the contribution ratio was changed many times, from 30:70 to 40:60, during which process both parties put great pressure on the government through demonstrations and even the threat of a nationwide labour protest. Finally, the government agreed that the ratio would be 30:60:10 for employees, employers and government respectively (Hwang, 1995: 240–4). The government itself took more financial responsibility for NHI than in the original plan, though the system is still funded mostly by contributions from employers and employees. A complicated contribution table has been introduced to specify contribution shares for different categories of the insured. This will be examined in detail in the next section.

Medical care is regarded as a profitable market and is usually dominated by doctors because of their professional authority in medicine. The NHI scheme is planned to cover the whole population and to control the increase in medical expenses, meaning that doctors have to rely on contracting with NHI to attract patients, and also have to accept a prescribed price for their treatments. This conflicts with doctors' interests and has sparked disputes between the government and doctors' groups (Fu, 1995). As the major and probably the only providers of medical care, doctors' groups devoted themselves to actions designed to influence the policy process including proposing an amended act, appealing and lobbying, attending public hearings, holding demonstrations and protests and even more radical action such as refusing treatment to NHI patients (Lin, 1995). Many friendly responses were made by the government, though not on all issues. In particular, the principle of 'equal treatment, equal pay' was confirmed, and the referral system and cost sharing were reformed to encourage patients to attend local clinics rather than go directly to big hospitals. Except in an emergency, if patients go to big hospitals without the referral of local clinics, they must themselves pay higher fees. Through these measures, doctors' interests were basically maintained. However, the level of prescribed prices for treatments remains a disputed issue between NHI and doctors' groups even to the present day, as there is a contradiction between the government's desire to control medical expenses and doctors' desire for maximum profits.

What is the actual profile of NHI after its implementation? This is our concern in the next section.

## **2 The way the system works**

The National Health Insurance Act of 1994 is the key statute for understanding the NHI system. First of all, it defines the Department of Health (DoH) as the department

of the central government which is directly responsible for policy making and supervision of NHI; and the Central Bureau for National Health Insurance (CBNHI hereafter), which is also an official agency under the DoH, as the insurance agency to run the system. This clearly shows that NHI is a state-run and centralised system. Figure 5.1 shows the system in detail, in which we can observe its top-down structure. The CBNHI founded six local branches across the island to collect premiums and to review and pay benefits to contracted medical agencies. There are also six local clinical centres attached to the CBNHI to provide medical care in parallel with the contracted clinics and hospitals. In order to keep medical expenses under control, a calculation team and three committees were set up under the DoH in charge of monitoring the balance between premiums and medical expenses and dealing with possible disagreements and frauds. Under this structure, discretionary power is limited and not much room is left to local officials and medical professionals in deciding on items such as medicines, examinations, treatments and operations. Doctors are not allowed to suggest to patients medicines and treatments other than those provided by NHI. This is indeed a system under the strict control of the government.

In regard to premiums, an earnings-related contribution scheme has been adopted. The insured are divided into six levels according to their incomes and they pay varied amounts of premium, though the benefits they receive are the same (CBNHI, 1996: 13–15; DoH, 1996: 32–3). The current contribution rate is 4.25 per cent of the monthly income of each insurant, which is further shared by the

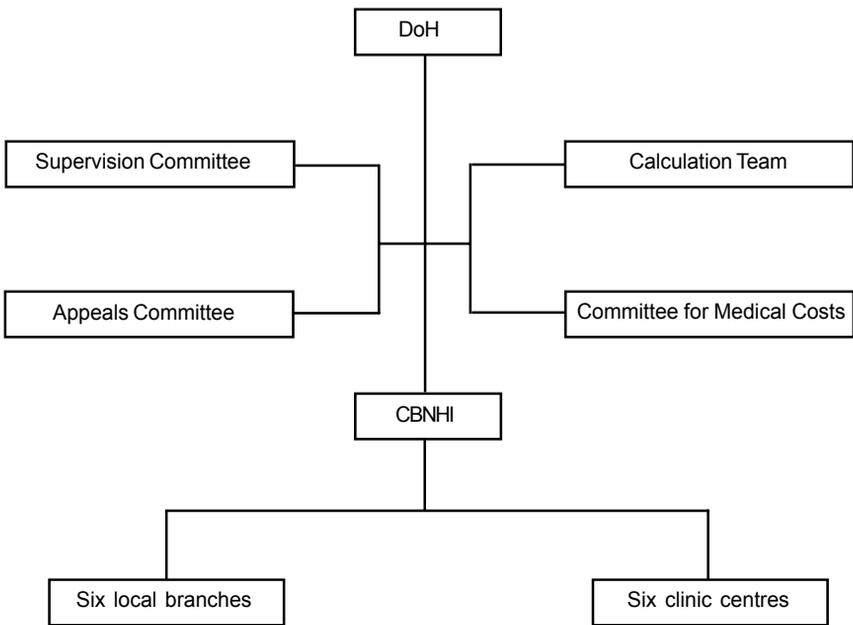


Figure 5.1 Structure of the NHI system

Source: CBNHI (1996: Figure 3).

government, employers and the insured according to different categories of the insured, as shown in Table 5.1.

Table 5.1 Contribution shares between government, employer and the insured

<i>Categories of the insured</i>			<i>Government (%)</i>	<i>Employer (%)</i>	<i>Insured (%)</i>
Category I	Civil servants	Insured	0	60	40
		Dependants	0	60	40
	Teachers in private schools	Insured	30	30	40
		Dependants	30	30	40
	Employees of public and private enterprises or agencies	Insured	10	60	30
		Dependants	10	60	30
	Employers or the self-employed	Insured	0	0	100
		Dependants	0	0	100
Category II	Employees without fixed employers, seamen	Insured	40	0	60
		Dependants	40	0	60
Category III	Farmers and fishermen	Insured	70	0	30
		Dependants	70	0	30
Category IV	Dependants of military servicemen	Insured	0	60	40
		Dependants	0	60	40
Category V	Low-income households	Insured	100	0	0
		Dependants	100	0	0
Category VI	Veterans	Insured	100	0	0
		Dependants	70	0	30
	Others	Insured	40	0	60
		Dependants	40	0	60

Source: CBNHI (1996: Table 10).

Table 5.1 shows that government contributions are made particularly for people with low incomes, farmers, fishermen, employees without fixed employers and seamen, as a form of compensation to these disadvantaged groups, and for civil servants, dependants of servicemen and veterans, as part of the responsibility for being their employer or former employer. Otherwise, employers remain the most important contributor to NHI. Looking at this system overall, we may say that the Taiwanese welfare system has not changed radically to a Western-style welfare state, in which the entitlement to welfare benefits is an element of citizenship. This can be seen from the fact that people insured under NHI are divided according to their occupational status, implying an element of inequality in the system.

In 1996, NHI total premiums amounted to NT\$246.5 billion, around 3.6 per cent of GDP, against total expenditures of NT\$241.2 billion (CBNHI, 1996: 14). A surplus of NT\$5.3 billion was collected as a fund to meet a possible deficit or to invest in businesses for a more profitable operation. Although a financial balance was achieved in the first year, the surplus was only 2.2 per cent of total premiums, implying that it could easily turn into a deficit if demands for health care grow significantly, for example in the case of influenza or similar diseases. The control of medical expenses is still the main challenge for NHI.

By the end of June 1996, the number of the insured in the NHI scheme was 19.7 million, around 94.9 per cent of the total population at that time. This figure is far bigger than that before NHI was introduced when the proportion of the population covered by at least one kind of social insurance programme was only 59.7 per cent (CBNHI, 1996: 8). As a universal scheme, the NHI has been making great steps to include more people in the system and it is projected to cover 97 per cent of the population by the end of 1997. To meet the increasing need for medical care along with the expansion of NHI, the provider side has also been reorganised. A project entitled *The Establishment of a Medical Care Network in the Taiwan Area* has been formulated, which divides Taiwan into seventeen medical care regions for the development of both medical manpower and facilities. At the same time, hospitals are classified, after accreditation, according to their functions, into medical centres, regional hospitals, district hospitals and clinics in order to allocate available medical resources adequately and to assure the quality of medical services (DoH, 1992: 20–33). Table 5.2 shows the number of medical agencies contracted within the NHI scheme. In general, 90.75 per cent of total medical agencies have contracted with NHI to provide health care to patients. A comprehensive medical network under NHI is now forming.

Access to medical care is basically a free-market situation. With a health insurance card, the insured can go to whatever clinic or hospital they prefer. Moreover, they do not need to be bound to a specific doctor in a particular area, as in the GP system in Britain, but can visit different doctors and hospitals every time. If they travel around Taiwan island, the insured do not have to worry about whether they will obtain health care if they have their card with them. Also, there is no limit on how many cards the insured can use in a fixed period. The system is designed to promote a maximum market mechanism, in which every doctor and hospital must rely on providing a better service to attract customers. Future development envisages the introduction of an electronic card with a micro-electronic instrument to store patients' medical records, so that NHI can easily trace back a person's health history and find the most appropriate treatment (DoH, 1996: 25–7). However, even if the system can promote the most effective access to medical care, whether or not it is the most efficient use of medical resources remains a question. We shall return to this issue later.

In short, NHI in Taiwan is a unified system under the strict supervision and management of the government, a means through which to achieve fair contribution

Table 5.2 Numbers of contracted medical agencies in 1996

	<i>Modern hospitals</i>	<i>Modern clinics</i>	<i>Chinese medicine hospitals</i>	<i>Chinese medicine clinics</i>	<i>Dental clinics</i>	<i>Total</i>	<i>Pharmacies</i>	<i>Medical examination agencies</i>
Number contracted	671	7,801	96	1,683	4,731	14,982	1,788	144
Total number	694	8,843	102	2,031	4,839	16,509	-	-
%	96.69	88.22	94.12	82.87	97.77	90.75	-	-

Source: CBNHI (1996: Table 6).

Note: - means no data.

sharing and more equal access to medical care and to hold down necessary costs, as Ko (1997: 387) concludes. Without doubt, the NHI system does have an important impact on the well-being of people in Taiwan. This is not only because it is the first universal and compulsory welfare scheme set up by the Taiwanese state, but also because its success or otherwise will become a guiding principle for the development of state welfare in Taiwan. Now is the time to examine its impact.

### **3 The impact of the NHI scheme**

To assess the impact of NHI, we need to go back to the situation before it was enforced to see whether the present system is better. This evaluation will cover five aspects: working principles of the system, who benefits the most, risks covered by the NHI, equality of access to health care, and the degree of popular satisfaction.

Before NHI was enforced, social insurance systems in Taiwan were established separately for three major occupational groups, namely military servicemen, civil servants and labourers, to cover the risks of maternity, injury and sickness, medical care, disability, old age, death and funeral allowances; of all these only medical care constituted a benefit-in-kind. A gradual expansion, based on these existing social insurance systems, continued over the post-war era to include more groups related to the three major occupational groups, such as the retired and dependants (Ku, 1995). The principle of the social insurance system was quite simple and clear. A person who held a position in the labour market or had contributed to the state was most likely to get comprehensive care from social insurance. Those unable to find a job had access to few benefits from Taiwanese state welfare, unless they could get back to work as soon as possible. The benefits people received were therefore closely related to their value in the labour market, while the unemployed and the disadvantaged suffered most.

NHI terminates the relationship between benefit and labour market value, though not completely. Theoretically every citizen should be entitled to NHI, no matter where the premium comes from and its nature as wage or something else. This means that the insured do not need to have a full-time job in the labour market. Furthermore, some disadvantaged groups can have a ratio of their premiums contributed by the government on their behalf; in particular, the contributions of low-income households are totally borne by the government (see Table 5.1). Decommodification, which refers to needs satisfaction through welfare provision rather than through markets, is therefore more clearly a principle of NHI than of previous social insurance systems.

This fact is more clearly visible if we consider who benefits most. As we showed in the last section, only 59.7 per cent of the population were covered by at least one kind of social insurance scheme before NHI was enforced. This group comprised people with a particular potential for increasing economic productivity. By 1996,

this figure had increased to 94.9 per cent, with nearly 7.54 million new participants in NHI. Of these, children under 14 years old and the elderly over 65 years old account for the largest groups (CBNHI, 1996: 2). They were originally excluded from any social insurance scheme because they either were too young to participate in the labour market or had retired from it. From this we may say that NHI most benefits the non-productive population.

Another area of progress concerns the risks covered by NHI. The medical care benefits attaching to previous social insurance systems mostly focused on inpatient and outpatient treatment and preventive care was limited to pregnant women. Preventive coverage has now been expanded to include the aged, children under 4 years old, females over 30 years old and males over 40 years old. Moreover, residential care is another benefit provided by NHI, which was totally absent in the past (Ko, 1997: 391–6). A more comprehensive health service system is being established to meet the three health needs of prevention, treatment and care. Although treatment for patients suffering mental disorders is not a benefit provided by NHI, such patients can claim governmental resources through schemes set up by the Mental Health Act.

Equality in access to health care is improving as well. Within the health insurance card system, the insured can gain access to every contracted medical agency, around 90.75 per cent of the total as shown in Table 5.2. In the past, medical agencies made contracts separately with different social insurance systems as well as for different services and items. Inequality was created by this piecemeal and complicated situation. An insurant under labour insurance, for example, could only gain access to medical agencies which had a link with this particular system, and he/she would also find that the medicines and treatments provided were different from those under other social insurance systems. Doctors were required to ask the patient's status in order to decide which treatment should be offered. There was thus inequality not only between the productive and non-productive population, but also between people with different kinds of social insurance. NHI integrates the varied medical care benefits in all other social insurance systems into a unified system, within which every insurant's treatment is equal. In this sense, NHI has more of a citizenship character and it serves to reduce differentiation based on gender, class and status.

Finally, though it is difficult to assess the service quality of the NHI, especially since it has only been in operation since 1995, the level of people's satisfaction with it is a relevant indicator. Figure 5.2 shows trends in popular attitudes during 1995–6 according to opinion surveys conducted by various public organisations at different times. It shows that the gap between the satisfied and the dissatisfied, which was nearly zero in the survey conducted on 12 September 1995, is tending to grow; those satisfied have increased from 50 to 60.7 per cent, implying that NHI has been accepted by the Taiwanese people. However, this increasing level of satisfaction is mostly due to the decline, from 17 to 6.5 per cent, in the number with

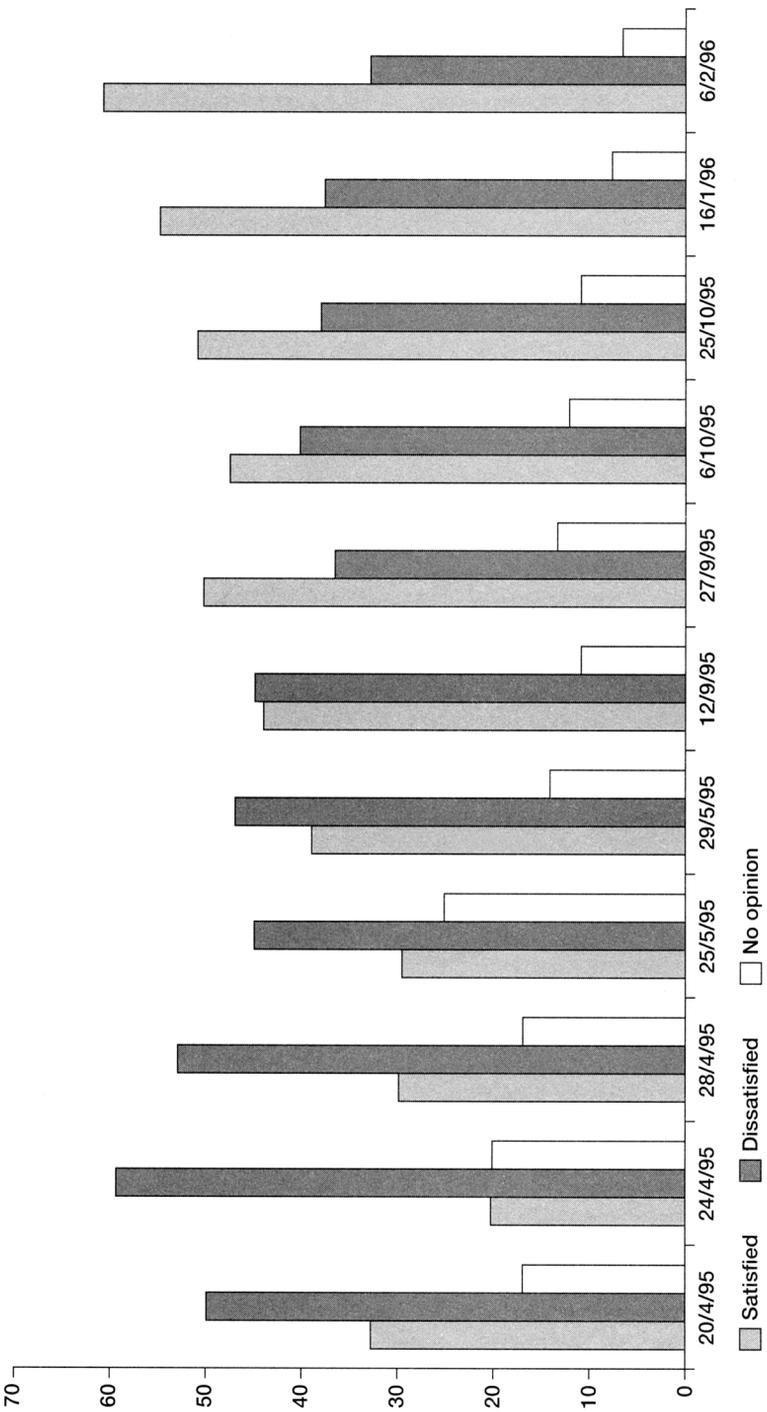


Figure 5.2 Trends in people's satisfaction with NHI

no opinion. At the end of the survey period, those dissatisfied still constituted around 33 per cent, much the same as at the beginning. Unfortunately, we have no detailed data to enable us to investigate the reasons for their dissatisfaction. We can only tentatively conclude that NHI is facing certain problems which appear to cause dissatisfaction among certain groups of the population. We now turn to this issue.

#### **4 Problems facing NHI**

Of course, no welfare system is perfect and NHI is no exception. Although it has made great progress compared with the previous system, many problems are emerging. At their core is money, accompanied by conflicts of interest between social groups and the issue of equality.

After two years of implementation, the financial deficit is emerging as a key problem for the future. As one commentator remarks: 'the operation of the NHI system must bear the costs of fiscal crisis in the future' (Chen, 1997). Although a financial balance was achieved for the first year, the surplus is not enough to underpin the development of the NHI scheme. NHI is having to consider seriously whether to postpone some planned innovations such as a contribution preference for the aged and to increase contribution rates to generate more premium income (though this idea is very contentious politically). Financial issues always occupy top priority in the agendas of DoH reports. Three reasons are advanced to explain the emerging financial problems of NHI.

First, demand for health care is growing not only because of the ageing population but also, possibly, because of NHI's positive impact on medical demand, especially among the aged (Chen and Lin, 1996). Growth in demand of at least 10 per cent is expected for the second year, 1996–7, while the growth of premium revenue is much lower, remaining at about the same level as the first year, 1995–6 (*United Daily News*, 24 February 1997). Thus, the first year's surplus of only around 2.2 per cent of total premium income could easily be exhausted.

Second, the financial health of NHI is being further damaged by the absence of an effective mechanism to control medical expenses. A cost-sharing system has been established as a control mechanism, whereby the insured themselves have to bear a fixed amount of the cost of each visit to the doctor, ranging from NT\$50 to 100. But the fixed amount is too low to hold down medical demand. Changing the rate of cost sharing would probably promote its role as a control mechanism, but there is no clear basis on which to decide which is the most appropriate rate. If the rate is too high, NHI will become meaningless: its function as a health care system would be damaged and inequality of access to medical resources could be worsened. On the provider side, doctors do not want to discourage rising demand from patients. On the contrary, they do their best to attract more patients in order to increase their profits. The insurance card system promotes effective access to health care, but it

cannot guarantee that both providers and customers use medical resources carefully. In some extreme cases, insurants visit hospitals and doctors three times a day, using more than one hundred cards a year. This practice is perfectly legal under the present system.

Third, as a top-down system, the central government dominates policy making and regulation of NHI. Local authorities have very little role in the system, other than making contributions for some categories of insured, particularly low-income households, as required by central government. Political disputes are emerging between politicians in the central and local governments and the contributions paid by local authorities are often used as a means to bargain with the central government. This can be observed from the record of the extent to which each government contributes its full share to the NHI scheme. From March to December 1995, for example, the central government paid 99.64 per cent of its contribution to NHI, showing nearly full support, while the figures were 87.78 per cent, 56.66 per cent and 31.7 per cent respectively for three primary local authorities, Taipei, Kaohsiung and Taiwan province (DoH, 1996: 30). Clearly, without the full support of local authorities the gap between premium incomes and medical expenses in NHI will widen further. Financial issues are therefore becoming a critical element in the development of the scheme.

In 1997 a new measure introduced by NHI has caused a conflict of interest between doctors and pharmacists. The new measure was intended to separate medical treatment and medicine. Traditionally, doctors in Taiwan have usually made up medicines for their patients, although legally this is the function of pharmacists. The NHI scheme announced that by 1 March 1997 the separation should be enforced and the insured could only get medicines from contracted pharmacists with a prescription issued by a contracted doctor. As mentioned in Section 1, doctors' groups have not been happy with NHI because its efforts to control medical expenses conflict with their interests. The new measure to separate treatment and medicine further eroded profits made by doctors, a market estimated at around NT\$14 billion a year. A radical protest and even a strike broke out involving thousands of clinics; for example, in Taipei city about 80 per cent of the contracted clinics joined to oppose the measure (*China Times*, 1 March 1997). But pharmacists stand to benefit from the separation. They organised to fight for their rights through counter-demonstrations to the protests being staged by doctors' groups on the streets of Taipei. A temporary compromise was finally achieved, allowing doctors to make up medicines in some emergencies. Reactions have now calmed down but the conflict of interest has not been fully resolved. As the major organisation controlling national medical resources, NHI is inevitably at the core of the various disputes, both political and economic. This creates instability around NHI which the authorities, namely the DoH and CBNHI, must deal with carefully in order to maintain normal operation. The task is an extremely difficult one, due to the nature of NHI as a state-run system. We will return to this point in Section 5.

As regards inequality, we have charted NHI's progress towards decommodification and equality in access to health care, but many problems of inequality remain. First, there are still around 1.24 million people outside the coverage of NHI, consisting of three main groups (DoH, 1996: 134):

1. groups on the margins of welfare such as residents of remote and isolated districts, the homeless, abandoned children and orphans, and some low-income people who are not formally registered;
2. the unemployed who are looking for jobs but have not registered their change of category and are therefore uninsured;
3. those who refuse to join NHI or refuse to pay contributions for their employees and dependants, especially those in the underground labour market.

As a universal and compulsory insurance system, NHI must expand its coverage to the entire population in order to pool risks. The groups not covered by the NHI show that there are leaks in the system. In particular, the most disadvantaged groups are also those most likely to be uninsured, implying that inequality between social groups still exists under NHI and needs to be addressed.

Second, NHI is not able to guarantee complete equality in access to health care because the distribution of medical resources is not equal between urban and rural areas. The urban areas have the most hospitals and clinics, while the rural areas usually have a small share of these medical facilities. Although NHI entitles residents in both urban and rural areas to an equal right to health care, in practice the insured in urban areas are better able to receive comprehensive and high-quality medical services. To improve the distribution of medical resources, Group Practice Centres have been set up by the DoH and spread to remote areas since 1983, supported by teaching hospitals and a rotation of professionals to train young physicians. Nearly 200 such centres have been founded so far (DoH, 1992: 20–33). Accompanying this, NHI has also implemented a special preferential scheme for the insured in remote areas, whereby patients do not need to pay the fixed amount of cost sharing, and payments to doctors are higher in order to encourage them to come to remote areas (DoH, 1996: 154). However, more effort seems necessary to rectify inequality between regional medical resources, as the DoH report concludes.

## **5 Nationalisation or privatisation**

Is the present NHI system adapted to Taiwan's situation? This is an important question and no one has an exact answer to it, even though the policy has been confirmed and the system has been established. Concern about whether NHI is appropriate is clearly expressed in Article 89 of the National Health Insurance Act, 1994. It reads: 'After two years of implementation of the Act, the Executive Yuan

should finish the task of revising the Act within half a year, since the Act will then automatically lose its effect.' Since NHI was enforced on 1 March 1995, two years for implementation and six months for amendment mean that 31 August 1997 should have been the final deadline, although by February 1998 it had still not acted, meaning, in effect, that NHI was in the anomalous position of being in force, but with no legal foundation. If the government does not eventually revise the Act, the present NHI system will disappear. This timebomb threatening NHI creates great uncertainty about the fate of the system. It also implies that the government is able to allow the system to lapse without consulting legislators and the public if it finds that NHI is unaffordable. A dispute has erupted over the future of NHI involving politicians, officials, scholars, professionals and customers. Should NHI remain as it is now or should some radical changes be made to it? We outline these disputes below.

The issue of whether or not NHI should be a state-run system dates back to 1993 when it was still in the planning stages. An alternative method, setting up a non-profit independent organisation to run NHI, was once considered by the Premier, and even attracted the attention of President Lee Teng-hui, who instructed the Executive Yuan to study its practicability. However, the proposal was finally rejected for several reasons. First, the idea of an independent trust came too late in the process to be considered by most KMT legislators. Second, it could not be supervised by the Legislative Yuan and trouble might follow, in particular the likelihood that the government would have to bear the responsibility for any failure. Finally, as the proposal was originally made by the opposition, it would have been detrimental to the KMT's dignity if it was adopted (Hwang, 1995: 235–7). Nevertheless, the possibility of a privatised NHI system is a live issue and constitutes one element in current policy disputes.

According to leaked information, there are nine proposals under consideration by the DoH for reforming the NHI, which are classified in terms of two principles: should the new NHI be a unified or a plural system, and should it be nationalised or privatised?

### I *The new NHI as a unified system*

- Option 1 largely retaining the present system run by the CBNHI
- Option 2 changing the CBNHI from a government department to a nationalised enterprise
- Option 3 establishing an independent association in place of the CBNHI

### II *The new NHI as a plural system*

- Option 4 setting up more than two independent funds to take over responsibility for health insurance
- Option 5 setting up more than two associations to take over responsibility for health insurance
- Option 6 a mixture of Option 4 and Option 5

### III *The new NHI as a compromise system*

- Option 7 separating health insurance and medical services, meaning that an insurer liaises with various agencies to monitor payments
- Option 8 setting up an association with many Health Maintenance Organisations (HMO hereafter)
- Option 9 retaining the CBNHI but adding HMOs.

Each option involves varied degrees of unification and nationalisation with different effects. The merits of unification are that there is no need to change the existing NHI system radically and it can maintain a more consistent and integrated commitment to providing universal health care to all citizens. However, it could create a big bureaucracy and therefore reduce the flexibility of the new NHI system to meet health needs in a changing society. By contrary, the merits of a plural system are its ability to promote competition between service providers, thereby guaranteeing value for money, though inequality could be a more critical problem because various insurance policies would be offered by each fund and association.

The most disputed issue concerns the possibility of a privatised NHI system. While NHI is a state-run scheme, political forces influence and intrude into every aspect of its operation. Politicians are most attentive to the preferences of the public, for example offering more benefits without raising contributions in order to increase their votes in elections. These objectives often conflict with the values of social insurance which stress the balance between benefits and contributions and between welfare and responsibility. Moreover, politicians are always threatening to cut the budget of the CBNHI, even though this could damage the financial health of NHI. Political preferences have been regarded as a major and probably the most improper source of intervention in NHI since its inception. The case is now strengthening, therefore, for an independent NHI system insulated from the intrusions of political forces (*China Times*, 1 March 1997). A possible way to an independent NHI is a privatised system operating through the market mechanism which could promote efficient use of limited resources on the one hand and escape from emerging fiscal crisis on the other.

However, profit seeking is one of the core principles of privatisation and this could totally change the nature of NHI, from an institution with social functions to a money-motivated organisation. Many difficulties can be expected. First, without profits, few private agencies would participate in NHI. Second, the problem of a reasonable profit level remains unsolved; it is very difficult to evaluate the appropriateness of profit levels. Third, in a capitalist society the state finds it difficult to control how much profit a private organisation makes, and cannot therefore prevent excessive profit levels. Finally, inequality will remain a problem, particularly since those groups with low incomes and high demands on health care are the most likely to be without insurance. Privatisation is not an all-purpose solution.

As of mid-1997, the DoH does not appear to favour radical change to the present system. Option 1 is therefore on the agenda of NHI reform, accompanied by Option 3 (*United Daily News*, 24 February 1997). This means that even if privatisation is considered necessary, the DoH would keep the existing unified system and change the title of the CBNHI to that of an association. Total privatisation, such as Options 4 to 6, which would promote most market competition is not likely to be chosen. But this is not the end of the dispute, nor does NHI have a certain future. Although some efforts have been made to establish an independent NHI, one can still foresee political forces having an impact on the development of NHI, at least until 31 August 1997.

## **6 Conclusion**

So far, we have reviewed the development of NHI in Taiwan, including its origin, operation, impact, problems and the policy disputes over its future. What kinds of conclusions can we draw from the discussion, especially in relation to the specific politico-economic context of Taiwan and the other newly industrialised countries of East Asia?

First of all, in order to consolidate its position in the international community as well as for its own security, policy priorities have always focused on economic development. Welfare provisions are regarded as consumption of limited resources and therefore are not favoured by the Taiwanese state, except in some social fields with substantial economic potential such as education. However, a decline of KMT authority and the emergence of social movements leading to democratisation have forced the government to introduce the first universal welfare system for all citizens, in order to retain support among the general populace. This clearly demonstrates the fact that political objectives are the most important concern of the state in expanding state welfare. Along with democratisation, interest groups are now more capable of influencing policy making through radical actions and this in turn makes some politicians act as their representatives to press various claims – hence, the conflicts and disputes throughout the development of NHI.

However, it cannot be said that the basic policy priority of the Taiwanese state has changed. Economic goals remain the top concern of the government. This concern is manifested in a great effort to control medical expenses. Money matters, such as financial soundness, cost sharing, value for money, balance between contributions and benefits, the possibility of privatisation and so on, will not be forgotten by the government. Furthermore, a time-bomb has been set by the government for reforming the NHI system, implying uncertainty for the future. These concerns and efforts also induce conflicts with the interests of medical providers. The first two years of NHI's implementation have thus been a period of upheaval.

Significant improvements designed to lessen inequality and commodification in access to state welfare have resulted from the introduction of NHI, but some

problems remain critical. Those who are uninsured mainly comprise the most disadvantaged groups living in remote and marginal areas of society. Unfortunately, this issue seems not to have received enough attention from either the government or the public because it has been overshadowed by so many other conflicts and policy disputes.

NHI is now at a crossroads. Whether or not it can be afforded will be an important indicator of the future development of state welfare in Taiwan – especially of whether or not a national pension scheme can be realised by the year 2000. There are some signs that a Taiwanese welfare state may be emerging. If it does, NHI should be seen as a remarkable milestone along the way.

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## 6 The ‘Japanese-style welfare state’ and the delivery of personal social services

*Roger Goodman*

### Introduction

This chapter explores the development of personal social services in Japan in terms of our broader concepts of welfare Orientalism and Occidentalism outlined in Part I of this volume. The focus of this chapter is on the roles – both negative and positive – played by the ‘West’ in the construction of Japanese social service provision, not only literally in the form of foreign advisers in the early Meiji and post-war Occupation periods, but also metaphorically as a ‘model’ for Japanese social policy makers either to emulate or to avoid. It concentrates in particular on the system of voluntary welfare commissioners called the *minseijin seido* and how their role has been variously interpreted in the light of ideas about how social welfare has developed, and should develop, in the future in Japan in comparison with ‘Western’ societies. The significance of these debates extends beyond welfare since, underlying them, are fundamental ideas about the role and the nature of the ‘person’, the ‘family’, the ‘community’, as well as the concepts of ‘civic duties’, ‘rights’ and ‘citizenship’, and how these may differ in Japan and North American and West European societies, leading thereby to very different social ideas about ‘welfare’.

### The development of social welfare provision in Japan: the pre-war period

Most accounts of the development of social welfare in Japan start with the actions of Prince Shotoku, who brought Buddhism to Japan in the sixth century AD and who set up a number of welfare institutions.<sup>1</sup> Another commonly cited precursor of the contemporary system was the Taiho code of 702 which was the first instance of a public assistance programme and introduced the idea that the welfare of the needy was the responsibility first of the immediate family, then of other relatives, then of the community.

In the Tokugawa period (1603–1868) responsibility for social welfare was quite consciously devolved to the family and the community in a system – the *gonin*

*gumi seido* (five-family-unit system) – that was as much about social control as it was about aiding those in need. The Tokugawa regime has been characterised as one of the most conservative and feudal ‘police states’ on record. Social mobility was banned (though as the market economy grew towards the end of the period, this became honoured more often in the breach) and the mutual responsibility that was built into the five-family-unit system meant that not only was the community as a whole responsible for the welfare of each individual, but it was also responsible for their actions and punishable for their wrongdoings. Hard work and frugality were considered to be the most effective means of dealing with poverty. Informers for the state authorities were believed to be everywhere, and peer pressure to self-police became the norm (see Sansom, 1962: chapter XI). The existence of this system is important for our understanding of the contemporary system, since it developed into the war-time *tonarigumi* (neighbourhood associations), ‘descendants’ of which can still be seen in Japan today in the form of neighbourhood associations, known as *chonaikai* (see Bestor, 1989).<sup>3</sup>

Until the Meiji period, therefore, there was, as Collick (1988: 205) puts it, a ‘long-standing conviction, based on traditional Confucian moral teachings, that the family and the local community were the proper organs for the relief of distress’. According to Komatsu (1992), the role of the state in the pre-modern period in Japan was one of ‘peripheral non-responsibility’.

Hence it is that while some commentators point to individual examples of the development of social welfare throughout the feudal period in Japan, the majority date the start of the development of a welfare system to the Meiji Restoration of 1868 when, ‘Among the . . . declarations issued by the new Meiji government of 1868, can be found one declaring, “Offer compassion for widowers, widows, the lonely, and the maimed”’ (JNC-ICSW, 1988: 9). This proclamation was followed by some state legislation but, significantly, it was aimed in the first instance at developing a strong army and navy: a system of disability and retirement allowances for the army in 1871, similar benefits for the navy in 1875, the police in 1882 and civilian officials in 1884. As Campbell (1983: 210) says: ‘Aid for the general public did not come as quickly.’ The Poor Relief Regulation of 1874 was, like most pre-war legislation, a reaction to popular unrest and essentially the legal institutionalisation of feudal systems of community, family and religious mutual support backed up by minimal financial and personnel investment.

The Meiji government followed a strict policy of what, today, would be called *laissez-faire* economics in which the market dominated. Coupled with this was a welfare ideology that state intervention was not only unnecessary but might, indeed, prove counterproductive by developing lazy and dependent attitudes in the population as a whole (Hastings, 1995: 18). Social policy throughout the period was seen more as an instrument to control unrest – very much in the style of Bismarckian policies at the same time in Germany<sup>4</sup> – than the means by which the state sought to provide a minimum standard of living for its citizenry. Emphasis on the need for local rather than national systems of care was reinforced when the minimal care provided by the Poor Relief Regulation was passed back to local government in 1912.

The Meiji government was very aware of social welfare practices in other parts of the world. Between 1871 and 1873, virtually the entire Japanese government went on a mission around Western Europe and North America to gather blueprints for the modernisation of their country's systems, in the, probably correct, belief that only such modernisation could prevent colonisation.<sup>5</sup> Large sums of money were also spent on inviting foreign experts to come to Japan and advise on modernisation *in situ*. In this process the Japanese government did not ignore indigenous practices but tended to graft on to them new ideas gleaned from outside the country. Foreign practices, in particular the development of private, religious-based institutions, were introduced. These included orphanages and homes for the handicapped and elderly set up by Christian missionaries which in turn inspired similar reactions from Buddhist organisations. In Japan today private social work activity is still often associated with Christianity and missionary work.

In the main, however, the government encouraged the continuation of community-based forms of mutual protection. The five-family-unit system was replaced by an alternative form of community association (known as the *rinpo sofū* system), and individual firms, in order to attract and keep employees, were forced to take on a major share of providing for the welfare of their workers by direct or indirect means. It was in the light of further social unrest in the 1910s in Japan, however, that perhaps the most characteristic feature of the contemporary welfare system emerged in the form of the *homeniin* system.

### **The *homeniin* community volunteers**

It is no coincidence that the Kansai was the area where many of the main local developments in social welfare provision first emerged, since Osaka, in particular, was in many ways the centre of Japanese capitalism in the Taisho period (1912–26).<sup>6</sup> Osaka experienced a great influx of migrants, both from the countryside and also from Korea, as a result of which acute social problems – slums, unemployment, poverty – emerged and social unrest developed (Tamai, forthcoming). The inadequate nature of the poor relief system that existed in the area was seen by the British social reformers Sydney and Beatrice Webb, when they visited the area, as demonstrating the folly of copying Western models of welfare support – the Webbs believed that the Japanese system was synonymous with the British Poor Law administration – and of repeating the same mistakes. As Tamai reports, one important civil servant, Ogawa Shigejiro, writing in 1912 wondered whether it might be possible for the local authorities, rather than replicating the Western model, to develop another way – ‘a “Japanese” way perhaps’ – in order to tackle the problem of poverty. He emphasised the importance of the family (especially the wife who managed the family budget) and the community in dealing with economic hardship which, he argued, had long been the Japanese method of addressing such distress.

Ogawa moved to Osaka in 1913 and set up a study group on social work and social reform. This group examined alternative systems of social welfare provision

including the system of household mutual support in China, the five-family system of feudal Japan and various models from Germany, Britain and the USA. When ‘rice riots’ – the storming of the government-controlled rice shops in response to sharp rises in the price of rice – broke out in 1918, they were particularly severe in Osaka and it was largely in response to these that Ogawa and the Governor of Osaka, Hayashi Ichizo, institutionalised a system of locally appointed, unpaid, volunteers who would advise and help those in poverty. The system was called the *homeniin* system: *homen* meaning an area of the city designated by the city government as poor; *iin* meaning supervisor.

Tatara (1975: 145–69) describes the system as a synthesis of the German Elberfeld programme and the system of Friendly Visitors of the Charity Society in London, although only the influence of the former was acknowledged by contemporary policy makers, possibly, as Hastings (1995: 88) suggests, because it relied on male workers whereas the British example relied mainly on women. Volunteers were locally based individuals, such as teachers, policemen, chemists and, ironically, rice dealers, who had daily contact with the poor. They could receive no financial payment for their work and were normally responsible for some 200 households in their area. They counselled the poor, sought medical supplies for the sick and investigated whether individuals were eligible for relief. As Ito (1995) points out, however, the *homeniin* system differed from the Elberfeld system in one crucial aspect. Although the *homeniin* were able to offer financial assistance to individuals from their relief fund (which included subsidies from city and prefectural government), most of their resources came either from money collected from donations or from their own pockets. Moreover, most of their work was advising individuals on how to improve the management of their household budgets. The underlying principle of their work was that it was always better to help the poor to be independent from, rather than reliant on, the State.<sup>7</sup>

The role of the *homeniin* evolved over the next twenty years and spread throughout Japan (Chubachi and Taira, 1976: 424). They grew in number and their role changed from one of social control and prevention of social unrest to becoming a genuinely courageous and relatively loud (100,000 individuals by 1940) voice calling for improved social legislation. Their social control function had largely been taken over by compulsory local neighbourhood associations (the *tonarigumi*) which were modelled on the *go-nin gumi* of the feudal period. As Japan plunged further and further into what historians call the ‘dark valley’ of the late 1930s and early 1940s, however, the roles of the *tonarigumi* and *homeniin* became increasingly intertwined as a means of ensuring full co-operation in the war effort.

### **The development of social welfare provision in Japan: the post-war period**

Japan emerged from nearly fourteen years of continuous warfare in 1945 to find itself being run by the American-led Occupation forces of General McArthur.

McArthur's first mission was to eradicate the ultra-nationalism of the wartime period and to introduce concepts of democracy, liberalism and citizenship which the Allies had been fighting to defend. Welfare reforms were an essential part of this new culture that the occupying forces wanted to take root in Japan (Tatara, 1980). A new Constitution was promulgated in 1946 – largely under the guidance of the Americans, though most commentators now agree that it did have the support of the Japanese government, as far as it was able to understand the rhetoric – which included the commitment (Article 25) to provide welfare for all Japan's citizens on an equal basis, and not simply for selected, economically vital elements of the population. This was an enormous undertaking in a country that had been all but totally destroyed, whose infrastructure had been dismantled, with a huge population of widows and orphans and even larger numbers of soldiers and colonists returning from overseas. It was in the light of these difficulties that a US army officer and social administrator, Donald Wilson, recommended that, despite certain reservations, in the short term at least, the *homeniin* system should be maintained (Wilson, 1980: 337-40; Anderson, 1993: 92).

Thus the *homeniin* system survived virtually intact the widespread changes brought about during the Occupation period. There were no purges or any extra training; all that changed was its name, from *homeniin* to *minseiiin*, so as to distance it from its wartime existence when it was still, in the minds of many, closer to being an agency of social control in an ultra-nationalistic state than a provider of social welfare. *Minseiiin* is generally translated as 'person or persons commissioned to promote and stabilise the life of the people'. The terms of their appointment were modified only slightly from those of the pre-war period so that:

1. *minseiiin* were to work from a position of equality with those they assisted;
2. they were to be appointed by the Ministry of Health and Welfare on the recommendation of local committees;
3. they were to serve three-year terms which could be renewed;
4. they would receive out-of-pocket expenses.

The first of these conditions is particularly significant since it implies that in the pre-war period the relationship of *homeniin* to those they were helping was anything but equal. This was (some say still is) common among those who represented the state in their dealings with individuals and was encapsulated in the still-used expression *kanson minpi* ('praise the bureaucrat and despise the people').<sup>8</sup> It would appear, though, in the immediate post-war period, that there was little change in attitude, not least because the *minseiiin* were, in effect, the only means through which the general public had access to public assistance. They were thereby placed in positions of great power and able to generate bonds of debt (*on-gaeshi*) among those who received their help.<sup>9</sup> In 1950 and 1951, however, the system was reformed: new publicly administered welfare offices staffed by paid local government officials

(called *shakaifukushishuji* – often translated as ‘social workers’<sup>10</sup>) were set up and the *minseiin* role was limited to an advisory one, which, as we shall see, it still fills today.

### The *Minseiin* system in contemporary Japan

Today, the *minseiin* system is the main form of direct social welfare provision. The officers are appointed on renewable three-year contracts, on the basis that they have lived in their designated area ‘for a long time’, have a clear understanding of its social situation and display enthusiasm for carrying out the promotion of social welfare. While they are called volunteers, they do receive a small amount of compensation – set in 1989 at ¥47,000 per year (around £250) – though this is rarely adequate to compensate for phone bills and travel expenses.<sup>11</sup>

The profile of the *minseiin* makes interesting reading. Unusually for social work (which in most capitalist societies is a ‘female’ occupation), the minority of *minseiin* are female, though the proportion has increased from 32 per cent in 1971 to 46 per cent in 1992.<sup>12</sup> Over roughly the same period, however, the average age of *minseiin* has increased: in 1974, 71 per cent were between the ages of 50 and 70 and 7 per cent were over 70; by 1986, 83 per cent were between 50 and 70 with 7 per cent over 70 (Gould, 1993: 52). The overall average age is just over 60, but since in some communities *minseiin* have to retire at 75 (there is no national stipulation on this), this means that in other communities the average age must be much older. Certainly, some *minseiin* are in their eighties.

Each *minseiin* gives on average about ninety days of service a year and makes around 120 household visits. As a result, it is no surprise that over 40 per cent give as their occupation ‘unemployed’ which generally means that they are either retired or else full-time housewives probably with grown-up children. The work of *minseiin* is 56 per cent with the elderly; 20 per cent with those in poverty; 10 per cent with people with disabilities; 7 per cent with children; and 7 per cent with single-parent families.

The real significance of *minseiin*, however, lies in their numbers. These have increased continuously until today there are around 190,000; by law there should be, and evidence suggests that there is, one *minseiin* for every 120 families in the countryside and one for every 270 in cities. Against this figure, there are for the whole of Japan a mere 15,000 (i.e. 1:12.5) paid local government welfare officials (*shakaifukushishuji*).<sup>13</sup>

There are social work schools in Japan in no less than forty universities, but only a minority of graduates actually take up employment that is directly related to their training, and the majority of those who do, tend to seek jobs in residential settings, such as children’s homes (Ito, 1995). In some areas of Japan (for example, Yokohama), social welfare offices are staffed by individuals trained in social work, but it is more common for the staff of such offices to be employed through the same

channels as all other local government officials, rather than as specialists in social work. In the vast majority of cases, therefore, *shakaifukushishuji* work in this capacity simply as part of a natural rotation through different positions which is common to the careers of all local government bureaucrats. It is a part – and often a rather unpopular part – of their career progression and, as elsewhere, training is on the job rather than formal (Masamura and Higuchi, 1996: 42–3). It is possible to take a social work qualification after a period of time working in a welfare office on the basis of that experience, but there is little incentive to do so and few take up the offer.<sup>14</sup>

Since they are so few in number, the caseload of each individual *shakaifukushishuji* is, of course, enormous. In 1990, the 105 staff in Tokyo assigned to work with children (*jidofukushishi*) had to deal with some 12,000 cases (Tokyo-to Jidosodanjo, 1991: 27–8) and therefore operated little more than a re-routing service for children about whom there were concerns. Certainly, they were unable to undertake any family support work by themselves and were rarely able even to offer a second counselling session. Their follow-up with children placed in care would often take place only once a year (Shisei Gakuen, 1990: 6). The professional social workers, therefore, are forced to draw on the services of the *minseijin* in order to maintain some control over their caseloads. In most cases, *minseijin* undertake household and individual visits while the local government bureaucrats issue the grants, arrange home helps and make placements in institutions.

There are here two questions that arise from the foregoing: (a) why does Japan have only 15,000 paid ‘social workers’ when it has a population of 125 million and runs the world’s second largest economy? and (b) why does Japan have so many voluntary social welfare commissioners? The questions are, of course, inextricably linked by a basic conundrum: should *minseijin* be seen as a natural out-growth of Japanese traditional practices – concentrating on the community as the source of welfare provision – or has the government cleverly manipulated this idea of ‘Japaneseness’ and a ‘Japanese-style welfare state’ (in opposition to a ‘Western’, ‘Occidental’ style one) to produce a system which is cheap to run, deters individuals from making claims on the state, upholds conservative ideas of ‘morality’ and reproduces the existing social structure of the society? The two sides of this argument are examined in the following sections.

### ***Minseijin* and the ‘Japanese-style welfare state’**

In the most detailed ethnographic account in English of the *minseijin* system in contemporary Japan, *Changing Japanese Suburbia* (1991), Eyal Ben-Ari suggests that it presents a model example of the Japanese concept of community care: it generates a great degree of self-help and self-reliance; the role of the family is central; and close control is kept on spending. In short, it fulfils the main role of social welfare in propping up rather than replacing the role of the family and the local community.

Ben-Ari gives a detailed and vivid account of the perspective that *minseijin* have of their own work and, by shadowing and talking to them, demonstrates what they see as the advantages of the way that they work. They are senior members of their local communities, respected for their maturity and judgement, with a genuine interest in the welfare of local families and competent to give advice on how people can manage their lives better. It is quite clear also that they consider it an honour to be called on to talk to and visit needy people in their community. In particular, Ben-Ari emphasises the ability of *minseijin* to understand the lives and problems of those in their neighbourhoods simply because they are part of, and have long been part of, those same neighbourhoods. This is in stark contrast to the case of many professional social workers in other industrialised countries who live outside the communities in which they work, visit them during the day, and then withdraw to their own communities.<sup>15</sup> A typical household visit involves a cup of tea and a general discussion, often unconnected directly with welfare issues but allowing the development of a deeper relationship, a luxury that few professional social welfare workers would be able to justify to their employers.

That such highly respected individuals can be found to act as representatives of the state in every rural and urban community in Japan raises interesting questions about class, housing and perceptions of authority that are highly pertinent to the role of *minseijin*. The fact that Japanese housing, particularly in inner-city and rural areas, is, as a rule, considerably more heterogeneous than in most industrialised countries<sup>16</sup> reflects a phenomenon which has been widely recorded, indeed annually measured, namely the lack of class consciousness in contemporary Japan. Annual surveys published by the Prime Minister's office record that over 90 per cent of Japanese people perceive themselves to be members of a large, amorphous middle class. Though many sociologists have demonstrated that such surveys actually do as much to construct the concept of classlessness as they do to measure it (see for example, Steven, 1983; Ishida, 1993), the widespread nature of this perception does lead to a tendency to reduce visible class divisions within Japanese society.

Of equal significance in understanding the role of the *minseijin* in Japan today is the acceptance of the authority of representatives of the state in what might elsewhere be considered the private domain of the family. The best-known example of this is the role of the local police box (*koban*) to be found in every Japanese neighbourhood. Local policemen are full members of the community where they work; they know the local families, what they do and where they work, and they are seen, in an idealised fashion anyway, as providing protection for, rather than as policers of, the community.<sup>17</sup> Ben-Ari argues much the same case for the *minseijin*. He describes them as 'watchdogs' who act as a pressure group on behalf of the local community. They are treated with respect by the officials in the city halls, not least because of the recognition that they are working voluntarily and without pay.<sup>18</sup>

According to some commentators, the system works primarily because it is a 'natural' outgrowth of historical Japanese traditions and practices. One of the best

examples of this type of account can be found in the British journal *Community Care* (Philpot, 1986) since it is based on essentialist explanations presumably received by the author when interviewing Japanese colleagues about the Japanese system.<sup>19</sup> This argument follows the lines that the *minseiin* system is simply a continuation of Japan's agricultural culture into the modern era: rice-growing (Japan's traditional agricultural basis) necessitates co-operation between individuals and this over time has led to an emphasis on the group over the individual. This pattern is seen as very different from that of 'Western' societies which are based on the structure of hunting communities which has led to an emphasis on individualist mentalities (Ishida, 1971). As with many such descriptions of apparently essentialist or primordial qualities, the idea of the 'group mentality' of the Japanese (probably given its best-known exposition in the work, *Japanese Society*, 1970, by the anthropologist Nakane Chie) has been developed in opposition to an idealised, homogenised 'common or core value' supposedly held monolithically in some amorphous 'West'. This is a process we have seen described elsewhere in this volume as 'Occidentalism'.

In the explanations given for the existence of the Japanese-style welfare state, Occidentalism plays a very important role. For example, it is argued that Japan, with its centuries-old tradition of filial piety, has maintained respect for the aged, as opposed to the 'West' where typically only half as many of the elderly still live with their families instead of in residential homes (see Palmore and Maeda, 1985). Moreover, it is argued that in Japan individual identity is so bound up with that of the group that there is shame on both the immediate family and the local community if they need to rely on help from outside, especially if they turn to the state for support (Philpot, 1986; Matsubara, 1996: 95).<sup>20</sup>

Probably the most important exposition of the above approach can be seen in Ezra Vogel's *Japan as Number One* (1980). Vogel (1980: 202) not only presents most of the favourable images of the *minseiin* system proffered above, but also suggests that the system stands in stark contrast to the welfare system developed in the 'West'. According to this approach, it is because of Japanese beliefs in hard work, respect for the community over the individual, emphasis on face-to-face help rather than the expectation of aid from external agencies – all values that have 'existed' in Japan 'for centuries' – that Japan has avoided many of the pitfalls of Western welfare dependency. At the time that Vogel was writing in the late 1970s, few Japanese were quite so forthright in their views about the weaknesses of Western welfare systems, though one notable exception can be found in Nakagawa's (1979) astonishing article 'Japan, the Welfare Super-power'. There is little doubt, however, that Vogel struck a chord of recognition in Japan where his book became an instant best-seller. The themes that he dared to voice became more and more loudly chorused – both outside but particularly inside the country – as Japan enjoyed the boom decade of the 1980s. Put simply, by keeping to 'traditional' methods, the Japanese

had developed a welfare state that others could do well to learn from. Not least of its attractions for other societies – as their populations began to age dramatically at the end of the twentieth century – was its apparent cheapness and minimal use of welfare personnel. According to Vogel (1980: 201), in 1976 the Japanese Ministry of Health and Welfare had 11,200 staff; the US Department of Health, Education and Welfare, with only double the Japanese population, had 155,100.

### ***Minseijin* and the ‘invention’ of the ‘Japanese-style welfare state’**

There are two questions which need to be posed here: (a) does the *minseijin* system really function as described above? and (b) whatever the answer to (a), did it really develop ‘naturally’ from traditional Japanese practices? Some doubts exist on both scores.

While Ben-Ari’s positive view of the *minseijin* is based very much on their own perspectives of their work, those who are recipients of their ‘services’ have not provided, and often still do not provide, such a positive assessment of their role. Of course, just as the vast majority of people in all developed states do not come into contact with front-line social workers and hence are often unsure exactly of their role, so in Japan many people know about *minseijin* but are very vague about what it is exactly that they do. There are some, however, who still see *minseijin* as enforcers of nationalistic moral codes of conduct rather than as advocates for the weakest members of society. Certainly, this is the view of some of those with whom the *minseijin* come into contact. Ito Peng (1995), in her study of single mothers in Japanese society, clearly demonstrates the friction that can exist between a young single mother struggling to retain her independence and an elderly, generally male, untrained *minseijin* who is trying to ‘help’ her.<sup>21</sup> The reluctance of individuals to use the *minseijin* system in order to acquire their benefit entitlements is demonstrated by the very low take-up rates of benefit: 11 per cent of lone-mother families; 5 per cent of all elderly households; 0.8 per cent of all households with an elderly person (Peng, 1995). Soeda (1990) estimates that less than 25 per cent of low-income families take up their entitlement to welfare benefits. If *minseijin* represent a pressure group on behalf of the members of the local community, then at one level, clearly, the system is not working.<sup>22</sup> One reason given by critics of the system is simply that, contrary to what ‘traditional’ practice might lead one to expect, many individuals do not like to discuss their problems with their neighbours and would rather suffer in silence.

It is clear also that, although the role of *minseijin* has evolved and matured since the 1940s, their individual motivations for the post have not always been as pure as simply performing ‘civic duties’. Certainly, as Dore (1958: 70) has pointed out, in the immediate post-war period when they directly controlled access to state funds, many *minseijin* used their positions to launch political careers, exchanging

their ability to obtain funds for the promise of future votes. It is telling, perhaps, that *minseijin* – in combination with left-wing groups which were concerned about government interference – were behind successful attempts in 1951 to block government proposals to introduce professional social workers, arguing that these would simply be duplicating the work they were already doing (Anderson, 1993: 93). As Ben-Ari (1991) points out, the power of *minseijin* today to abuse the system in the same way is dramatically reduced since individuals have direct access, if they can manage it, to local government welfare offices and, in any case, *minseijin* can generally only make recommendations on funding and not actual grants themselves. Nevertheless, it still remains the case that the *minseijin* retain a level of access to audiences and officials that is denied ordinary citizens. Many *minseijin* sit for example on local government social welfare councils (*shakai fukushi kyogikai*).

The role of *minseijin* is therefore rather more complex than at first it appears, and the manner in which the system has evolved is, as with the Japanese welfare system as a whole, slightly less ‘natural’ than some have suggested.

There are, doubtless, certain continuities in the system of welfare that can be traced back at least to the Meiji period. Ever since the 1870s, for example, there has been a general reliance on the provision of social services through the local community, while bureaucratic and political control has been retained by central government.<sup>23</sup> On the other hand, there have been periods in Japan’s recent history when there have been clear attempts to develop a system that would have virtually mirrored a Western welfare state and much of the contemporary situation in Japan can really only be understood as having been ‘invented’ in opposition to these mirroring trends.

While many of the ‘Western-style’ welfare reforms introduced in the immediate Occupation period, for example, did not take root simply because of the mass poverty being experienced in the country, as the economy began to take off in the mid-1960s, and as grass-roots political campaigns for improvements in the ‘quality of life’ rather than just the national economy began to grow, and as the ruling Liberal Democratic Party began to see its support slipping in the late 1960s,<sup>24</sup> there re-emerged a new movement towards developing a Western-style welfare state. It was decided that 1973 would be targeted as *Fukushi Gannen* (‘The First Year of Welfare’) and the idea that Japan could be called a welfare state began to develop in the public consciousness.<sup>25</sup> The timing could not have been worse. The oil crisis of 1974 hit Japan – dependent on the outside world for 98 per cent of the natural resources to drive its export economy – harder than almost any other industrial society. Economic growth rates dropped by 50–70 per cent; unemployment trebled between 1975 and 1985, something that had not been calculated for in the welfare budget. Almost immediately, a new anti-welfare state rhetoric began to emerge. Termed *fukushi minaoshi* (‘the reconsideration of welfare’), it not only stressed the economic dangers of increased welfare expenditure but developed a ‘culturalist’

argument that this type of system was in any case inimical to the Japanese ‘way of doing things’. In place of the Western-style welfare state, Baba Keinosuke (1978) and others developed the idea of the ‘Japanese-style welfare state’ (‘Nihongata shakai fukushi’).<sup>26</sup> As Lee (1987: 250) says, ‘The slogan of 1973, “Welfare First, Growth Second” was replaced gradually by “Reconsider Welfare”, “Welfare State Disease”, “Japanese Style Welfare State”, and others.’

The Japanese-style welfare state thesis is a classic example of what Hobsbawm and Ranger (1983) have called the ‘invention of tradition’.<sup>27</sup> It drew on idealised visions of a Japan where communities had always lived co-operatively and harmoniously, caring for each other, and especially for their aged and their sick. In doing so, it ignored compelling historical evidence of communal violence, rioting, the abandonment of the elderly<sup>28</sup> and the culling of the sick or weak.<sup>29</sup> Similarly the emphasis placed on the Confucian values of filial piety, loyalty, obligation, respect for seniority and so on ignored the fact that until the Meiji period these values had very little to do with the lives of the common people in Japan, but were important only to the 6 per cent who constituted the samurai class. It was only the so-called ‘samuraisation process’ (Befu, 1981: 50) in the 1870s that led to these values being devolved, through state sponsorship and via the education system, to the rest of the population in a conscious attempt to construct a Japanese state (see Gluck, 1985).

There is little doubt, however, that by drawing on ‘historical’ precedent and Confucian ‘tradition’ – in particular the emphasis on care for the aged – the proponents of the Japanese-style welfare model were successful in deflating rising social expectations of state-provided welfare rights and citizenship. Rudd (1994:17) argues that the state was particularly successful in attaching a sense of stigma to receiving welfare rights, a movement in which the media played a particularly important role. Takegawa Shogo (1988: 242) discovered that while up to 1975 all articles on welfare took either a positive or a neutral stance, from 1976 onwards the vast majority (95 per cent in his sample) took a negative position. Even more dramatic was government campaigning against welfare which was felt by many to be a major deterrent to genuine welfare claimants and to lie behind unreasonable processing of welfare claims by local officials (see *Asahi Shinbun Japan Access*, 1992).<sup>30</sup>

## Conclusions

Although the development of the contemporary welfare system in Japan is often presented by those who advocate the ‘Japanese-style welfare state’ as emerging naturally from traditional patterns of social care, it has in fact been much more piecemeal. In part it has been constructed in a highly pragmatic fashion in response to short-term political and economic exigencies, what Lee (1987: 247) has described as ‘social instrumentalism’: the need for a strong army and workforce in the early Meiji period to avoid colonisation; the desire to control social unrest during the rice

riots of the mid 1910s; the desire to maintain social cohesion and discipline during the 1930s; in response to growing popular movements in the early to mid 1960s; in order for the ruling party to maintain power in the late 1960s and early 1970s; in response to successive oil shocks in the mid 1970s; and so on.

Similarly the 'model' of a Western welfare system has played very different roles at different times in Japan, particularly during the post-war period. For twenty-five years following 1945, there were growing expectations – both inside and outside the country – that Japan should, and indeed would, develop a system approximating a 'Western' one; in some senses, this was considered in many people's eyes a measure of how far Japan had come in its modernisation process and how seriously it should be taken as a player on the world stage. Much was made of the fact that Japan was a 'welfare laggard'. The 'reconsideration' of these welfare images in the mid 1970s owed much to the economic crises caused by the oil shocks. However, as the Japanese economy grew in stature almost daily in the 1980s, the Western model of welfare began to be discussed in terms of its role in the economic decline of Western societies as opposed to the economic growth of the Pacific Rim and was viewed with considerable caution. Japan – and other countries in the region – moved from being embarrassed by its perceived 'core' social values (groupism, homogeneity, conformity) to beginning to evaluate them more positively. Simultaneously, they began to devalue what they perceived to be the 'core' values in Western societies (individualism, pluralism, independence). Human rights, of course, became a key issue in many of these debates on Western vs. Eastern values (see Goodman and Neary, 1996).

It was probably this reassertion of Japanese national self-confidence in the 1980s – combined of course with the fact that there was no unemployment and that the quality of life was clearly improving each day – that led to the positive endorsement and widespread acceptance of the 'Japanese-style welfare state' in Japan. It doubtless also explains the growing interest in Japan's welfare state in other societies. The main beneficiaries of this changing ideological and economic context, however, are probably the *minseijin* and the *minseijin* system in Japan. Wrapped up in the image of being part of a 'Japanese' response to welfare, with historical antecedents and Confucian traditional roots, their activities are legitimated and accepted to a much greater extent than in the twenty-five years immediately after the war when they were still perceived as a residue of feudal practices, associated with wartime ultra-nationalism and considered a stop-gap before a professional, properly trained social work system could be developed to provide individuals with the benefits to which they had rights as citizens of Japan.

In the mid 1990s, the economic situation in Japan has changed once again. The country is only just emerging from the longest and most serious recession it has suffered in the post-war period. Unemployment is on the rise. The population is ageing faster than any other in the world and, by the year 2020, will be one of, if not actually *the*, oldest (post) industrial society in the world. The fertility rate is still (at

1.5) well below the replacement rate (2.1). In this context the role of the *minseijin* is being re-evaluated once again. In the context of potentially escalating welfare costs and a decrease in the number of those in the workforce to pay taxes to support the system, their cheapness is clearly attractive; in the context of an ageing population with increasingly specialised and widespread needs, their lack of training makes them, in the eyes of some, inadequate to the task (Masamura and Higuchi, 1996: 44–5). These types of debate – which are taking place simultaneously in all areas of Japanese welfare provision – explain the extreme ambivalence about the current system felt by providers and consumers alike.<sup>31</sup> On the one hand there is pride in an indigenous system which is clearly generating a greater deal of interest outside the country; on the other hand, the tag of ‘laggard’ still lingers, as does the belief that Japan still needs to learn from, and copy, at least elements of the systems of other advanced industrialised nations and concentrate on the improvement of its professional *katakana* occupations in the social services.<sup>32</sup> Very often these two viewpoints are expressed by the same individual (see Matsubara, 1996: 86 for a typical example). Few groups play a more important symbolic role in this internal cultural debate than the *minseijin* who constitute in many ways the most distinctive feature of the contemporary welfare system in Japan.

## Notes

1. Tataru (1975: 12) suggests that there are records of Imperial welfare from some 200 years earlier and that the association of the Imperial Family with welfare activity in Japan has always been strong. Hastings (1995: 68), however, suggests that the image of a benevolent Emperor caring for his people is actually ‘a modern construct’. There is also a big debate over how influential Buddhism has been in the development of social welfare in Japan. On the one hand, as Peng (1995) points out, Buddhism obstructed its development by encouraging individuals to accept their fate and the status quo. Certainly, the concept of brotherly love – the idea that one has a duty to all others and not just those in one’s circle – appears even now to have been little developed in Japan. See Eisenstadt (1996: 177) on how, in concentrating on the group nexus rather than transcendental attitudes, Buddhism developed differently in Japan from in other societies. On the other hand, there are a large number of Buddhist private institutions working in the social work sphere.
2. For a summary of historical research on pre-modern precursors of the Japanese welfare system, see Yamada and Suzuki (1990: 33–4).
3. Here again, Hastings (1995: 75) suggests the historical links are, in fact, quite tenuous and represent the reinvention of tradition as much as historical continuity.
4. This idea that social policy should be seen essentially as a device for mitigating social tension has been important throughout modern Japanese history, led by a group of scholars known as ‘social policy theorists’ (*shakai seisaku ronsha*) (Mouer and Sugimoto, 1986: 71–4). For more detail on the influence of German social theory in Japan during the Meiji period, see Pyle (1974).
5. As both Tataru (1975) and Hastings (1995) point out, the main influences on welfare policy during the Meiji period were Germany and Great Britain.
6. It should be pointed out that a better candidate for originator of the contemporary

welfare commissioner system in Japan is Okayama Prefecture where the Governor, Kasai Shinichi, instituted a 'social reform advisory system' (*saisei komonse*) in 1917 (see Zenkoku Minseiiin, 1986: 8; Tatara, 1975: 153). Historical accounts, however, have tended to concentrate on the significance of the *homeniin* system that developed a year later, possibly because it gave its name to the system as a whole.

7. According to two left-wing commentators, Chubachi and Taira (1976: 425), the strength of the system lay in combining two distinctive elements, surveillance and welfare aid, in 'an ignominious marriage of authoritarian government and the charitable spirit of local leaders'. This dual role was perhaps most clearly demonstrated in the surveillance of those in the local community released from prison or thought to be delinquent (Hastings, 1995: 86).
8. This was an attitude which the early Occupation forces were particularly keen to change – since it was felt to lead to a potentially dangerous degree of subservience to the state – and replace with concepts of 'citizenship' and 'rights'.
9. For more on the significance of repaying debts at this period in Japanese history, see Benedict's classic wartime account, *The Chrysanthemum and the Sword* (1946: Chapters 4–6).
10. As Ito (1995: 260–1) points out, although all those who study social welfare know the English word 'social worker', many identify themselves more closely with the Japanese term meaning 'social welfare personnel'. The use of the term 'social worker', therefore, is clearly problematic.
11. Although it is clearly correct to describe *minseiiin* as 'volunteers', there is a sense in which they accepted their posts out of civic duty rather than philanthropy. For a very contemporary account of the activities of volunteers who work outside the *minseiiin* system, mainly students working with down-and-outs, see Stevens (1997).
12. In the pre-war period, almost all *homeniin* were male. It was a major change when 9 per cent (11,812) of the *minseiiin* appointed in the immediate post-war period were women. This proportion increased to 22 per cent by 1956 (Tatara, 1975: 416–17).
13. Note that an even more extreme imbalance exists in the case of probation officers where, in 1992, 48,836 *hogoshi* (volunteer probation officers) worked under a mere 970 professional workers (*hogokansatsukan*) who were all employed as civil servants (Yokochi, 1994: 14). As of 1989, the age profile of *hogoshi* was even more extreme than that of *minseiiin*: 90 per cent were over 50; 62 per cent were over 60; 17 per cent were over 70. Women accounted for around 20 per cent of those appointed (Rehabilitation Bureau, 1990: 16).
14. As Ito (1995: 261) says, the system seems to be contradictory: 'For the people who study social work in a university, the opportunity to become a field social worker is closed, whereas for any bureaucrat in local government, the option is open.'
15. There are interesting parallels here, increasingly being made in the UK, between the roles of an ever-present Church and a visiting social welfare profession in inner-city communities.
16. This is partly due in inner-city (*shitamachi*) areas to the presence of lower middle-class small shopkeepers (see Allinson, 1979; Bestor, 1989). Suburban areas in Japan tend to be more uniformly middle class since they have been built up by individuals buying into a new residence, often at great expense. Rural communities, however, are also marked by the heterogeneity of their populations; there are few middle-class 'villages' in Japan's countryside.
17. For such generally positive accounts of the Japanese police, see Bayley (1976); Ames (1981).
18. Ben-Ari contrasts this with the generally low status (not unconnected with the fact that many of its members are women) of the social work profession in most industrialised societies.

19. For an extended example, in English, of the essentialist argument which seeks the roots of the contemporary system in Japan in 'the informal patterns of traditions and culture', see Pinker (1986).
20. Anthropologists of Japan have proposed two culturalist arguments for explaining this. On the one hand, there are very strong distinctions made in Japan between inside and outside (*uchi* and *soto*), which make it difficult to develop wider concepts of 'brotherly love'. Hence, although Japan has a Community Chest system, it is relatively under-supported. On the other hand, the strength of this distinction makes it very difficult for Japanese to accept help from strangers (see Hendry, 1987: 145).
21. The problem, of course, is exacerbated by the very small number of single mothers in Japanese society where the illegitimacy rate is less than 1 per cent.
22. Though it could also be argued that it is a very effective means of avoiding benefit fraud.
23. Even today, young officials in the Ministry of Health and Welfare serve for two or three years in various local government welfare offices to ensure that national standards are being uniformly applied across the country.
24. In the 1967 lower house election, the LDP gained less than 50 per cent of the vote for the first time since its founding in 1955 and in 1976 actually lost its majority in the lower house (Tabata, 1990). It should be pointed out also that when the ebullient Tanaka Kakuei became Prime Minister in 1972, he was keen to leave his mark on national politics through the institutionalisation of large projects such as the expansion of social welfare (see Tanaka, 1973).
25. Some official projections suggest that if all the welfare reforms proposed in this period had been implemented, then Japan would have developed a system of benefits and contributions which would have been more generous and higher than that of any Western counterpart.
26. Linhart (1990: 180) describes the model as 'somewhere between Asian societies or societies of developing countries and the European welfare states. Whereas in the first one the responsibility for the aged lies with their families, their children, and in the latter ones with the state, in the Japanese-style welfare society family, community and the state together have to bear the responsibility.' For a good summary of Baba's thesis and how it differed from Western concepts of the welfare state, see Inagami (1991: 57-8).
27. For similar examples from Japan's contemporary period, see Gordon (1985) and Kinzley (1989) on the invention of company culture in Japan.
28. For a fascinating account of how an artificial image of the treatment of the elderly has been manipulated in these debates, see Ferries (1996).
29. For an account of the extent of infanticide in feudal Japan, where the population size remained static over a 200-year period while that of China doubled, see LaFleur (1992).
30. This needs to be placed in the wider context of a society where only 0.75 per cent of the population receive welfare payments, while tax evasion, especially by the self-employed, is described by many as endemic.
31. The mid-1990s economic recession has led to renewed examination of overseas welfare provision. Interest has particularly been expressed in the German system of financing long-term nursing care for the elderly, an echo of the interest in German models of a century ago (Jonathan Ferries, personal communication).
32. *Katakana* professions are those which are called by their English name in Japan, such as 'social worker'. The area of Japanese welfare which displays the greatest confusion between Western and Japanese values is probably that of social work training which, at the end of the Second World War, was modelled on Western concepts of welfare provision and social theory. Students' knowledge of the historical development of the American and British social welfare systems is still very detailed; in child welfare, for example,

many of the classic cases from British history are translated into Japanese and studied, while very few from Japan's own history. As Ito (1995: 261) points out, however, students are rarely taught how to put these ideas into practice in their own system, in part because many of those who actually provide social welfare do not share this same training and do not see its relevance in the Japanese context. For an interesting overview and discussion of the debates on the relevance of Western or universal social work concepts for Japan, see Bogo and Maeda (1990).

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# 7 The making of social policy in Hong Kong: social welfare development in the 1980s and 1990s

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## **Introduction**

The future development of social welfare in Hong Kong is hard to predict. On 1 July 1997, the colony was transformed into a Special Administrative Region (SAR) of the People's Republic of China (PRC). The Joint Declaration signed by the British and Chinese governments in 1984 on the future of Hong Kong stated that 'the Hong Kong SAR will enjoy a high degree of autonomy' (Joint Declaration, 1984, Annex 1.I). Apart from providing that 'Hong Kong's capitalist system and lifestyle will remain unchanged for 50 years after the establishment of the SAR' (Annex 1.I), it further stated that 'The provisions of the International Covenants on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights as applied to Hong Kong shall remain in force' (Annex 1.XIII). The Joint Declaration ensures, therefore, that notwithstanding the change in sovereignty, people in Hong Kong will lead more or less the same kind of economic and social life as they did before 1997.

The Basic Law of the Hong Kong SAR, a mini-constitution promulgated in 1990 by the People's Congress of the PRC on the future governance of Hong Kong, further stated that 'On the basis of the previous social welfare system, the Government of the Hong Kong SAR shall, on its own, formulate policies on the development and improvement of this system in the light of economic conditions and social needs' (Basic Law, 1990, Article 145). Hence, while the Joint Declaration emphasises that existing conditions in Hong Kong will, as much as possible, remain unchanged, the Basic Law concedes that certain improvements are necessary, but they can only be made as economic conditions allow and when needs are there to warrant their provision. One concludes from the above two documents that the social welfare system in Hong Kong will continue to perform its existing functions and reflect its existing ideology as long as the territory's form of capitalism remains unchanged (for an account of this system, see Jones, 1990).

However, were the expectations of the drafters realistic? The social, economic and political developments which Hong Kong has seen since the signing of the

Joint Declaration clearly indicate that it would be unrealistic for policy makers to assume that social welfare in Hong Kong could remain unchanged and still meet the challenges of the years after 1997. Indeed, this was recognised by a Hong Kong Government White Paper published in 1991, which pointed to demographic, political and socio-economic changes under way and concluded, therefore, that ‘welfare services must be dynamic enough to relate to these changes and to the needs and aspirations of the society which they are designed to serve’ (Hong Kong Government, 1991, p. 6). What are these needs which make changes in the social welfare system in Hong Kong inevitable? What are the aspirations of society which social welfare must strive to fulfil? What kind of social welfare system is the SAR government most likely to adopt now? To answer these questions, the past development of the various social services in Hong Kong will first be discussed, with a particular focus on social security provisions.<sup>1</sup> The economic, socio-cultural political factors which have influenced the formulation of social policies will then be examined, with an emphasis on the political changes introduced since the signing of the Joint Declaration in 1984. It is hoped that this analysis will throw light on the kind of social welfare system likely to emerge under the Chinese and the role it will play in maintaining Hong Kong’s future prosperity and stability.

### **Welfare development in Hong Kong**

The social welfare system in Hong Kong has often been cited as a classic example of the residual approach in that the government would only step in to meet people’s needs when both the family and the market had failed (Titmuss, 1974). This was particularly true in the years immediately after the Second World War when resources were scarce and the family system was still expected to provide its members with care and protection. However, as Hong Kong became one of the most important industrial and financial centres in the world by the 1970s, there was no more excuse for the government to retain a residual role. Hence, since the early 1970s, especially after Lord Murray MacLehose, a diplomat with a Labour Party background, became the Governor in 1972, measures were introduced which changed the role of the government in social welfare. Now, 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? Can one say that the Hong Kong government has adopted a collectivist approach towards the provision of social welfare (Wong, 1995)? If social welfare is no longer provided only when the family and the market have failed, how can one account for the change? Is it simply a natural result of the increasing affluence which Hong Kong has achieved in recent years? Has the value system held by the people anything to do with the expanding scope of social welfare? Is there a chance for Hong Kong to build upon its existing social welfare system and further develop into a ‘welfare state’? To answer these

questions, let us first review briefly the main stages in the evolution of Hong Kong's welfare system over the past half-century.

### **The period of survival**

One can identify three distinct periods in the development of social welfare in Hong Kong after the Second World War: 1946 to 1966; 1967 to 1982; and 1983 to the present. Not only have the three periods differed in terms of the welfare policies adopted by the government and the set of values upheld, but also the legacies of each phase are exerting different influences on the post-1997 evolution of social welfare.

The twenty years following the Second World War have often been described as an emergency period in almost every aspect of development in Hong Kong. As far as social welfare is concerned, the most conspicuous development was the establishment of a large number of voluntary or non-governmental welfare organisations, whose purposes were to provide relief for the poor and the unfortunate. Most of these welfare organisations were linked to their parent bodies overseas; only a few were the outcome of efforts made by local people such as neighbourhood and clansmen associations. During this emergency period, the internationally linked welfare organisations probably did much more than the government to meet the welfare needs of the people, especially by bringing in tons of food and other materials to help the poor maintain a living above subsistence level. As the government at that time had to concentrate its scanty resources on basic necessities such as water and public health, the contribution of voluntary welfare organisations was not only welcome but also officially recognised by the White Paper on social welfare published in 1965 (Hong Kong Government, 1965, p. 8).

The voluntary welfare organisations with international connections were mostly motivated by religious or humanitarian beliefs, while the indigenous charitable and mutual-help associations often based their philosophies on traditional Confucian or Buddhist notions of benevolence or common good. The 1965 White Paper on social welfare also said that 'The ideal of "*fuk lei*" or social service is held high by many Chinese' (ibid., p. 6). The importance of these welfare notions has greatly diminished, especially after the setting up of the public assistance scheme in 1971 guaranteeing people a basic living standard, and some might now find the word *fuk lei* derogatory. But while the functions performed by voluntary welfare organisations have largely been replaced by the government, the welfare notions held dear by them have not completely disappeared and have continued to influence the development of social welfare in Hong Kong in at least the following two ways:

First, though few would now regard social welfare as a form of charity handed out by kind-hearted philanthropists, the majority of the Chinese in Hong Kong are still reluctant to wipe away traditional notions of welfare and the most they can accept is to regard it as a responsibility to be shared between the state and one's

relatives and friends. Hence, while the Basic Law states that ‘Hong Kong residents shall have the right to social welfare in accordance with law’ (Article 36), it has never given the impression that it is the sole responsibility of the government to provide welfare services.

Second, it is important to note that while the notions held dear by the welfare organisations established after the Second World War have gradually diminished in their importance, the mode of provision through voluntary organisations has survived and even flourished. Some voluntary organisations established in the 1950s did close or move their offices elsewhere when large-scale relief was no longer needed, but new ones were formed, with the majority of them receiving financial support from the government. Article 144 of the Basic Law states: ‘The Government of the Hong Kong SAR shall maintain the policy previously practised in Hong Kong in respect of subventions for non-governmental organizations in fields such as education, medicine and health, culture, art, recreation, sports, social welfare and social work.’

The lingering traditional welfare notions and the continuing role of non-governmental welfare organisations imply that, unlike the situation in the West, the welfare of the people is never regarded as mainly a matter for the state. The family, friends and neighbours are all expected to take a major share of the responsibility (Chow, 1987). This understanding is particularly important for our later discussion of the form of retirement protection schemes to be introduced in Hong Kong.

### **Social justice and equality**

After the hard times of the 1950s, Hong Kong became economically more self-sufficient with a flourishing manufacturing industry and by the mid-1960s dire poverty had largely disappeared. With near full employment, most families were able to make ends meet and some had even managed to improve their living standards. However, voluntary welfare organisations were gradually shedding many of their relief activities by the latter half of the 1960s. By the early 1970s, therefore, the government no longer had an excuse not to institute a more formal assistance programme to prevent the aged, the sick and the disabled from living in poverty. Moreover, it was obvious at the time that the introduction of new social security measures had to be built upon a new set of ideologies rather than the charitable and humanitarian ideals cherished in the emergency period after the Second World War.

The fifteen years from 1967 to 1982 represent one of the most turbulent periods in Hong Kong’s history. The riots in 1966 and 1967, though caused by very different reasons, showed unmistakably that Hong Kong was far from being a harmonious society (Leung, 1990). Corruption, which is regarded by some as almost unavoidable in a Chinese society, had flared up so conspicuously in the late 1960s that most people were convinced that something must be done to eradicate injustice. It was

against this background that a new set of welfare ideologies began to emerge in the early 1970s, forcing the government to redefine its welfare responsibilities. It was at this time that a new brand of young intellectuals, who had been brought up and educated in Hong Kong and were more Western in their outlook, began to speak out about how injustices in society should be redressed (Lau and Kuan, 1988). The development of 'welfare states' in the West during this period had also made their impact as shown by the fact that Fabian socialism was the most favoured approach taught in social work schools at the time. The three central values of the Fabian socialists, as summarised by Paul Wilding and Vic George (1976), are equality, freedom and fellowship. Why young intellectuals, especially social workers, in the 1970s were attracted to the ideals of the Fabian socialists in the 1970s is not difficult to understand. The reason is that 'it is only in a more equal society . . . that the individual has the opportunity to realise his potentialities' (Wilding and George, 1976, p. 64). Hong Kong in the early 1970s was a society with glaring injustices and the discontent of the young intellectuals was more than justified (Lau, 1982). But how could Hong Kong, a typical example of a classic capitalist economy, be made more equal? Many began to see the reform of public housing and social security as the two major channels to achieve a more equal and equitable society.

On the other hand, as Hong Kong developed into an industrial and commercial centre, resources were more readily available not only for guaranteeing everyone a living standard above subsistence level, but also for promoting a more just and equal society. So the question, as perceived by the young intellectuals, was no longer the availability or otherwise of resources, but whether or not it was the wish of the government to push for a more equal society by redistributing incomes through the provision of various social services. When Lord Murray MacLehose became Governor in 1972, he raised a lot of hope that Hong Kong society would soon become much fairer and more equal.

During the 1970s, the predominant welfare ideology emphasised justice and equality (Chow, 1985). Welfare policies during this period did not necessarily aim directly to achieve these two ideals, but they no longer represented the benevolent efforts of charitable organisations characteristic of the first period. New voluntary agencies were also formed during this second period and, unlike the traditional welfare organisations, they set their goals in terms of creating greater equality and justice. To pressurise the government to accept their demands, these agencies often adopted confrontational tactics, like demonstrations and petitions, which were unheard of before 1967, and they were subsequently branded by the government as 'pressure groups'. The emergence of these non-conformist organisations was very much influenced by the socialist ideology fashionable among young intellectuals during this period. It also paved the way for the active participation of grass-roots leaders in politics, once the political system was opened up after the signing of the Joint Declaration in 1984. It should also be mentioned that although

the ambitious housing and social security development programmes announced by Lord Murray MacLehose in 1973 were seriously frustrated by the economic recession of the mid-1970s, the fact that the government was determined to do far more than the minimum did give people the impression that changes were possible and that organised and collective efforts were necessary to bring pressure on the government (Lee, 1991).

### **Politics and social welfare**

The notions of social justice and equality have not faded away in the third period, from 1983 onwards, but the signing of the Joint Declaration in 1984 brought new dimensions to the development of social welfare. Even before this, social welfare had already become more politicised, especially since more and more social workers and other human services professionals had been standing for election to District Boards and the two municipal councils. Although the close relationship between social work and politics was a cause for concern at the beginning, the increasing number of social workers who became politicians and the influence they exerted on the making of social policies convinced most members of the profession that political participation and even electioneering should be regarded as a legitimate means to achieve better social welfare. Hence, in addition to social justice and equality, the notions of democratic participation and citizenship or welfare rights have gradually become important ideologies influencing social welfare development since the mid-1980s.

Before the development of representative government in the late 1970s, Hong Kong people were known to have enjoyed a high degree of freedom but no democracy (King, 1975). With the opening up of the political system and the introduction of direct elections, albeit first at only the district level, Hong Kong people suddenly realised that they had always been denied the opportunity to participate in decisions affecting their own lives. The quest for democracy stood out as the most conspicuous social phenomenon of the 1980s, and groups of social service recipients, including public housing tenants, the elderly, the physically and mentally handicapped, the unemployed, public assistance recipients, and lone-parent families organised to fight for their own rights. Similar groupings have long existed in the West but their formation in Hong Kong has become a formidable political force and has contributed to the political success of social workers and their allies in elections.

Hong Kong people were only made aware of their rights as citizens with the proclamation of the Joint Declaration. Social workers, partly out of their professional commitment to safeguarding the innate rights of the people, were quick to lead the way to ensure that people's rights were not easily forgotten (Chan, 1993). A comparison of the attitudes of the people at the beginning and at the end of the 1980s clearly shows that most people in Hong Kong have advanced in their

conception of their own rights and some would even regard the provision of social welfare as an undeniable responsibility of the government (Tam and Yeung, 1994).

It would not, of course, be appropriate to attribute this change in attitude entirely to the efforts of social workers; the government itself has also played its part in educating the public about their rights through its various civic education programmes. Once the people accepted the concept of rights, consultation and participation become an expected part of the governmental decision-making process. Social workers have again quickly seized the opportunity to help people express their opinions and so reinforced the impression that they are fighters for people's rights.

Democratic participation and citizenship rights have therefore stood out as the most prominent notions underlying the development of social welfare since the mid-1980s. They have also helped to establish firmly the influence of social workers in the political arena. Not only have social workers found themselves ever more deeply involved in political activities, but social welfare development has also become so closely identified with the fight for greater democracy and citizenship rights that the fate of both now largely hangs together.

With the above background on the development of social welfare in Hong Kong and the factors influencing it, one can now focus on the area of social security as an illustration of how social welfare has changed in the early to mid-1990s and what its future is likely to be.

### **Social security development in Hong Kong: policies and issues**

Compared with other countries and territories with the same level of economic development, the social security system in Hong Kong is very underdeveloped. It was not until 1971, when Hong Kong was already industrially developed, that cash public assistance was introduced to guarantee every Hong Kong resident a living standard above subsistence level. However, the allowance was minimal, enough only to maintain a basic living and until the early 1990s usually less than 2 per cent of the population, mostly the aged and the sick, depended on it for a living (Chow, 1981a). In addition to public assistance, the other main social security provision is a non-means-tested special needs allowance, introduced in 1973, to cover old age and disability. Both the old age allowance and the disability allowance are universal in nature, as all Hong Kong residents aged 70 and above (those aged 65 to 69 are only eligible if their declared incomes and assets are below prescribed levels) and those who have totally lost their working capacity can apply, regardless of their means. But the amount given is so nominal that the allowance could at best be taken as a gesture by the government.

Apart from the above two arrangements, other forms of social security generally found in industrial societies are entirely absent in Hong Kong (Chow, 1981b). The most obvious omission is any kind of contributory insurance scheme, an idea

which the government has long resisted. It was not until 1991 that it agreed to introduce a scheme to cover old age. Hence, as the system now stands, social security provisions in Hong Kong consist of means-tested public assistance, renamed Comprehensive Social Security Assistance (CSSA) in 1992, which aims to guarantee a basic living for every Hong Kong resident and a non-means-tested special needs allowance, renamed General Social Security Benefit, to assist the very old or disabled. One can perhaps add a wide range of benefits, provided under the Employment Ordinance, to ensure that employees are compensated by their employers after they have served for long periods or are injured or killed in industrial accidents.

So far as the policy governing social security development in Hong Kong is concerned, the most recent White Paper on Social Welfare Development, published in 1991, states that:

In all societies there are members who lack the means, permanently or temporarily, to provide for themselves the basic necessities for adequate living. The overall objective of social security in Hong Kong is to provide for the basic and particular needs of those groups in the community who are in need of financial or material assistance.

(Hong Kong Government, 1991, p. 35)

This is in fact not much different from that contained in the previous White Paper, published in 1979, which states that ‘the Public Assistance Scheme . . . should continue to be the mainstay of Hong Kong’s social security system. . . . Help is concentrated on those least able to help themselves and this is felt to be the right approach to social security in Hong Kong’ (Hong Kong Government, 1979, pp. 10–11). Why did this policy on social security not change for over a decade, especially during a period when so much else changed?

As far as social security provisions are concerned, therefore, what the colonial government left for the future SAR government is no more than a system, somewhat improved, which had existed in Hong Kong for the last twenty-five years. By the end of November 1996, over 158,000 households out of a total of about 1.85 million were known to be dependent on CSSA for a living. Of this number, around two-thirds were households with either one elderly person living alone or an elderly couple supporting one another. The allowance which a single elderly person can receive, including rent, is around HK\$3,000 a month (US\$1 = HK\$7.8) and that for an elderly couple is a bit less than HK\$6,000. Other than the elderly, the groups who often find it necessary to apply for CSSA are the sick, the disabled, lone-parent families and the unemployed. The typical allowance, for a family of four persons dependent on CSSA, is just over HK\$10,000 a month, including rent. Compared with the median household income in Hong Kong, which stood at around HK\$18,000 a month according to the results of the by-census of 1996 (intermediate between

full censuses in 1991 and 2001), the allowance provided for CSSA households could not be described as unreasonable. This can be largely attributed to the improvements which the Hong Kong government has made in the CSSA scheme in the early to mid-1990s. However, what is noteworthy is that means-tested assistance, financed entirely by general revenue, remains the mainstay of the social security system. In other words, Hong Kong residents are still expected to protect themselves individually when they face calamities or lose their working capacity. Only when they have exhausted their own means or failed to obtain help from their families can they turn to the government for assistance. This kind of social welfare arrangement is incongruent with the economic development which Hong Kong has achieved in the early to mid-1990s. As to the non-means-tested allowances offered to aged and disabled residents represented no more than HK\$635 a month for an elderly person and HK\$1,125 a month for a disabled person (there are 450,000 of the former and 65,000 of the latter). In brief, the social assistance system in Hong Kong is no more than a 'safety-net' for the unfortunate.

### **The battle for social security improvement**

Why is the social security system so underdeveloped in Hong Kong? Has there been any effort to pressurise the government to make the necessary improvements in this area? Has the change in welfare ideology since the early 1970s affected the role of the government in social security? Furthermore, has the emergence of political parties since the early 1990s changed the course of debate on social security?

In fact, the issue of expanding social security benefits to include social insurance programmes was discussed as early as the mid-1960s when an Inter-departmental Working Party on Social Security was formed to examine existing social security provisions and to make appropriate recommendations for future action. In its report published in 1967, the Working Party favoured the introduction of social insurance, recognising that there was a substantial number of old people, widows and divorcees in the population; and that the traditional extended family system had been weakened by the pressures of industrialisation and urban life. The Working Party hence recommended the introduction of a contributory social insurance scheme to cover short-term risks, intending that its scope would later be expanded (Inter-departmental Working Party, 1967). Unfortunately, these recommendations were rejected by the government as being impractical and financially unfeasible.

However, evidence showed that Hong Kong society in the early 1970s was desperately in need of social security measures to counteract the forces of industrialisation and urbanisation. The cash public assistance scheme, introduced in 1971, instead of being welcomed as a step forward, was perceived by most as a system based on out-dated ideologies. In fact, the pressure on the government to introduce a more advanced social security system, in line with the economic achievements of Hong Kong, has been mounting since the rejection of the

recommendations of the Inter-departmental Working Party on Social Security. The issue was reopened when the government prepared its White Paper on Social Welfare in 1972. Unfortunately, the government reaffirmed its rejection of social insurance in a White Paper on Social Welfare published in 1973 and gave three reasons for this decision: compulsory contributions would not be acceptable to the people of Hong Kong, such a scheme would place a heavy financial burden on employers, and the establishment of the necessary administrative machinery would require a lengthy preparatory period (Hong Kong Government, 1973). These arguments could hardly stand close examination. The government's refusal to introduce a compulsory social insurance scheme covering the whole population was reaffirmed in a Green Paper on Social Security Development published in 1977 and subsequently adopted by the White Paper on Social Welfare published in 1979 (Hong Kong Government, 1977, 1979). Hence, during the 1970s, despite repeated calls the government stubbornly refused to expand the welfare system for fear of offending employers. Social reformers in Hong Kong during this period, who were mainly vocal intellectuals and trade union leaders, were disappointed. With the kind of closed political system which existed at the time, moreover, there was little chance for those advocating a more comprehensive social security system to exert influence over the decision-making process.

The political reforms, introduced since the early 1980s with the aim of establishing a more representative political system in Hong Kong, have given people hope that welfare improvements will be made. In view of population ageing and the increasing number of elderly people requiring financial assistance, trade union and other 'pressure group' leaders have joined hands to advocate a longer-term solution to the problem of old age protection. Their proposal to the government was mainly the setting up of a Central Provident Fund, with contributions from both employers and employees, patterned on the model in Singapore. This proposal did not contain the slightest idea that Hong Kong should become a 'welfare state' following examples in the West. Emphasis was still put on self-help but the responsibility was perceived to be one shared between employers and employees. In other words, it was agreed that the role of the government should no longer be confined to helping the poor; it should be extended to helping people help themselves. It was considered no longer appropriate for public assistance to remain the mainstay of social security and that contributory schemes should be introduced as 'the first line of defence' to cover the various risks encountered in an industrial society.

The debate on whether or not contributory social security schemes should be set up for protection in old age dragged on for several years during the early 1980s. In 1987 the government once again rejected the proposal for a contributory social security scheme on the grounds that the funds accumulated would be difficult to manage (MacPherson, 1993). The rejection implied that the social security system would continue to function as a means to relieve poverty rather than bring about a more equitable society.

The issue of social security reform was not brought up again until the early 1990s when directly elected seats were introduced in the Legislative Council, the law-making body in Hong Kong. As a result of the Joint Declaration on the future of Hong Kong in 1984, the Legislative Council underwent a series of reforms, beginning in 1985, in order to fulfil the principle of 'Hong Kong people ruling Hong Kong' which was enshrined in the Declaration. Indirectly elected seats, with representatives coming from different functional constituencies, were introduced in 1985, and in 1991 the government decided to add eighteen directly elected seats to the Council. Nearly all the candidates campaigning for both directly and indirectly elected seats in the Legislative Council pledged that they would support the introduction of a Central Provident Fund to provide protection in old age. After the election in September 1991, the government realised that, should there be another debate on retirement protection in the Legislative Council, this proposal would have the approval of the majority of councillors. Hence, in order to avoid any embarrassment, the Executive Council, which is the highest decision-making body in Hong Kong, chaired by the Governor, decided in November 1991 that a retirement protection scheme should be introduced and a government working party was subsequently set up to consider the most appropriate scheme.

A year later, in November 1992, the working party chaired by the Secretary for Education and Manpower produced a report recommending the introduction of a community-wide retirement protection system in which it would be compulsory for employers to set up retirement protection schemes, mainly in the form of provident funds, for their employees (Secretary for Education and Manpower, 1992b). The recommendation represented a change in the attitude of the government towards contributory social security schemes after twenty-five years of denying their necessity. Moreover, it was obvious that by the early 1990s the introduction of contributory social security schemes had become so 'politicised', with different political groups trying to capitalise on the issue for their own political gain, that it could no longer be seen simply as a social welfare matter.

While changes in the composition of the Legislative Council in 1991 were the most important factor in accounting for the change in the government's stance, it should be realised that by the early 1990s most people in Hong Kong held a different attitude towards the government's responsibility for their welfare. Before then, despite the fact that education, public housing, medical and social welfare services were having a major effect on the lives of most residents, most people did not believe that it was the responsibility of the government to take care of their welfare. They supported the government's stand that only a 'safety-net' approach was necessary since they realised that a comprehensive welfare system would imply heavier taxes. However, with the emergence of the political parties in the early 1990s and their identification with different social and economic groups in society, some people began to believe that the government should be held responsible for their

welfare. Studies conducted since the early 1990s on the attitudes of people towards responsibility for welfare have clearly indicated a shift from perceiving this as falling mainly on the family system, to seeing it as a shared responsibility between government and family (Tam and Yeung, 1994). Hence, when the government working party proposed the introduction of a community-wide retirement protection system, it was not only accepted by both employers and employees but also perceived as a measure which the government should have introduced long ago. However, in order that the government would have a share in the scheme, both the trade unions and the employers' associations agreed that it should take the form of a Central Provident Fund, which the government had resisted for fear of shouldering too heavy an administrative burden.

After much debate, instead of acceding to the public's appeal for a Central Provident Fund, the government came up with another proposal at the end of 1993 to introduce a social insurance type of Old-age Pension Scheme (OPS) (Secretary for Education and Manpower, 1994). Briefly, the OPS scheme would require both the employers and the employees to contribute a monthly amount equivalent to 3 per cent of the employee's wages. With this contribution, all Hong Kong permanent residents aged 65 and over would then be entitled to a flat-rate retirement pension, fixed at HK\$2,300 a month for 1994. The proposal immediately aroused a split in opinion, both among the public and between the political parties. While the trade unions generally welcomed the idea, it was severely opposed by the business sector who perceived this as a fundamental change in welfare policy. The proposal was supported by the Democratic Party, whose approach towards welfare is akin to British Fabian socialist ideology, but was opposed by the Liberal Party, which openly stands on the side of business and is nearest to the New Right in its ideology. As for the Chinese government, they feared that such a pay-as-you-go social insurance scheme would impose a heavy financial burden on the future SAR government in the long run, especially as the population in Hong Kong would age rapidly in the next thirty years. Since there was a split in opinion, the government decided at the end of 1994 to withdraw the proposal (Drover, 1995).

Six months later, the government came up with another alternative which was not unlike the retirement protection system suggested two years earlier except that it would be run by private financial institutions with close supervision by the government (Secretary for Education and Manpower, 1994). The government's change of mind within two to three years clearly indicates that the discussion on social security is no longer a matter for the welfare sectors alone, but is also a wider political issue to be openly debated in public, with the active participation of different political parties. It is also clear that the role of the political parties in the future development of social security involves their influence not only on welfare policies, but also on the attitudes of the people towards the government's responsibility for social welfare. The fact that most people now believe that it is the government's responsibility to arrange for regular financial support for those who have retired

reflects this. Like other mature democracies, Hong Kong is coming to a stage when political and welfare issues are almost identical, and the development of one is dependent on the other.

### **Politics and welfare: the transition to 1997**

It is extremely difficult at this juncture to predict what will happen to the social security system in Hong Kong in the years immediately after 1997. The 'one country, two systems' concept is admittedly a novel one and even the Chinese government would need time to test out how the country as a whole could remain socialist while part of it retains its capitalist system and way of life. The most important promise that Hong Kong residents have is that they will be allowed 'to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power' (Basic Law, 1990, Article 2). As we saw earlier, moreover, as far as social welfare is concerned, the SAR government can 'formulate policies on the development and improvement of this system in the light of the economic conditions and social needs' (Basic Law, 1990, Article 145). Hence, the best one can do is to look at evolving social needs and economic conditions to see how they affect the future development of the social security system.

Demographically, as in other industrially mature nations, the population in Hong Kong is continuing to age rapidly. As Hong Kong only started to introduce the relevant legislation to set up a mandatory provident fund system in 1995, it will take years before the scheme can mature to provide retired persons with the necessary protection. A substantial proportion of the elderly therefore continue to turn to the CSSA scheme to support a basic living. A regular review of the CSSA scheme is thus important to ensure that elderly recipients will not have a living standard falling too far behind that of the general public. However, this implies that government outlays for social security would remain at a high level until a time when the majority of the retired persons in Hong Kong are covered by retirement benefits.

Economically, the affluence which Hong Kong has achieved over the past few decades shows that the government need not be content with a social security system which aims merely at providing a minimum for people. While it would probably be too optimistic to assume that the economy will grow at the same rate in the next few decades as in the past, existing resources would certainly allow for a more progressive social security policy. Hence, as well as being more generous with the CSSA recipients, the present SAR government should relinquish the archaic attitude of supporting only the most needy and adopt a policy more in line with Hong Kong's past and future economic progress.

However, in addition to the social and economic context, one must also consider the political changes which are inevitably occurring after the setting up of the SAR government. These will definitely have an impact on future social welfare policies.

Although it was the intention of the Joint Declaration that more democracy would be introduced in the Legislature and that the government should be made more accountable to the people, the political changes which Hong Kong has made since 1985 have probably gone beyond what the drafters intended. Public policy formulation has witnessed a drastic change in at least the following three areas.

First, although the Governor still insisted that the Hong Kong government is executive-led, in the sense that the government is ultimately responsible for making all decisions, the process of consultation which has been set up in fact commits the government to listening to the views of the people. Whether this consultative process will continue after 1997 is not yet clear. Second, with the introduction of elections to the Legislative Council, political groups have found it necessary to turn themselves into political parties to win popular support and to exert influence on the government. The political party occupying the largest number of seats in the Legislative Council is presently the Democratic Party. But as it decided not to run for seats in the Provisional Legislature, which replaced the current Council on 1 July 1997, its political influence will inevitably diminish, at least for the duration of the Provisional Legislature. The Democratic Party has been vocal on social welfare reforms and its absence from the Legislature would probably result in the emergence of a more conservative attitude towards social welfare. Third, with the development of democracy, people in Hong Kong are now more receptive to the idea that the government should be held responsible for welfare. Social movements, urging the government to step up its social welfare programmes, have also increased dramatically in recent years, as people now have higher expectations of what the government can do to improve their welfare. With the change in government in 1997, whether these movements will remain as part of the policy process is uncertain.

Some people in Hong Kong fear that any changes made by the Hong Kong government before 1997 might be nullified by the future SAR government. This is not totally unfounded since the Chinese government sees some of these changes as contrary to the stipulations of the Joint Declaration and the Basic Law. However, as far as social welfare is concerned, especially social security provisions, the improvements made so far have been in line with the prevailing welfare ideology, which stresses both the self-reliance of the people and the responsibility of the government to look after weaker members of society. As long as changes remain consistent with this ideology, their chances of continuing beyond 1997 will be much greater than those of proposals to reconstruct Hong Kong society from a different ideological basis. Viewed from this perspective, the mandatory provident fund system should have no difficulty in being accepted by the SAR government since it stays within the bounds of the 'reluctant collectivist' welfare ideology upheld by the majority of people, whereas the pay-as-you-go Old-age Pension Scheme proposed in 1994 would not be acceptable because it would turn Hong Kong into a 'welfare state' in the Western style. Hence, one can be certain that the previous welfare system will remain after 1997 and that it will be improved on the

basis of an ideology which stresses a sharing of responsibility between the government and the people and in accordance with changing social needs and the pace of economic development.

## Note

1. The definition of social security in Hong Kong is quite different from that in many other countries since it includes only means-tested Comprehensive Social Security Assistance and the non-means-tested Social Security Allowance for elderly and disabled persons. In reality, therefore, it is not much different from 'social assistance' elsewhere.

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## **8 Social security reforms in China: towards an East Asian model?**

*Gordon White*

At first thought, it might be considered inappropriate to include the People's Republic of China in a book investigating the 'East Asian model' of social policy. Unlike other societies in the region, including those inhabited by largely Chinese communities such as Hong Kong, Taiwan and Singapore, mainland China has usually been seen as a member of a sharply contrasting family of social security models, that of communist or state socialist societies, with their distinctive patterns of state, collective and enterprise provision of welfare benefits.<sup>1</sup> However, major changes have been taking place in Chinese society under the impact of the post-Mao programme of economic reforms launched in 1978 which aim at establishing a 'socialist market economy'. Unlike the post-socialist states of Eastern Europe and the former Soviet Union (FSU), where economic reform was accompanied or preceded by radical political reforms which broke the mould of one-party Leninist politics, China has been following a distinctive path in which sweeping economic reforms have not been accompanied by significant attempts to change the previous political system. In spite of this political continuity, however, there have been major changes in China's economy and society since the 1970s which show strong elements of convergence with its East Asian capitalist neighbours.

Social security reforms have been part of this overall transition, guided by the logic that, whereas the previous Soviet-style system of welfare provision was compatible with a centrally planned economy, it would not suit the requirements of a society which was increasingly being transformed by the spread of a market economy. The main aim of this chapter is to trace the shape of the welfare system which is emerging along with market reform, with particular interest in identifying the key factors conditioning the emergence of a new system, both in terms of the main contextual trends and challenges and the diverse forces – ideological, political, social and economic – which are shaping changes in welfare policies and institutions.

Given the theme of this book, two questions underlie the analysis. First, to what extent can emergent patterns of social provision be described as distinctively Chinese, either in terms of the existence of indigenous elements or in the particular ways in which Chinese reformers have responded to foreign models of social security

and experiences of welfare reform? Second, to what extent is China's post-socialist welfare system coming to resemble those of its East Asian neighbours, developing as a new variant of a distinctively East Asian pattern of welfare provision, or will it remain an institutional odd-man-out on the East Asian scene?

In answering these questions, I shall be using a political economy approach which analyses the policy process in terms of a dual interplay: first, among various politically influential forces and interests and, second, between these and certain basic economic, social and demographic constraints and pressures. This means that welfare reforms cannot be seen merely in terms of choices between alternative policy options or directions; rather, the range, nature and feasibility of these choices are heavily determined by deeper dynamics which are propelled not only by broad structural changes in the social, economic and political spheres, but also by the particular constellation of interests and perspectives which cluster round welfare issues like iron filings round a magnet.

### **The Chinese social security system before the economic reform**

It is perhaps wise to begin by clarifying the meaning of term 'social security' (*shehui baozhang*) as it is understood in China: partly because we cannot take it for granted that Chinese usage conforms with conventional definitions current internationally and partly because the term covers a wide range of welfare activities and we need to focus our analytical attention to avoid superficiality. In the event, Chinese terminology is fairly familiar, involving the conventional distinction between 'social insurance' (*shehui baoxian*) on the one hand and 'social welfare' (*shehui fuli*) on the other. The former includes insurance for old-age pensions, medical treatment, injury and sickness at work and maternity; the latter includes 'social services' (*shehui fuwu*) to certain vulnerable groups, notably the elderly, people with disabilities and orphaned children, and 'social relief' (*shehui jiuji* or *shehui jiuizhu*) to people and households impoverished by personal misfortune or natural disasters.<sup>2</sup>

While this panoply of welfare items is impressive, in its full and formal range it has only operated in the urban areas, with approximately 18 per cent of the population in the last year before the reforms (1978), and within the urban population to employees in work units in the public (state-owned and collective) sector.<sup>3</sup> State-provided or guaranteed welfare services for the rural population are relatively marginal, mainly involving small amounts of material relief for particularly impoverished households (the so-called 'five guarantee households') and people suffering from natural disasters. While this sectoral divide was a characteristic of the pre-reform period, it has become sharper because the capacity of rural collectives under the previous system of Rural People's Communes to provide welfare benefits (such as cooperative medical insurance) declined precipitously after the introduction of 'household responsibility systems' for agricultural production in the early 1980s,

whereas the institutional system which underpinned the urban welfare system – based on the public-sector work unit, *danwei* – has been slow to erode. It has been the urban work unit – the basic building-block of the previous system of central planning – which has been responsible for providing a wide variety of social insurance-type benefits to its employees, most notably for retirement and medical treatment, as well as a large range of fringe benefits, allowances, subsidies and on-site facilities.<sup>4</sup> The post-Mao reforms of social security have been directed at this employment-based system of welfare provision and I shall be concentrating on it here, giving particular attention to the area in which reform has made most headway – retirement pensions.

Though the range and quantity of urban welfare provision were unusual among countries as poor as China, from a national perspective the pre-reform system could not be regarded as a form of comprehensive ‘welfare state’. Its coverage of the population was very limited, in ways comparable to other developing societies in which institutional welfare programmes are confined to the urban ‘formal sector’.<sup>5</sup> Although it was redistributive in an egalitarian direction within the group it covered, it was redistributive in a regressive direction in relation to the population as a whole, since generous welfare benefits were being provided disproportionately to already privileged employees in the urban-industrial sector.<sup>6</sup> Moreover, though the pre-reform welfare system was an integral element of the institutional apparatus of Chinese state socialism and though the provision of benefits was guaranteed and overseen by the party-state, the actual management and financing of provision was handled by the work unit (productive enterprises, *qiye*; public institutions such as schools and hospitals, *shiye danwei*; and government offices, *guojia jiguan*). Though the state guaranteed the entire system and specific state agencies were involved in overseeing it, the direct welfare role of state administrative agencies in the cities was a residual one, being confined largely to limited social assistance to a small number of target groups who could not be supported by work units. Overall, while the Chinese urban welfare system was clearly a member of the family of Soviet-style state socialist welfare systems, it was distinctive in its heavy reliance on the work unit as an agent of provision – in effect, enterprises operated as ‘small societies’ and their welfare systems as ‘micro welfare states’. The entire system was under-pinned by perhaps the most basic ‘welfare’ item of all, a guarantee of lifelong employment, often in the same work unit.

In many ways this pre-reform welfare system was very different from those of China’s East Asian capitalist neighbours. The ideological basis of welfare, rooted in communist notions of class solidarity and decommodification, was clearly different, as was the institutional matrix of provision through public enterprises and rural collectives; and the range of benefits to the urban population at least was remarkably comprehensive. But these differences should not blind us to certain similarities. First, the welfare system played a ‘handmaiden’ role in relation to a programme of

rapid industrialisation organised by a communist developmental state aiming at high levels of accumulation and unwilling to spend large amounts of funds on welfare benefits which were not directly productive. In the public sector, welfare benefits played an incentive role as partial compensation for low wage levels enforced by the state; outside that sector, ‘unproductive’ welfare expenditures, such as social relief for the elderly and people with disabilities, were not accorded priority and responsibility for such people was predominantly left to the family. Second, systematic welfare arrangements, particularly in the area of social insurance, were mainly limited to certain key groups which were deemed developmentally important – industrial workers and technical, professional and administrative personnel. People outside these social sectors, notably the rural population, had to see to their own welfare needs, through either their families or their local communities. Third, underlying this welfare system was a political strategy of accommodation with key groups and, as elsewhere in East Asia, welfare functioned as a tool whereby authoritarian regimes could reinforce their authority by winning these groups’ support or at least securing acquiescence from them. As in Singapore and Taiwan, a state commitment to provide certain welfare benefits was a way of reducing social discontent and retarding potential pressures for democratisation. In these ways, not only did the Chinese welfare system resemble those of the East Asian NICs, but they all resembled the corporatist-statist pattern of welfare regimes which Esping-Andersen (1990: 27) has classified as ‘Bismarckian’.

## **The dynamics of welfare reform**

### *The achievements and limitations of the old system*

The welfare achievements of the pre-reform system were impressive when measured by the main criteria of human development – infant mortality, life expectancy, literacy and the like. By 1980, for example, China’s life expectancy levels were 66.6 and 64.9 for males and females respectively, compared with figures of 52.1 and 52.9 for India. Infant mortality rates for the two countries were 45.6/46.9 per 1,000 and 119/114 per 1,000 respectively (Lu 1996: 3).<sup>7</sup> However, these achievements were made in spite of relatively sluggish economic growth-rates, particularly in agriculture, and the system has been analysed as a prime example of ‘support-led’ rather than ‘growth-mediated security’ (Drèze and Sen 1991).

Post-Mao reformers included the welfare system in their wider critique of the previous system of planned economy, arguing that it had failed to stimulate economic growth by encouraging dependence, flaccidity and free-riding (known as ‘eating from the same pot’) among the working population. A new system should be established which would be compatible with an emergent market economy and would contribute more effectively to the kind of dynamism and efficiency necessary

to accelerate the rate of economic growth. Specifically, the location of welfare responsibilities in the work unit, combined with the system of guaranteed lifetime employment (lambasted as the ‘iron rice-bowl’), impeded labour mobility, led workers to regard welfare as a free good to which they were automatically entitled without effort or cost, and imposed financial burdens on enterprises which reduced their operational efficiency and increased as their work-forces aged. Reformers argued that the prime responsibility for employment-based social welfare arrangements should be shifted out of the enterprise to other agencies, in the first instance to the state, thereby freeing firms to pursue purely economic objectives. Moreover, welfare programmes should be redesigned to dovetail with the aims of improving labour productivity and should involve contributions from their ultimate beneficiaries in order to reduce the economic burdens on the work unit and the state and to encourage a sense of responsibility and appreciation of cost.

Given the overall objectives and direction of the economic reforms and the specific objectives of welfare policy makers, what kind of welfare system would one expect to be emerging? In many ways, market reforms have been bringing the Chinese economy and society closer to their East Asian neighbours. One can detect a ‘growing together’ in the following basic ways:

- the spread of markets in commodities, labour and capital
- increasing privatisation and diversification of the economic system
- intensifying urbanisation and accelerating rural–urban and inter-regional migration
- a gradual drift from a totalitarian to a less restrictive authoritarian political system comparable to the former regimes in South Korea and Taiwan
- increasing openness to the international economy and greater willingness to adjust to international regulatory standards and business practices
- increasing economic integration with East Asian neighbours, not merely through greater trade but also huge inward investment, some of it from South Korea and Japan, but most of it from overseas Chinese from Taiwan, Hong Kong, Macao and Southeast Asia
- the evident attraction of the East Asian experience of rapid industrialisation to Chinese policy makers who have set their sights on emulating and ‘catching up’ with their neighbours

Does this ‘growing together’ also apply to the field of welfare reform? To answer this question, we need to look first at the impact of the economic reforms on the existing welfare system.

### ***The changing context during the reform era, 1979–1997***

As the economic reforms accelerated in the late 1980s and early to mid 1990s, the tensions between deepening socio-economic changes and the old welfare system

gradually became more acute. In the *economic* sphere, market pressures on public sector enterprises increased, but they found it difficult to improve their competitive performance because of an increasingly heavy burden of welfare obligations to their current and former employees. Public enterprises were also saddled with large numbers of unnecessary workers, variously estimated at between one-fifth and one-third of the work-force, whom the government forced them to retain in order to avoid open unemployment. To make matters worse, they were marooned amid a rising sea of new enterprises in an increasingly diversified and open economy – private, household, joint (Chinese–foreign) and ‘new collective’ – which had younger and more flexible work-forces and greater freedom to hire and fire. As the economic fortunes of public enterprises waned, their ability to meet their welfare obligations dwindled alongside and the foundations of the previous urban welfare system were gradually eroded.

The *social* impact of market reforms brought increasing pressures on the existing welfare system. Public sector employees resisted threats to their employment rights and welfare entitlements, making deeper enterprise reforms politically difficult. While official levels of unemployment have remained low – only 2.9 per cent in 1995 (SSB 1996: 87) – many workers were quasi-unemployed (still on the books, but receiving no wages) or semi-employed (only working part-time or intermittently). Those among them who could not find alternative sources of income and some pensioners whose income failed to keep pace with the escalating inflation of the early 1990s formed a new group of urban poor, a hitherto unthinkable phenomenon. Official estimates put the level of urban poverty at 12 million in 1993, or 3.6 per cent of the total urban population.

Underlying *demographic* trends also increased the urgency of welfare reform. As a result partly of long-term demographic change and partly of the ‘one-child family’ policy which has been strictly enforced in the urban areas, the average size of households has been declining: from an estimated 4.66 persons in 1953 to 3.28 in 1994.<sup>8</sup> Along with this is a gradual process of societal ageing, leading to a declining dependency ratio between the work-age population and the retired.

In the *political/institutional* sphere, welfare reform has been shaped by both continuities and changes. While the grasp of the state has relaxed and the space open to citizens in their social, cultural and economic life has gradually expanded, the one-party regime has remained basically intact, unlike China’s post-communist counterparts in Eastern Europe and the FSU. This has ambiguous consequences for welfare reform. On the one hand, it has imposed severe political limits on the pace and depth of change. This not only means that the power of the previous supervisory agencies remains formidable, but also that new institutions, such as ‘civil society’ associations and commercial insurance companies, have been slow to emerge. On the other hand, tighter management of economic reform and its social consequences has restricted the emergence of welfare problems on the huge scale visible, for example, in the FSU. In spite of this political continuity, however, the

economic reforms have brought about major changes in the distribution of power between central and local governments in favour of the latter. In consequence, the role of policy makers in Beijing has increasingly been reduced to that of steering and coordinating rather than directing and administering. Local governments bear the main responsibility for establishing new welfare systems. On the positive side, this brings flexibility to the reform process since the socio-economic profiles of localities vary greatly and local authorities can tailor solutions to their own environments. On the negative side, the central authorities find it difficult to impose any kind of discipline and uniformity over emergent new welfare systems.

While these contextual changes have made welfare reform increasingly urgent, they have also made it complex and difficult. As elsewhere in East Asia, the policy process has involved competition between different interests and institutions, and policy managers at both central and local levels have been forced to broker between them and organise a consensus for each innovation. It is not surprising, therefore, that welfare reforms have proceeded relatively slowly, lagging behind the pace of economic reform as a whole. They only moved to the forefront of the policy agenda in the early to mid 1990s when the overall pace of economic reform was accelerating. The area of reform which has made the greatest progress is that of retirement pensions. I shall be focusing on this here because it provides the best context in which to identify the political dynamics of welfare reform and to provide some idea of the shape of things to come.

### ***The political economy of pension reforms: interests and ideologies***

As we have already noted, the task of creating a new pension system was given urgency by two trends. As Table 8.1 shows, the ratio of current employees to pensioners of various kinds dropped from 30.3:1 in 1978 to 4.8:1 in 1995, while the total number of pensioners increased from 3.14 million to 30.94 million over the same period.

The problem of ageing is often presented very dramatically by means of actuarial projections, used as ammunition in debates over pension reform, attention being drawn to the fact that the population has steadily been growing older since the census of 1964 measured in terms of median age and the percentage of elderly in the population (whether defined as 60+ or 65+).<sup>9</sup>

Pensions policy has thus had to face the double task of making arrangements over the short and medium term for meeting current and upcoming pension entitlements stemming from the previous welfare system and making proactive provision for the long-term problem of societal ageing in the next century. The main objectives of pension reform have followed those of welfare reforms more generally: (i) to remove the responsibility for financing and managing pensions for the urban work-force from enterprises to external agencies; (ii) to share the task of financing

Table 8.1 Number of pensioners (year end) (10,000 persons)

Year	Ratio (employed/formal employees to pensioners)									
	Total	State-owned units	Paid by employer units	Paid by civil administrative departments	Urban collective-owned units	Other ownership units	Total	State-owned units	Urban collective-owned units	Other ownership units
1978	314	284	238	46	30		30.3	26.2	68.3	
1980	816	638	591	47	178		12.8	12.6	13.6	
1985	1,637	1,165	1,127	38	467	5	7.5	7.7	7.1	8.8
1986	1,805	1,303	1,266	37	496	6	7.1	7.2	6.9	9.2
1987	1,968	1,424	1,392	32	538	6	6.7	6.8	6.5	12.0
1988	2,120	1,544	1,511	28	568	8	6.4	6.5	6.2	12.1
1989	2,201	1,629	1,598	31	562	10	6.2	6.2	6.2	13.2
1990	2,301	1,742	1,693	31	566	11	6.1	6.0	6.3	14.9
1991	2,433	1,833	1,804	30	588	12	6.0	5.8	6.2	17.3
1992	2,598	1,972	1,944	29	609	17	5.7	5.5	5.9	16.6
1993	2,780	2,143	2,113	28	596	41	5.4	5.1	5.7	13.1
1994	2,929	2,249	2,222	27	619	60	5.1	4.8	5.2	12.5
1995	3,094	2,401	2,375	26	621	72	4.8	4.6	5.0	12.2

Source: China Statistical Yearbook 1996, p. 737.

pensions between the individual, firm and state to replace the previous system of enterprise responsibility; (iii) to shift from an unfunded to a partially funded system of financing; (iv) to devise a system which can meet the needs of both current and upcoming pensioners and new entrants into the urban formal work-force; (v) to design a system which contributes to both micro-economic efficiency and social fairness.

The first effort to move towards a new system began in the mid 1980s when a 'social pooling' system was established among state enterprises, whereby enterprises paid contributions into local pension funds which then took over partial responsibility for new pensioners. However, as the number of pensioners increased and as the need to reform public enterprises became a more urgent priority in the early 1990s, the pace of pension reform accelerated a wide-ranging debate about the shape of a new pension system emerged.

The process of pension reform has been marked by debate and conflict between different constituencies. Three types of interests can be identified – institutional, social and regional. There are a large number of state *institutions* involved in the design and implementation of new pension arrangements, and pension reform is a terrain of institutional manoeuvring as existing organisations seek to protect their bailiwicks and new institutions press for a greater role.

The most important institutional player has been the Ministry of Labour, given its previous role in overseeing the enterprise-based 'labour insurance' system and its current responsibility for introducing a new pension system for the enterprise sector. But other key agencies have also been integrally involved. The Ministry of Finance is very sensitive to the financial liabilities which might land on its shoulders, particularly the threat that it might be called on to meet the accumulated social debt to pensioners which built up under the previous system, or the potential loss of revenue through tax breaks for pension contributions. The Economic System Reform Commission, whose role was to coordinate and supervise the overall process of economic reform in the urban economy, has been concerned to ensure that any new pension system meets what it perceives as the efficiency requirements of a market economy. The Ministry of Personnel has an interest in that it has been responsible for the welfare arrangements of government employees in administrative agencies and has an overlapping (and often competing) responsibility with the Ministry of Labour for public institutions such as schools and hospitals. The People's Insurance Company of China, a state-owned agency but run on commercial lines, is concerned that any state-run pension scheme should not crowd out the space for commercial insurance, whether for individuals or for enterprises. Even the Ministry of Civil Affairs, which had previously been largely outside the sphere of pension provision, has an interest since it wants to pioneer and gain predominant control over new pension arrangements in the rural areas. The official trade union body, the All-China Federation of Trade Unions (ACFTU), has been concerned that the pension

rights of its current members are guaranteed and that any new pension system should be based squarely on the principle of social fairness. Certain international institutions have also been involved in providing policy advice, notably the World Bank, which published a major proposal for comprehensive pension reform in 1996 (World Bank 1996).

The urban population has become more diverse as a consequence of economic reform and different *social groups* have their particular interests and claims in regard to pension reform. Particularly important are the following divisions: (i) between workers and staff in the state and collective parts of the public sector, those in the collectives generally having lower levels of welfare provision, weaker welfare entitlements and greater risk of bankruptcy and unemployment; (ii) between the public sector as a whole and the rest of the formal sector, enterprises in the latter (private and joint) sector having lighter pension burdens, with managers wary of getting entangled in costly government schemes and younger work-forces less concerned about long-term issues such as pensions; (iii) between employees in the formal sector, particularly in state enterprises, and those who have been cast adrift from it, either as unemployed people who have lost their previous pension entitlements or as pensioners who are having increasing difficulty holding on to theirs; and (iv) between workers in the formal and informal sectors, the latter having to rely on themselves, their personal networks and the market to meet their long-term welfare needs.

There are also differences between *regions and localities* over pension reform, with particular cities and provinces, such as Shanghai, Shenzhen and Hainan, setting the pace by defining their own particular models of reform. There are differences of interest and perspective between areas burdened with large numbers of old state industries and pensioners and areas with large concentrations of new economic sectors and foreign direct investment, particularly in the south-eastern coastal regions and the Special Economic Zones.

Pervading these specific interests are broader *ideological* constituencies which influence concrete policy preferences. One can discern three broad positions on pension reform, and probably on welfare reform more generally: (i) a *socialist* position which emphasises redistributive fairness as the normative principle underlying a new pension scheme and the key role of a socialist state in guaranteeing this. This position is more common among officials in departments of labour, trade unions and public sector workers; (ii) a *reform* position which emphasises the importance of tailoring a pension scheme to efficiency objectives, restricts the basic state pension to the role of poverty alleviation and seeks to reduce the state's role in organising pensions in favour of private providers. This position can be found among the denizens of newer sectors of the urban economy and in institutions spearheading economic reform such as the Economic Structure Reform Commission; (iii) a *developmental statist* position which draws on both of the above but seeks pragmatically to design pension schemes consistent with rapid economic growth,

whether by statist or market means. Advocates of this approach can be found in the localities where local governments are strongly committed to organising growth within their own bailiwicks and judge policy alternatives overwhelmingly by this single criterion. It is this last kind of constituency which has dominated development policy in general, and welfare policy in particular, in other East Asian societies where the developmental potential of market forces has been welcomed but within a strong integument of state direction and control.

These various forces have shaped the trajectory of pension reform. The 'socialist' and 'reformist' perspectives have been reflected in the two competing models of reform which have dominated the policy process in the 1990s. The first can be called the Ministry of Labour model because it was articulated most authoritatively by a former Minister of Labour, Ruan Chongwu, and still reflects the dominant (though not exclusive) opinion within the institution (Ruan 1992). This model emphasises an egalitarian notion of 'social fairness' as opposed to economic efficiency as the main principle which should underlie social insurance and argues that any pension scheme should be based on 'mutual help', with a high degree of redistribution through 'social pooling'. The second model, which is associated with the Economic Structure Reform Commission and receives support from the World Bank resident mission in China, emphasises the principle of economic efficiency, arguing that state-organised pensions should be modest so as to allow space for commercial schemes and that the redistributive component of state pension arrangements should be restricted to allow scope for properly funded systems based on individual accounts (ESRC 1994a).

While the two rival policy stances could initially be seen as representing differences between the 'socialist' and 'reform' positions, there has been increasing evidence of the emergence and growing strength of the 'developmental statist' current of thought which exerts influence on the policy process more implicitly. Over time, the balance of power among the three main ideological constituencies has been shifting in favour of the latter two and particularly the third. This reflects gradual changes in China's social, economic and political structures and in the balance of regional power. In broad terms, the policy influence of the 'socialist' position is gradually ebbing as the fortunes of the public sector wane, the institutional power of the Ministry of Labour and the ACFTU weakens and the more dynamic coastal regions assert greater independence from the centre. As this takes place, the third position in particular is gaining recruits from the other two, with different 'mixes' in different localities depending on their specific situations. What appears dimly to be emerging as the dominant policy paradigm is a form of state-led 'developmentalism' along familiar East Asian lines, with the other two positions and their advocates – the redistributive socialist and the market-oriented reformist – as ideological outriders. As the new policy paradigm gains in strength, it is bringing China closer to its East Asian neighbours.

**The emergence of a welfare system ‘with Chinese characteristics’*****The growing dominance of ‘developmental statism’***

The rise of the developmental statist paradigm reflects the growing power of a new constellation of elites at both national and local levels. The legitimacy and power of political/governmental elites increasingly depend on developmental performance rather than appeals to communism or socialism, and the fortunes of economic elites in all sectors are linked partly to their ability to manage the economic process on their own terms (for example, by increasing control over their work-forces and restraining growth in wages) and partly to their relations with a still strategically powerful party-state machine. This implicit alliance is developing most rapidly in the more dynamic coastal provinces, where it is reinforced by a third partner in the shape of foreign, largely overseas Chinese, capital. This developmentalist project sits uneasily with more ‘socialist’ reforms such as the Ministry of Labour’s pension plan which are perceived as too expensive and unproductive, but it has to accommodate them because of the continuing influence of institutions like the Ministry and the trade unions and the latent power of public-sector workers. It sits more easily with the reformist position in that it recognises the central role of markets in stimulating economic growth, but it also has an interest in perpetuating some of the legacy of state socialism, given its stress on the crucial role of the state in guiding development.

In its overall conception of the development process, this paradigm has much in common with that of developmental elites in other East Asian societies, notably Japan, South Korea, Taiwan and Singapore. In the area of welfare, this means movement towards certain familiar features of other East Asian welfare systems, but within limits set by China’s particular political and institutional heritage of state socialism.

First, there is a clear preference for contribution-based, fund-managed social insurance systems, for health and unemployment as well as pension insurance, as opposed to ‘pay-as-you-go’ (PAYG) systems financed through taxation. Though the idea of a ‘social security tax’ has been mooted by the Ministry of Finance, both the Ministry and senior political figures are aware that such a proposal would be very difficult to introduce, given the complex problems currently being encountered in recasting the fiscal system as a whole and the apparently widespread aversion to increasing taxation among the general population. Contribution-based, funded systems are thus more acceptable to the population (particularly if they are based on personal accounts) and alleviate the need for additional fiscal burdens on an already hard-pressed system. To this extent, there is a growing preference for the state to play the role of regulator rather than direct fiscal provider.

Second, while it is recognised in theory that fund-management agencies should be ‘autonomous’, the likelihood of genuine autonomy in the current Chinese context

is slim and, in ways similar to Singapore, it is recognised that government agencies will continue to play a direct role in managing welfare funds for the foreseeable future. Though the idea that funds could be managed by commercial insurance companies along Chilean lines has been mooted in welfare debates, it has as yet received little support for a number of reasons: because the insurance market is still poorly developed, because the financial system is not yet developed enough to absorb large quantities of welfare funds productively and because government agencies are loath to relinquish control over funds which are useful to their own purposes.

Third, the latter motive explains a widespread preference for accumulation or partial accumulation fund-based systems rather than ones entailing a heavy element of *de facto* PAYG, such as the system established in Shanghai. The desire of Chinese governments at all levels to use the financial resources generated by welfare funds for infrastructural investment to stimulate economic growth has been a familiar aspect of welfare policy elsewhere in East Asia, as the cases of South Korea and Singapore demonstrate. This is perhaps the key way in which welfare policy has been linked to overall strategies of state-led economic development in the region.

Fourth, Chinese welfare reformers are trying to avoid the fragmentation of insurance schemes characteristic of countries such as South Korea, Japan and Taiwan, preferring a more integrated system, at least for the urban areas, along Singaporean lines. However, current welfare schemes are still split – notably between the enterprise and the administrative agency/public institution sectors – and while reformers are eager to extend current schemes, which are mainly centred on public enterprises, to new economic sectors, there is no guarantee that they will be successful. This may mean that attempts at overall horizontal integration fail and there is a trend towards specific schemes for particular groups and sectors.

Fifth, as in other East Asian societies, there is a clear split between the two welfare spheres of social insurance and social assistance. Social insurance schemes have been given high priority because they mainly involve politically important groups, overwhelmingly urban. In consequence, social insurance benefits are socially regressive in the sense of ‘to him that hath shall be given’. Other, much larger sectors of society are outside the insurance net – all the rural population, rural migrants in the cities and workers in urban small businesses. Chinese governments are reluctant to spend money for welfare purposes perceived as politically and economically unproductive, such as aid to poor people or vulnerable groups such as the elderly, orphaned or abandoned children and people with disabilities. During the 1990s, there has been a tendency towards official sponsorship of the notion that people should not be ‘dependent’ on the state, with an implicit stigmatisation of this kind of welfare recipient as potentially parasitic and feckless. The similarities to welfare ideology elsewhere in East Asia are clear.

Sixth, this ideological trend has gone alongside a growing stress on the virtues of Chinese ‘traditional’ customs of reliance on the family for welfare services, which

is convenient in practice because it offers a way to free government from the escalating costs, for example, of caring for growing numbers of old people. Seventh, there has been a growing but still circumscribed recognition of the role of market agencies in the provision of welfare in a direction comparable with their role in other East Asian societies.

While these similarities with patterns of welfare provision elsewhere in East Asia are increasingly in evidence, there are also some significant differences rooted in contemporary Chinese realities. First, one can expect there to be significant local/regional variations in emergent new welfare systems in China, depending on variations in specific political, social, economic and demographic profiles. Second, the potential welfare role of intermediate ‘civil society’ organisations such as NGOs has not received recognition or been allowed adequate operational scope and in this respect there is a marked contrast with the situation in Hong Kong which relies heavily on this sector of provision. Given the reluctance of governments to spend fiscal resources on social assistance to vulnerable groups, however, there are growing incentives for them to allow greater scope for welfare NGOs of various kinds, both domestic and international. Third, though there has been much talk about expanding the welfare role of urban ‘communities’, with approving glances towards the Japanese experience (see Goodman, Chapter 6 in this volume), the urban ‘community’ (*shequ*) – rooted in neighbourhood offices and residents’ committees – is still very much dominated by government and rests on a weak financial basis which is being undermined by the rapid commercialisation of the urban economy.

### ***The role of foreign welfare experience in the emergence of a new welfare system***

While this gradual *rapprochement* between the Chinese and East Asian welfare systems rests heavily on a deeper growing together in their wider political, social, economic and demographic structures, Chinese welfare reformers have also referred to and drawn on East Asian welfare experience in designing new systems. However, they have also gone much further afield, notably to the ‘welfare states’ of Western industrialised societies. To use Goodman and Peng’s term (1996: 209–10) which they applied to the experience of Japan, Taiwan and South Korea in learning from foreign welfare practice, Chinese policy makers and advisers have been very ‘peripatetic’ in their attitudes.

They have looked pragmatically at the nuts and bolts of foreign welfare systems as potential ingredients of reform in specific areas of policy. As one illustrative example, take the drafting of the proposed Social Insurance Law during 1994–5 by a ‘drafting small group’ comprising representatives from the eleven central-level bureaucratic ‘houses’ with an interest in the issue and under the supervision of the Ministry of Labour’s Office of Social Insurance. The preparatory work involved the

collection of materials on social insurance and labour laws from over twenty countries and the preliminary first draft was discussed in four international meetings involving experts from the International Labour Organization, UN Development Programme and World Bank. The drafting group sent people to the ILO headquarters in Geneva for training and research and six more people to Boston University to study the legal aspects of the problem. They also sent investigation teams to East and Southeast Asia, Western Europe (Germany, the UK and Sweden) and North America (Canada, the USA and Mexico). This accompanied a process of domestic learning and consultation which involved collecting opinions from over seventy central-level government departments and local labour bureaux, setting up a specialist group of twenty experts from universities and research institutes, and conducting discussions with individual officials and the directors of large enterprises.<sup>10</sup> Similarly, the Ministry of Labour officials charged with designing a system of unemployment insurance looked at the experience of over forty countries and apparently found arrangements in the UK, Japan, Sweden, the USA and Germany particularly helpful.<sup>11</sup>

This kind of searching is not merely a characteristic of policy making at the centre; conversations with local officials designing their own welfare systems also made frequent reference to foreign practice. For example, a senior official of the Shanghai Bureau of Social Security remarked, both negatively and positively, on a wide range of international examples: for example, he declared that he liked the US system of handling employment and unemployment issues and of regulating the insurance industry, and said that local policy makers had drawn on both Singapore and Chile in setting up a new pension system.<sup>12</sup> From a very different institutional perspective, an official from the Life Insurance Department of the Shanghai branch of the People's Insurance Company of China referred to the different experience of Western states and Japan in setting basic levels of government-provided social insurance. He argued that Western experience showed that, if levels were set too high, the government could not afford to pay them, whereas in Japan 'standards are lower so people look after themselves'.<sup>13</sup>

At a more general level, involving ideological as well as policy alternatives, foreign national welfare 'models' have also been an important element in domestic reform debates. In the area of pension reform, for example, the three ideological tendencies have their 'favourite' foreign models. Advocates of the 'socialist' model have drawn on the experience of West European pension systems as part of a more general attraction to social-democratic welfare systems providing relatively comprehensive and generous benefits on a PAYG or state-guaranteed social insurance basis. These systems are appealing, at least as a long-term objective, because they embody the redistributive principle of 'fairness' and encourage social solidarity and mutuality through 'social pooling'. Supporters of the 'reformist' position, by contrast, have referred approvingly to Chile as an example of the benefits to be derived from adopting individual accounts, private management of social insurance funds and arrangements for funding the transition from the old to

a new system (for example, see the approving commentary in ESRC 1994b). ‘Developmental statist’ have found the Singapore experience based on a Central Provident Fund congenial to their aspirations, partly because the funds accumulated through pension contributions can be used for infrastructural investment and partly because Singapore is an embodiment of the broader development pattern they espouse, involving pervasive state intervention, extensive markets and an authoritarian polity. Spokespeople for the Ministry of Labour, arguing for a more ‘socialist perspective’, have been highly critical of both the Singapore and the Chilean experiences. For example, one expert in the Ministry criticised the Singapore experience in the following terms:<sup>14</sup>

My view is that the Singapore model is not suitable to China for several reasons: (i) Singapore has been going ‘from nothing to something’, whereas we are going ‘from something to something’. In other words, we have to pay attention to the old burden – the Ministry of Labour is burdened with this responsibility and is called ‘conservative’; (ii) the population of Singapore is only a few million and therefore the government can manage personal accounts efficiently, but the transaction costs are much greater here; (iii) in Singapore, the benefits of the children’s accounts can be used by the father if he uses all his money up . . . but in China we have a one-child family policy and thus two children support four old people as well as their child, so the burden is too great; (iv) Singapore has depended on external capital as a centre of international finance, but we cannot rely on this; (v) they used the Central Provident Fund to invest in infrastructure to attract foreign capital, but our investment system is too chaotic to do this.

Ministry experts were also critical of the Chilean model and its supporters in China:<sup>15</sup>

The Chilean model is a total accumulation model. They tried it in Shenyang, but the payments were overwhelming so it could not be operated there. The World Bank likes the Chilean model, but the people I have talked to from the World Bank said it was not appropriate to China and Chile was a military dictatorship. Why not emulate the experience of the advanced market economies?

Their affinities also find expression in their views of international agencies. For example, according to one Ministry official:<sup>16</sup> ‘[The World Bank’s] opinion is the opposite of the ILO’s. For example, on pensions the ILO emphasises the principle of fairness while the World Bank pushes the Chilean model which does not fit our national situation.’

In spite of these proclivities and antagonisms, advocates of each position take pains to assert that no particular model fits the Chinese situation exactly, any new system in China must represent particular Chinese conditions, and foreign experience

must be drawn upon eclectically and carefully. For example, one official from the ‘reformist’ Economic Structure Reform Commission was careful to distance himself from an uncritical acceptance of a market-based pension model like that of Chile and the system of personal accounts practised in Singapore’s Central Provident Fund:<sup>17</sup>

The Chile and Singapore pension systems are irrelevant. The Singapore system has a different background – they had no system before, so the government had no responsibilities to citizens. This could thus be a total accumulation system; they could get away with it. But we have a forty-year commitment to our workers. As for Chile, their social and economic systems are different from ours. The burden of state-owned enterprises is not so great there, so they can let private commercial companies run the funds. We cannot do this, not the least because we do not have a commercial insurance sector.

Similarly, experts in the Ministry of Labour are willing to admit that the Western European experience of ‘social pooling’ cannot be applied in China as yet, partly because the levels of benefits are unrealistically high and partly because they recognise that individuals and enterprises would not be willing to pay large amounts into social pooling funds. This recognition of emerging pension systems as eclectic amalgams is reflected in the remark by one Ministry expert, who quoted an ILO official to the effect that the innovative pension scheme pioneered in Shanghai ‘raises funds like Singapore and Chile, but pays out like the West’. The spirit of ‘peripatetic eclecticism’ was best expressed by an expert from the central All China Federation of Trade Unions:<sup>18</sup>

As for foreign experience, we have done some research, but we do think our situation is special and the external experience of managing funds, for example, is very scattered and variegated. Any country’s model is based on its own conditions and we cannot transfer it as a whole. If we absorb foreign experience, we should do it in a mixed way – maybe taking bits and pieces and combining them in distinctive ways. Every foreign experience has its good and bad sides in any case.

However, there is also evidence that foreign welfare models serve not only as a source of inspiration and information, but also as a tool used opportunistically in domestic policy debates to further specific interests. For example, one Ministry of Labour expert described the Shanghai pension system in the following terms:<sup>19</sup>

Shanghai is using its social insurance funds to develop the Pudong area; it’s not really about pensions. It is really like Singapore. When Shanghai established

their system, they had never heard of Chile, but the World Bank told them about it and they said it was the ‘Chilean model’ they wanted.

Unsurprisingly, Shanghai officials were also willing to point to the similarities between their model and that of the Ministry of Labour in discussions with the latter’s officials.

As the balance of power between ideological positions and policy paradigms shifts away from the socialist to the reformist and the developmental statist, however, there has been a concomitant rise in what we call in this volume ‘negative Occidentalism’. Neo-liberal and developmentalist positions have combined to condemn ‘Western’ welfare models as wasteful and inefficient, and advocates of socialist redistribution have been forced to admit that however attractive the principles underlying Western ‘welfare states’, they do not suit the reality of a relatively poor, developing society like China. In fact, the notion of the ‘Western welfare state’ is becoming anathema, in ways comparable to the views of Singapore’s Lee Kuan Yew and conservative spokesmen in Japan, Taiwan and South Korea. Analysts take pains to portray the ‘welfare state’ in its most unattractive light, retailing stereotyped and empirically challenged stories about the ‘British disease’, the alleged crisis of Western welfare states, supported by negative images such as the alleged callousness of Western children towards their aged parents and total individual dependence on state provision. Sometimes this antagonism contains a charge of alleged conspiracy – the idea that ‘the West’ wishes to foist its irrational welfare states on China as a way of curbing its ability to compete in international markets.

Alongside negative Occidentalism comes ‘positive Orientalism’, which reflects a conception of China itself and of East Asia as a region. The conception of China reflects the firmly held conviction that, whatever welfare system evolves in the country, it will have distinctive ‘Chinese characteristics’; the conception of East Asia reflects the perception by Chinese policy makers that East Asian societies have been extraordinarily successful in developmental terms and deserve both respect and selective imitation.<sup>20</sup> The Singapore experience best combines these two elements because it is both Chinese and East Asian and, unlike Taiwan, is not politically compromised by the unfinished civil war between the Chinese Communist Party and the Kuomintang. In the welfare area, we may expect this Chinese version of ‘positive Orientalism’ to take the form of a kind of post-communist neo-Confucianism, involving the conscious manufacture of a set of alleged truths about the Chinese welfare heritage. While this is less visible as yet in the area of social insurance reform, it is becoming an increasingly explicit element in official propaganda about social assistance and relief, stressing the ‘traditional’ notions of individual self-help, reliance on the family and reluctance to depend on the state. While these ideas are convenient in terms of the strategic objectives of both reformists and developmental statist and the desire of state managers generally to avoid excessive

welfare expenditures, it remains to be seen whether they are appropriate to, and can be imposed on, China's complex and rapidly changing society.

### Concluding remarks

An understanding of the dynamics of welfare reform in China must rest on the recognition of three main motive forces: first, a process of rational and pragmatic policy selection based on assessments of relative costs and benefits; second, ideological contestation involving different conceptions of the character and objectives of welfare systems; and third, competing sets of interests embedded in the complex and contradictory logic of a state socialist system undergoing market transition. These forces are visible in both the general contours of domestic policy debate and the ways in which domestic policy actors have engaged with foreign welfare experience through a mixture of pragmatic eclecticism, ideological preference, machiavellian manipulation and nationalist stereotypes. They are also reflected in the distinctive fact that contestation between welfare 'models' has to a large extent been between competing *domestic* systems developed in different localities.

These three forces operate within a wider systemic context which sets negative and positive parameters for the evolution of welfare policy: the economic and institutional heritage of three decades of state socialism, the rapidly changing political economy of a society being transformed by economic reforms, and the size and complexity of China as a nation. The evolution of a new welfare system reflects the interplay of these forces and contexts. For the specific reasons outlined, there is a clear trend towards convergence with other East Asian welfare systems, reflecting the growing integration of China's political economy into the East Asian region, and the rise of 'developmental statist' elites seeking objectives and facing problems which are similar to those of their East Asian counterparts. In Esping-Andersen's terms (1990), the resulting welfare structure is likely to be heavily residualist in the sphere of social assistance and Bismarckian in terms of social insurance, with relatively privileged sectors (the civil service, professional groups, bigger firms in the cities and the urban population generally) and relatively excluded sectors (the informal sector, migrants and the rural population).

At the same time, there are elements in the Chinese situation which suggest that the country's emergent welfare system will be distinctive in certain ways. This is usually explained in terms of some putative essential 'Chineseness', reflected in statements such as 'we Chinese are averse to paying taxes' or 'Chinese workers prefer personal accounts to social pooling because of their family concept'. But aversion to paying taxes is hardly a distinctively Chinese characteristic and the Chinese urban family hardly conforms to the Confucian stereotype. Such vague notions of 'Chineseness' often function as a convenient rationale to support policy options preferred for a range of practical and ideological reasons. Moreover, China

is a complex and changing society in which notions of what is ‘Chinese’ are themselves diverse, changing and contested.

In contrast to these ‘culturalist’ approaches, which contain more than a modicum of ideological flannel, this chapter has emphasised the over-determining role of historical, structural and political factors in shaping the trajectory of Chinese welfare reform. The previous system of central planning led to an accumulation of financial debts and political commitments which must be honoured to some degree; the ideological and institutional heritage of state socialism retains an influence which China’s East Asian neighbours have either not experienced or have been able to overcome; the continued hegemony of the Chinese Communist Party may well require political leaders to appease potentially fractious mass constituencies by means of welfare benefits; the weakness of market agencies and ‘civil society’ organisations and the specificities of the family system will give a different profile to the constellation of welfare providers, endowing governments with a large role in the short and medium terms; and the size and increasing complexity of Chinese society means that welfare systems will vary between areas for the foreseeable future. It is for these reasons that, whatever welfare system does emerge in China’s hypothetical ‘post-transitional’ society, it will most decidedly, in the words of the Chinese leadership, be one ‘with Chinese characteristics’.

## Notes

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1. For overviews of the welfare models of Eastern Europe and the Soviet Union and the impact of post-communist transition on them, see Dixon and Macarov (1992); Deacon *et al.* (1992); Götting (1993) and Barr (1994). On the pre-reform Chinese welfare system, see Dixon (1981).
2. There is an expanded notion of ‘social welfare’, used by academic analysts, which also includes items such as public services (cultural, educational and health facilities), ‘selective services’ provided by work units to their staff, such as paid leave to visit parents or partners, help with heating in winter in the North and transport subsidies and ‘collective services’ provided by the work unit, of which subsidised housing is the key element. The departments of Civil Affairs are also in charge of the work of ‘social preference’ (*shehui youfu*) which provides assistance to special categories of the population, such as disabled servicemen, the dependants of people killed fighting for the revolution, the families of serving soldiers and the like.

While many of these special terms appear to be neologisms, several of them have a long pedigree in Chinese history, notably the notion of state-provided ‘relief’ to portions of the population affected by misfortune and the field of ‘civil affairs’

(*minzheng*), a section of the state traditionally concerned with relief for vulnerable groups such as disabled, widowed, impoverished and unsupported elderly. For a discussion of the traditional background of Chinese welfare thinking, see Leung and Nann (1995: Chapter 1).

3. On the eve of reforms in 1978, this sector was virtually the only source of urban employment, but its relative salience has gradually declined during the reform era. By 1992, public sector employees were estimated to be only 74 per cent of the urban work-force.
4. For a detailed analysis of this system, see Hussain (1994: 45–58).
5. For a review of different patterns of welfare provision in Third World societies, see Moser (1992) and Midgley (1996).
6. Leung and Nann (1995: 144) note that, according to a 1986 calculation, the annual social security payments to an urban employee totalled 200 *yuan*, whereas a rural labourer only received 11 *yuan* – a ratio of 18:1. They estimate that the ratio could be as high as 30:1 if other benefits, such as housing, food subsidies and other services, are included.
7. The welfare achievements of the previous system have been discussed extensively by Drèze and Sen (1989).
8. The sources for these estimates are CSSM (1993: 36) and CLSY (1995:63).
9. For a detailed statistical presentation and discussion of these trends, see Hussain and Zhu (1996).
10. Interview with Zhang Shouqi, department head in the Social Insurance office of the Ministry of Labour, Beijing, 13 June 1995.
11. Interview with Wang Zhe, head of the Employment Office of the Ministry of Labour, Beijing, 12 June 1995.
12. Interview with the head of the Comprehensive Planning Office in the Shanghai municipal Social Insurance Management Bureau, October 1995.
13. Interview in Shanghai, October 1995.
14. Interview in Beijing, 2 November 1994.
15. Interview with a Ministry expert, 12 June 1995.
16. Interview in Beijing, June 1995.
17. An official in the Social Security Bureau of the Economic Structure Reform Commission, Beijing, interview on 14 June 1995.
18. Interview with an official from the Department of Labour, Wages and Social Security of the ACFTU, Beijing, 20 June 1995.
19. Interview in Beijing, 12 June 1995.
20. For example, a small group of social welfare experts (Yang *et al.* 1996) favour a system which abandons the idea of any kind of unified social insurance. They argue that a new residual welfare system should be established comparable to that of the East Asian ‘four dragons’, in which there is heavy reliance on families and commercial insurance, with the state playing only a limited role in providing poverty relief when all else has failed.

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