WELFARE STATE DEVELOPMENT IN EAST ASIA: A CROSS-CONTINENTAL COMPARISON

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Abstract:
The last quarter century has witnessed the rapid transformation of welfare states in East Asia. It is, however, impossible to capture the magnitude of this change if we limit our focus to East Asia. In this paper, I will compare the welfare systems of East Asian countries with those of other regions. To begin with, this paper will outline the current conditions of economic inequality and social protection in East Asia. Next, I will address the importance of a normative standpoint in comparative studies of welfare states, and recommend focusing on the coverage of social protection. There will be an examination of the substitution of welfare states by firms and families, as well as its associated limitations. Finally, I will argue the necessity and challenges of welfare state extension in East Asia.

The last quarter century has witnessed the rapid transformation of welfare states in East Asia. It is, however, impossible to capture the magnitude of this change if we limit our focus to East Asia. In this paper, I will compare the welfare systems of East Asian countries (Japan, Taiwan, Korea, Malaysia, China, Vietnam, Thailand, the Philippines, Indonesia, Singapore) with those of other regions, including Latin America (Argentina, Brazil, Costa Rica, Chile, Mexico, Venezuela, Colombia, Peru), Eastern Europe (Hungary, Poland, the Czech Republic, Slovakia), as well as advanced countries in the West (Sweden, France, Denmark, Germany, Italy, the United Kingdom, Spain, the Netherlands, the United States). Some broad questions arise:

Will the waves of welfare state formation eventually spread to cover the surface of the globe? Which aspects of welfare states should be brought into focus in comparative studies? What kinds of implications could the case of East Asia offer to the theory of the welfare state and strategies of social policy?

To begin with, this paper will outline the current conditions of economic inequality and social protection in East Asia (Chapter 1). Next, I will address the importance of a normative standpoint in comparative studies of welfare states, and recommend focusing

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on the coverage of social protection (Chapter 2). There will be an examination of the substitution of welfare states by firms and families, as well as its associated limitations (Chapter 3). Finally, I will argue the necessity and challenges of welfare state extension in East Asia (Chapter 4).

1. The Waves of Welfare State Formation

There are wide varieties of welfare states in East Asia, in terms of socio-economic preconditions (economic level and demographic structure), economic inequality (which is the precondition, as well as the result, to some extent, of the welfare state), the scale of social security programs, and the timing of their introduction. Given this, are there any common characteristics of East Asia in comparison to other regions?

As for economic inequality, the disparity among East Asian countries is larger than that found in other regions. Figure 1 indicates the GDP per capita and Gini index of each country. In other words, it shows both the inter- and intra-national disparities. Advanced countries, with the exception of the United States, are located in the fourth quadrant (higher economic level with lower domestic inequality). Among East Asian countries, Japan, Korea and Taiwan land in this quadrant. On the other hand, Latin American countries are concentrated in the second quadrant (lower economic level with higher domestic inequality), while Eastern European countries are focused in the third quadrant (lower economic level with lower domestic inequality). Unlike these regions, East Asian countries are scattered throughout all quadrants, indicating no common characteristics. It can be said that this wide variety itself is a characteristic of East Asia.
Figure 1. Economic development and inequality


As for the scale of social security programs, Wilensky's thesis seems still to hold true to a great extent. According to Wilensky (1975), the pioneer of comparative welfare state studies, all countries will have similar welfare systems as they grow richer, regardless of the type of political regime. The reasons are: 1) Every country will experience population aging along with economic growth; 2) Countries which experience population aging earlier tend to introduce social security programs earlier, and to expand them faster.

Figure 2 shows aging rate and social expenditure of each country. With some exceptions, advanced countries and Eastern European countries with aged populations pay more for social security, while younger East Asian and Latin American countries pay less. It should be noted, however, that countries such as Brazil and Costa Rica spend more despite their lower aging rates. On the other hand, many countries in East Asia, such as Japan, Korea, Taiwan, and Singapore, spend less, even with higher aging rates. Nevertheless, it is not conclusive that this is a common characteristic of East
Asian countries.

Figure 2. Population aging and social expenditure


As for the timing of the introduction of social security programs, East Asian countries share common characteristics. In comparison to countries in other regions, they introduced the programs later and when their economic levels were still relatively lower. Figures 3 to 5 indicate the year of introduction of pension, health insurance, and unemployment insurance programs, respectively, and the relative economic level of the country that year (ratio of GDP per capita in comparison to that of the United States in the same year). Figure 3 (pension) clearly shows backwardness of East Asia in comparison to other regions. While almost all advanced countries in Europe introduced pension programs before the First World War, and Latin American countries initiated theirs during the interwar period, East Asian countries, with the exception of Japan, introduced pension systems after the Second World War, when their economic levels were low. Besides political factors, this might be one of the reasons why pension programs were slow to cover entire nations in East Asian countries.
Data sources—Relative economic level in the year of introduction (ratio of GDP per capita in comparison to that of the United States in the year)—data from Maddison Project (Bolt and Zanden 2013). The year of introduction of the first program: Social Security Administration (USA), Social Security Programs throughout the World (The Americas 2011, Asia and the Pacific 2012, Europe 2012). Czech Republic and Slovakia introduced the first pension program in 1906, Poland in 1927.
Figure 4. Wave of welfare state formation (health insurance)

Data sources:—Same as Figure 3. Czech Republic and Slovakia introduced the first health insurance program in 1888, Hungary in 1891, Poland in 1920.

While figure 4 (health insurance) shows a similar trend, figure 5 (unemployment insurance) is slightly different. Unemployment insurance was introduced later than other programs even in advanced countries. In Korea and Taiwan, it was finally introduced around 2000, following their economic advancement. Remember, there are more than a few countries that have yet to introduce unemployment insurance programs, such as Malaysia, the Philippines, Indonesia, Singapore, Costa Rica, Mexico, Colombia, and Peru.

Based on the above observations, though there are wider varieties among East Asian welfare states than among those in other regions, they share a common experience of being affected by the waves of welfare state formation in the postwar period when their economic levels were low. Still, the waves have not completely covered East Asia yet, as seen in the case of unemployment insurance programs.
2. Which Aspects of Welfare States Should be Brought into Focus?

Which aspects of welfare states are most worthy of analysis in comparative studies? Not only in welfare state studies, but in all social sciences, the focal points of academic research have never been determined *a priori*. Rather, it is the scholar’s value judgment that determines them. Even if each element of a welfare state exists objectively, it remains, however, a normative judgment as to which combination of elements constitutes the welfare state. Thus, it can never be self-evident, being eternally open to argument.

Wilensky (1975), the pioneer of this terrain, measures welfare states by “social expenditure as percentage of GDP,” which is, of course, a substitute indicator. Though he highly appreciates the value of welfare states, he uses this kind of external measure to indicate the inevitability of welfare state development regardless of ideology. It is not clear that the more money a welfare state spends, the better it is. His argument is that no country can avoid spending for social security in tandem with population aging.
On the other hand, Esping-Andersen (1990) advances a normative judgment, arguing that the core of the welfare state is “decommodification” of labor (loosening the status of labor as pure commodity). He insists on evaluating a welfare state by the extent to which it enables people to opt out of work when they consider it necessary, without loss of general welfare. He calculates the decommodification index based on the benefit levels of social insurance programs, the required contribution periods for receiving benefits, and the coverage provided by programs. That is to say, the more a welfare state facilitates absence from work as necessary, the better.

Room (2000) criticizes Esping-Andersen’s notion, as it only focuses on decommodification for consumption, and argues for evaluating a welfare state in terms of its capacity to promote a creative, critical and highly skilled labor force. He proposes an index of decommodification for self-development, which is derived from the low rate of long-term unemployment, the intergenerational mobility rate, and the participation levels in post-compulsory education and vocational training. In other words, the more a welfare state promotes self-development through work, the better.

Though Room’s index is, so far, not as popular as Esping-Andersen’s, it can be regarded as one of the attempts that reflects “The Third Way” (Giddens 1998) turn, in regard to interest in welfare states. While comparative studies based on this kind of research interest may also be developed in East Asia, there is another possible focal point if we want to extend comparative welfare state studies beyond the scope of the OECD countries. It is stimulating to know that recently the ILO has considered “decent work,” and the WHO has considered “universal coverage,” as policy goals. Here I want to examine the latter.

Universal coverage is an idea that WHO promotes, primarily as it pertains to health care reform in developing countries. It means ensuring access to necessary health services for all (World Health Organization 2008: 25). Universal coverage is represented by the “cube” (Figure 6), where the “breadth” indicates the proportion of the covered population, the “depth” represents the quantities and qualities of services covered, and the “height” signifies the proportion of costs covered. According to the inventors of the cube, the aspiration of filling the cube can be best described by the principles of the British National Health Service (NHS) in 1948: “universal, comprehensive, and free at the point of delivery” (Busse, Schreyogg and Gericke 2007: 1).
In this paper, I will place the most importance on coverage under social security programs (the breadth of the cube) as a standard for evaluating welfare states. It is thought to be inconsistent with the idea of citizenship and to go against the justice of community if there are, among citizens, those who cannot enjoy the benefits of social security programs. Though inadequacies or disparities of benefit levels (the depth and height of the cube) may also be problematic, it is plainly unfair if there are those who are excluded from these programs altogether. While Esping-Andersen also incorporated coverage levels into his decommodification index, the significance of coverage becomes much higher when we bring the cases of developing countries into the comparison. In developing countries, there are so many cases in which a program, once introduced, does not cover the whole nation. Here I want to compare pension, health insurance, and unemployment insurance programs of each country using the index of coverage.
Figure 7. Disadvantage of latecomers? (pension)


Figure 7 indicates effective coverage of public pensions (share of population above statutory pensionable age in receipt of a pension). While coverage is high in advanced countries and East European countries, there is considerable variation among countries in East Asia and Latin America. Though Japan, Thailand, Taiwan, Korea and China score high among East Asian countries, this is due to recent coverage increases with the exception of Japan. Coverage levels in the mid-2000s were at 33.5 percent in Korea, 33.4 percent in China, and 20.3 percent in Thailand. In the early 2010s, levels had increased by 44.1 points in Korea, 41.0 points in China, and 61.4 points in Thailand. In these countries, the government has begun efforts to extend programs to farmers and
non-workers (Basic Old Age Pension in Korea (Ministry of Health, Labour and Welfare 2013), New Rural Social Pension and Social Pension for Urban Residents in China (Sawada 2013), and The 500 Baht Universal Pension in Thailand (UNDP 2011)).

Figure 8 shows government share as a percentage of total expenditure on health care. This is equal to WHO's whole cube, including not only its breadth but also the dimensions of depth and height. In regards to health care, public expenditures outside the health insurance program are also important, so coverage is better measured by public expenditure as a whole. Most East Asian countries, as well as the United States and most Latin American countries, score low on coverage. Exceptions are Japan and Thailand. According to Figure 9, Thailand, as well as Korea and Indonesia, has increased the proportion of public expenditure in these fifteen years. It is interesting that there have been marked rises in the three countries which suffered most from the shock of Asian economic crisis during 1997-98.

Figure 8. Disadvantage of latecomers? (health insurance)

Data sources—The year of introduction of the first program: Same as Figure 7. Government share as percentage of total expenditure on health: WHO, Global Health Observatory Data Repository. For Taiwan, Bureau of National Health Insurance, Statistical Report on the National Health Insurance 2011.
Figure 9. Rise and decline of welfare states in health

Data sources: Same as Figure 8. For Taiwan, data of 1996.

Figure 10. Disadvantage of latecomers? (unemployment insurance)
Figure 10 indicates effective coverage of unemployment insurance (percentage of unemployed persons receiving unemployment benefits). Again, there is a similar trend of high coverage in advanced countries and low coverage in East Asia. There can be observed, however, a reverse phenomenon in which coverage levels in Sweden and the United States decrease, while levels in Thailand and Korea increase. It is also surprising that Japan, which introduced its unemployment insurance program earlier, scores quite low. The effective coverage in Japan was higher than 80 percent in the 1960s. I have analyzed elsewhere the reason why it then decreased to 20 percent (Kamimura and Soma 2013).

Based on the above analyses, I must say that though the waves of welfare state formation in regards to extending coverage have reached East Asia, they still lack sufficient momentum. There are some exceptions, however. They are Thailand, Taiwan, Korea, and China in terms of pension programs, and Thailand and Korea in terms of health care and unemployment insurance—all of which, though newcomers, have been working to expand coverage. Japan also should be proud of its accomplishments in pension and health care programs. Learning from the historical experiences of these countries may be the best way to activate the waves of welfare state formation.

3. Can Firms and Families Substitute for a Welfare State?

The low social security expenditure in East Asian countries, with the exception of Japan, can mainly be explained by their low level of aging. The reasons for low social security coverage, however, can be discovered in the histories of their political economies. Here the question is to what extent social mechanisms substitute for the underdeveloped welfare states. Wilensky (1984) provided a classic answer to the question, analyzing the low social security expenditure of Japan in the 1980s.

He suggested five reasons that explain Japan’s relatively low social security expenditure at that time: 1) Young population (a low expenditure for pensions and health care is enough to meet the needs of the relatively few elderly people); 2) Many opportunities for social mobility (fewer complaints from the poor if they feel they can be rich in the future); 3) Divided labor movements (weak pressure on the government to
extend social security); 4) Corporate benefits for the fortunate workers of large and growing firms; and 5) Strong family system that suppresses the need for the development of a welfare state (Wilensky 1984: 10). Among these reasons, the fourth and fifth (corporate welfare and family welfare) are pointed to as mechanisms which substitute for a welfare state.

Figure 11. Liberal market economies and coordinated market economies


Thirty years after Wilensky’s suggestion, is it possible to say that firms and families substitute for a welfare state, not only in Japan but also in other East Asian countries? Due to the limited availability of data, here I confine my analysis to Japan, Korea, and Taiwan, examining them with the method of cross-continental comparison.

First, the thesis that firms substitute for welfare states presupposes that most workers are stably employed by the same firms for the long term. While providing security along with long-term employment has been said to be a characteristic of
Japanese firms (Dore 1990), is this presupposition also true in Korea and Taiwan? Figure 11 reveals that it is not substantiated. The horizontal axis represents average job tenure, while the vertical axis indicates how open workers are to job change. It is reasonable that Japan and the United States are on the opposite sides. In Japan, where long-term employment is predominant, workers think job change is not easy, whereas in the United States, where long-term employment is less common, it is thought to be easy to change jobs. The result fits well with Dore’s contrast of the “organization-oriented firm” with the “market-oriented firm” (Dore 1990), and Hall and Soskice’s models of the “coordinated market economies” and the “liberal market economies” (Hall and Soskice 2001). The locations of Korea and Taiwan are, however, quite different from that of Japan, showing no characteristics common to East Asia in comparison to other countries. In sum, the thesis that firms substitute for the welfare state seems not equally true in East Asian countries.

What of the thesis that families substitute for a welfare state? If one compares the changes of Japan, Korea, and the United States in these three decades, interesting convergence can be observed. Figure 12 indicates that, in 1981, 49.4 percent of the elderly in Korea, as well as 18.8 percent of those in Japan (almost zero percent in the United States), believed that the living expenses of the elderly should be paid by their families; whereas, in 2010, the ratios converge to a few percent in all these countries (it slightly increases in the United States). On the other hand, those who give weight to the role of social security number around 40 percent in all countries. In Korea and Japan, where family welfare ideology was once prevalent, people’s views are not so different from those of the United States. According to figure 13, however, people’s views do not match the reality. In 1981, 29.8 percent of the elderly in Japan and 78.2 percent in Korea relied on “support by children,” which represents family welfare. In 2010, though it has decreased to a few percent in Japan, the percentage remains higher than 50 percent in Korea. The results are a function of the maturity of public pension programs, which can be explained regardless of the difference of family welfare ideologies. In sum, while family norms in East Asia are converging with the advanced country model, there remain tendencies for family welfare systems to substitute for inadequate social security programs.
Figure 14. Time use of men and women in the generation with small children

Note: “■” and “●” indicate female, whereas “□” and “○” represent male.

The alleged “Confucian family peculiar to East Asia” is, however, an illusion. Figure 14 presents an international comparison of time use by men and women in the generation with small children. Even in Western countries, there still remains tendency toward the thinking that “A man’s job is to earn money, a woman’s job is to look after the home”— not so different from that of Japan and Korea. The most astonishing is the location of Taiwanese women. In Taiwan, grandmothers take over housework for mothers. Anyway, patterns of families are better explained by the character of institutions and the market, rather than by religion and culture. Moreover, there are problems in the tendency for family welfare to replace inadequate social security programs. Figure 15 shows that the poverty rate of the elderly is higher in countries where the living expenses of the elderly are left to the responsibility of family welfare. Families can never substitute for welfare states in a strict sense.

In sum, the substitution of the welfare state by firms is not a common characteristic of East Asian countries, though it has been observed in Japan. Substitution of the
welfare state by families has become outdated as a norm, not only in Japan but also in Korea. Modernization (or Westernization) in individual consciousness is, however, not necessarily supported by the improvement of substantive social security programs. In the coming decades, it is very likely that, because of this kind of gap, various social problems such as elder poverty will also occur in other East Asian countries.

4. A Bottleneck in Welfare State Extension

Seen from the cross-continental perspective, welfare states in East Asia face some common challenges, such as low coverage of social insurance, though there are wide varieties among them. Evolving families without accompanying welfare state extension may bring common social problems to East Asia.

Given this situation, it seems that extending the welfare state is imperative. Things are not so simple, however. Figure 16 indicates that countries are considerably different in their levels of taxation power (tax and social security contributions as percentage of GDP). While the level of Sweden, which represents the social democratic regime in Esping-Anderson (1990), is as high as 45 percent, and Germany, representing the conservative regime, hovers around 35 percent, the United States of the liberal regime stays at 25 percent. It is interesting that Japan, Korea, and China, which differ in political regime and welfare state formation history, seem to follow the same trajectory as the United States. If there are the “three worlds” of tax regimes, East Asian countries obviously belong to the liberal regime.

How can we remove the bottleneck? Or, should we design an East Asian system compatible with these limits on taxation power? Whichever we choose, the fact remains that East Asian countries have common challenges in extending their welfare states.
Figure 16. The three worlds of tax regime?

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