

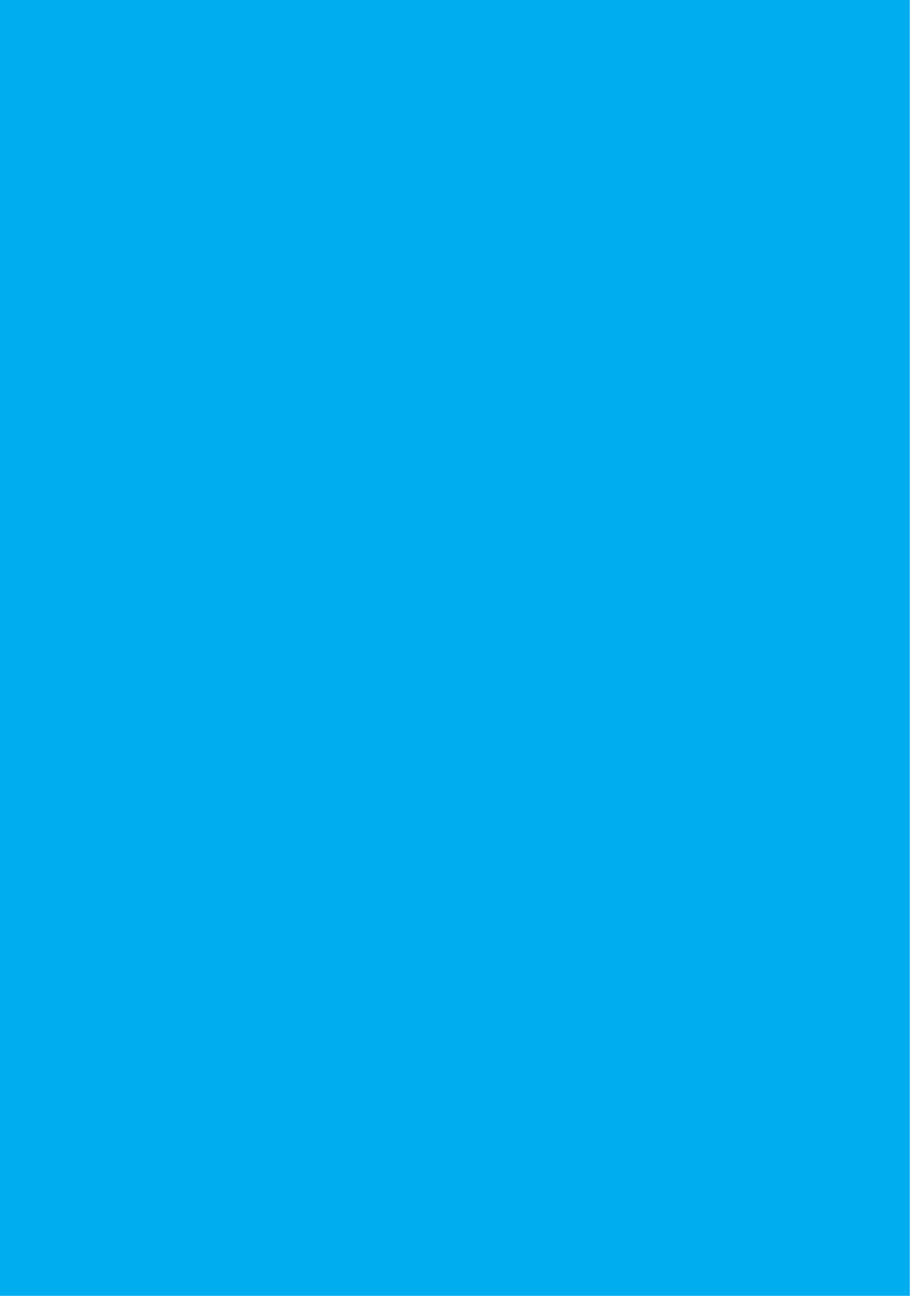
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From Developmental States to Welfare States: Taiwan, South Korea and Japan

Joseph Wong

Abstract

Contrary to expectations and theoretical conventional wisdom, the developmental states in Taiwan, South Korea and Japan have evolved into robust social welfare states. Though not modeled on the Nordic welfare regime, states in industrial East Asia have, since the 1990s, nonetheless markedly increased social spending as well as the scope of government-managed social welfare programs, a significant departure from the “productivist” social policy regimes of the postwar period. In all three cases, the imperatives of electoral competition during the 1990s deepened the state’s social policy commitments. Furthermore, fiscal capacity, the legacies of growth-with-equity and ideological flexibility in the political party systems in Taiwan, Korea and Japan enabled the transition from developmental to welfare state.

Keywords: Taiwan, South Korea, Japan, social welfare policy, social spending, developmental state, gender, democracy, elections, partisan ideology, civil society, legislative influence, equitable growth

From Developmental States to Welfare States: Taiwan, South Korea and Japan

Introduction

The East Asian postwar developmental state has undergone a major transformation over the past two decades. Celebrated for their economic miracles and remarkable economic growth rates during the postwar period, places such as Taiwan, South Korea and Japan have also deepened their commitments to social welfare reform. Once synonymous with welfare state “laggard,” the aim of the high-growth developmental state has evolved from what was once a singular economic goal of aggregate growth through industrial upgrading towards a greater priority placed on inclusive and universal social policy. To be sure, since the beginning of the 1990s, social spending has gone up in all three places. The scope of social policy programs has increased, with new reforms being implemented and coverage expanded. The political and economic pressures of globalization to retrench existing social protection schemes elsewhere have also been successfully resisted in these East Asian cases. Indeed, the idea of re-distributive social welfare policy and the normative imperatives of mitigating socio-economic inequality have become mainstream in Taiwan, Korea and Japan, as opposed to politically marginal, radical reform agendas.

The fact that the welfare state took root in Taiwan, Korea and Japan during the 1990s, precisely at the time when the political economy of globalization and the presumed “race to the bottom” would have predicted otherwise, is puzzling. That the governments in Taiwan, Korea and Japan have developed both new and increasingly redistributive social policy measures in the absence of strong programmatic leftist parties or particularly cohesive labor movements runs counter to conventional theories of the welfare state. Having overcome the legacies of the high-growth developmental state, the institutions that underpinned the postwar model and the prevailing belief that the welfare state was inimical to economic growth is also puzzling. This paper explains these puzzles, and at the heart of the explanation are democracy, and more specifically the politics of East Asian democracy.

From Developmental State to Welfare State

The characterization of the postwar developmental state in Taiwan, Korea and Japan as welfare state laggards was not an unfounded one. Social spending among the three was comparatively low, essentially non-existent in Taiwan and Korea prior to the

1980s. Though a crude measure of social welfare provision, particularly when considered alone, overall social spending figures illuminate governments' financial commitment to social policy as well as changes in that commitment over time. The data tell us, for instance, that social spending in Taiwan and Korea was extremely low during the early part of the postwar period, and then it was primarily aimed at education rather than other social protection programs. In Japan, social policy expenditures initially spiked during the 1970s, when the ruling Liberal Democratic Party (LDP) expanded its social policy regime, but levelled off during the next decade when the Japanese government trumpeted the idea of "Japanese welfare society," political rhetoric for welfare retrenchment. In the 1980s, Japan's relatively low levels of social policy spending made it an outlier, a comparative welfare state laggard, when matched against other advanced OECD countries.¹ It was not until the 1990s that we saw a significant jump in overall social spending in Japan, as well as in Taiwan and Korea.

In addition to spending, social policy instrument design matters. Having learned from the Bismarckian example, Japan's social policy regime was based on the social insurance model. Taiwan and Korea similarly adopted social insurance schemes after WWII. Unlike social welfare programs that are financed through general tax revenues, such as the archetypal welfare state in Nordic Europe, social insurance is intended to essentially offload the burden of insurance premiums onto the individual. Depending on the extent to which social insurance schemes pool financial contributions and risk among enrollees, social insurance, on the whole, tends to be less re-distributive. In Taiwan, Korea and Japan, insurance schemes were decentralized, meaning their pooling effects and thus redistributive potential were limited. They tended to benefit the relatively well-off, the healthier and the young. The vulnerable were excluded, highlighting the absence of any meaningful notion of social rights and social citizenship. That social insurance systems in Taiwan, Korea and Japan were occupationally-based (i.e. work-based) meant that only those employed in the formal sector benefited. This system most adversely affected Korea and Taiwan, where nearly half the working population were either self-employed or worked in the informal sector.

By the early 1980s, less than half of the populations in Korea and Taiwan were enrolled in any social insurance program. Private coverage was not a feasible economic option for most. Social assistance programs for those in need were

¹ For a spirited and convincing rebuttal to this claim, see Gregory Kasza, *One World of Welfare: Japan in Comparative Perspective* (Cornell University Press, 2006).

means-tested, resulting in many poor people being excluded; and for those who qualified, benefits were minimal. The majority of citizens in Taiwan, Korea and Japan tended to rely on family and kinship networks to provide social protection and social security in old-age, leading many to conclude that the provision of social welfare in Asia was shaped by Confucian norms and values. East Asians were believed by some to be culturally resistant to the idea of the modern welfare state.²

This does not mean, however, that *no* social policies were implemented in East Asia in the postwar period. For instance, a labor insurance scheme was created in Taiwan during the early 1950s, though coverage was extremely constrained, exclusive to just government employees, military personnel and workers in large, often state-owned, firms. In the 1970s, the Korean government introduced a voluntary medical insurance program, though the uptake was slow and limited to handful of large conglomerate firms. Efforts during the 1960s to put into place limited social insurance schemes in Korea lacked political will and consequently failed. To the extent that any significant social policy measures were implemented prior to the 1990s in Taiwan and Korea, they tended to protect the industrial worker and other political constituents of the state. Social policies, according to Ian Holliday, were thus “productivist” in nature, intended to bolster economic growth and subsumed within broader economic and industrial policy goals in East Asia. The fact that very high levels of education spending stood out among other social policies did not reflect the importance placed on social rights per se, but rather the imperatives of up-skilling workers to fulfill the labor demands of industrial upgrading. Aggregate economic growth, it was believed, provided the best social safety net, and social policies were designed to facilitate such growth. As Japan’s full-employment strategy of “income doubling” during the 1960s demonstrates, social protection in industrializing East Asia was ultimately a function of earned wages, or what Gosta Esping-Andersen sees as the commodification of labor and work. In the East Asian developmental state model, Holliday concludes, “minimal social rights” were “linked to productive activity” and “directed towards growth.”³

The extension of social policy by the East Asian developmental state adhered to a strategic political logic. Kent Calder’s analysis of Japanese political economy shows how, for instance, the expansion of social policy coverage, including universal medical insurance and pensions during the 1960s and 1970s, was a reactive

² Catherine Jones, “Hong Kong, Singapore, South Korea and Taiwan: Oikonomic Welfare States,” *Government and Opposition* (Vol. 25, No. 4, 1990).

³ Ian Holliday, “Productivist Welfare Capitalism: Social Policy in East Asia,” *Political Studies* (Vol. 48, No. 4, 2000), p. 708.

compensatory strategy used by the LDP to quell mounting opposition during moments of political crisis.⁴ Despite the creation of medical and old-age income insurance schemes, the LDP was hardly a social democratic party. It was, instead, an effective catch-all party that maintained its electoral dominance by skilfully and selectively compensating important political constituents. Calder's crisis and selective compensation model was even more apparent in the authoritarian developmental states of Taiwan and South Korea. Limited social policies targeted specific political and economic constituencies, such as workers in large firms, government officials and the military. As in postwar Japan, the periodic expansion of social protection schemes coincided with moments of political crisis for the ruling regime. Selective piecemeal social policy reform, therefore, was motivated by the authoritarian states' instincts for political survival, rather than a normative political commitment to social welfare. The absence of strong political parties on the left in Japan – and in the case of Taiwan and Korea, the absence of democracy altogether prior to the late 1980s – meant that the East Asian developmental state was insulated from political pressure to legislate more thorough social policy reform. Rather, the state steered social policy reform from the top-down to meet its political economic goals.

Something happened during the 1990s, however, which set the East Asian developmental state model on a new course towards welfare state deepening. Spending increased markedly. Social security spending in Japan, as a percentage of GDP, nearly quadrupled between 1960 and 2000, with the largest increase occurring during the 1990s. In Taiwan, total social security spending tripled between 1980 and 2000, while expenditures in South Korea increased eight-fold during that same period. In 2000, social security spending accounted for 28% and 21% of government expenditure in Taiwan and Korea, respectively. While still low when compared to other more established welfare states, these increases in spending, both rapid and substantial, nonetheless demonstrated a growing commitment in East Asia to social welfare.

Growth in spending in Taiwan, Korea and Japan was a function of the expansion of pre-existing social programs as well as the introduction of new ones. Universal medical insurance was put into place in Korea by the government in 1989. A national pensions program was also legislated around that time, and implemented during the late 1990s. New unemployment protections were introduced too, with government spending for unemployment benefits increasing from 5 million KRW in 1996 to over

⁴ Kent Calder, *Crisis and Compensation: Public Policy and Stability in Japan* (Princeton University Press, 1986).

300 million KRW in 1999, a 60-fold increase in just three years. The Kuomintang (KMT) government in Taiwan implemented the National Health Insurance (NHI) program in 1995, which featured an integrated risk- and financial pooling mechanism that redistributed resources across income and occupational groups. More generous old-age income security measures were also introduced shortly thereafter. Social welfare reform in Japan followed a similar trajectory during the 1990s, though a little less dramatic given that many of Japan's social insurance programs had been introduced earlier on. Beginning in the late 1980s, income security benefits were expanded to include women, and later, to all citizens. Elderly care, which was started in Japan with the 1989 Gold Plan (means-tested), was made universal with the implementation of the 1997 Long Term Care Insurance (LTCI) program, matched with increased government funding towards LTCI benefits. Publicly subsidized child care was introduced with the 1994 Angel Plan. Similar social care systems heavily subsidized by the state were introduced in Taiwan and Korea as well. In Korea, for instance, government spending in child and elderly increased more than ten-fold between the early 1990s and early 2000s. Gender-based income maintenance policies, particularly for those working in informal sectors or employed as casual labor, were implemented in all three places, in addition to tougher gender equality regulations in the workplace.

Most significant is the fact that social policy reform during the 1990s and 2000s targeted new constituents and specifically vulnerable populations that had previously been excluded. For example, wage earners in the precarious informal sector, many of whom are women, were provided protection. Benefits that were once exclusive to employed industrial workers were also extended to the self-employed. Dependents, such as children and the elderly, were similarly integrated into the evolving and increasingly universalized social policy regimes in Taiwan, Korea and Japan. Unlike during the past, when limited coverage in social policy programs benefited those who were already relatively privileged, the introduction of a more universal welfare state in all three places during the 1990s was in fact intended to protect, by right of social citizenship, precisely those vulnerable populations that were economically un-productive. Put another way, social welfare policy reform beginning in the 1990s was intended to be more inclusive and more re-distributive across disparate risk and income groups, rather than merely supportive of, and subsumed within, the overriding objective of economic growth. Having evolved beyond the productivist social policy goals of the developmental state towards a more sincere commitment to social rights and citizenship, the *institutional purposes* of social welfare policy had been

fundamentally transformed in Taiwan, Korea and Japan.⁵

What prompted this transformation? The context in which the nascent welfare state developed in East Asia provides some insight regarding this important question. First, Taiwan, Korea and Japan experienced economic instability and uncertainty during the 1990s. Japan's economy, as is well known, slowed to a grinding halt after its bubble economy burst. Taiwan's industrial base was being hollowed-out by cheaper competitors in late developing countries, most notably in China. And South Korea was hit especially hard by the 1997 financial crisis. Unemployment was on the rise in all three places. Economic recovery was not at all a given. Socio-economic vulnerabilities were exposed and thus the need for effective social protection became more acute. Related to this, socio-economic inequality was on the rise as the income gap between the haves and have-nots grew. The full extent of the grey economy was revealed, as the distance between reported household incomes and unreported wealth increased, thus exacerbating inequality. The postwar miracle of growth with equity in Taiwan, Korea and Japan was being undone, and new social policy measures were required to mitigate the effects of this.

The functionalist imperatives of social welfare deepening extended to social factors as well. For example, Taiwan, South Korea and Japan were, and continue to be, in the midst of a major demographic shift, which has put pressure on policymakers to address the emergence of new vulnerable groups. All three are rapidly aging or "greying" societies. By the 1990s, demographic projections showed clearly that older people (over the age of 65) in East Asia were expected to make-up a growing and very significant proportion of the total population, with estimates that in the case of Japan, nearly one-quarter of its citizens would be over the age of 65 by 2020. Meanwhile, fertility rates rapidly declined beginning in the 1980s, and by the 1990s, fertility rates were far below the population replacement rate. Korea's fertility rate, for instance, decreased from 5.63 (per household) during the early 1960s to 1.51 by the mid-1990s and just 1.17 in 2003, making Korea's future demographic challenges especially pronounced. Japan and Taiwan are not dissimilar. The demographic shift, apparent already by the early 1990s, meant that the cost of social protection, particularly for the elderly, continued to increase, while the proportion of economically productive populations – meaning those who can pay for social programs – was shrinking, thus requiring more government investment in social welfare, especially for inter-generational transfers typical of pay-as-you-go social security systems.

⁵ See Ito Peng and Joseph Wong, "Institutions and Institutional Purpose: Continuity and Change in East Asian Social Policy," *Politics and Society* (Vol. 36, No. 1, 2008).

Finally, compounding the functionalist challenges to the welfare state were changing norms in East Asia regarding traditional family-centered measures for social protection. For example, the number of three-generation households, which had historically provided care for dependents such as children and the elderly, decreased rapidly in Japan between 1980 and 2000. Meanwhile the proportion of single person households, many of which were headed by young working women, increased significantly. The pace of social change was more pronounced in Korea and Taiwan where the number of three-generation households shrunk by nearly half from 1990 to 2000. Divorce rates were also on the rise, doubling in Taiwan and Japan between 1980 and 2000, and increasing six-fold (to 36%) in Korea during that same period. Female labor market participation rates consequently grew very quickly. The effect of this socio-cultural change with respect to gender norms and gender relations was the rapid decline in the salience of the family-centered model of social protection, particularly as it had been women who tended to provide care in what used to be the male, single breadwinner model. Simply put, by the 1990s, in Taiwan, Korea and Japan, traditional safety nets were eroding. From a functionalist point of view, then, the state, it seemed, had little choice but to step in.

But did it? The contextual factors that I have outlined here, which seemed to have encouraged welfare state expansion in East Asia, are entirely reasonable. And yet the empirical record suggests that they are also a bit too deterministic, a bit too functionalist. After all, economic uncertainty, rising inequality, the demographic challenges of aging societies and the changing structure of families and households are hardly unique to these Asian societies. These sorts of structural changes are endemic in many places. But social policy reforms in other countries have not been nearly as thorough as what occurred in industrial Taiwan, Korea and Japan during the 1990s. As Stephan Haggard and Robert Kaufman explain, prospective welfare states in other countries have been stymied by the economic pressures of globalization, weak fiscal capacity, state mismanagement as well as the lack of political will among policymakers.⁶ Then why do we see welfare state deepening in Taiwan, Korea and Japan? More specifically, what was the *political logic* which facilitated welfare state expansion, if pressing functionalist imperatives alone cannot fully explain this transformation? The answer, I contend, rests in the relationship between democracy and social welfare reform, and specifically the political dynamics of East Asian democracy and social welfare.

⁶ Stephan Haggard and Robert Kaufman, *Development, Democracy and Welfare States: Latin America, East Asia and Eastern Europe* (Princeton University Press, 2008).

Democracy and Welfare

Welfare state deepening in Taiwan, Korea and Japan coincided with major political changes in each. In Taiwan, the opposition Democratic Progressive Party (DPP) formed in 1986 and martial law was lifted a year later. Taiwan's first full legislative elections took place in 1992, followed by founding presidential elections in 1995, the same year the incumbent ruling party, the KMT, implemented the National Health Insurance (NHI) program. While the DPP lost both elections, it nonetheless appealed to Taiwan's voters and thus forced the KMT's hand in initiating a new reform agenda, including health care reforms, that, incidentally, the ruling party had eschewed a decade earlier. During local elections in 1993, candidates from the KMT and DPP promised, if their party was elected, to increase old-age benefits. This not only ratcheted-up expectations of the government's commitment to social welfare, it also demonstrated how the dynamics of competitive elections in democratizing Taiwan effectively deepened the pension reform agenda. A decade later, the DPP government legislated a comprehensive old-age income security scheme. Monthly allowances for pensioners expanded during legislative debate as the KMT proposed and then counter-proposed even *more* generous benefits than initially included in the DPP bill.

A similar process occurred in Korea. In the summer of 1987, Roh Tae-Woo, who was the handpicked successor to the authoritarian incumbent Chun Doo-Hwan, unexpectedly initiated democratic transition when he announced direct presidential elections for later that year, followed by full National Assembly elections in 1988. In the run-up to the elections, important compromises over new electoral rules were struck between Roh and Korean's opposition leaders, which levelled, somewhat, the electoral playing field. It was at this time that the Roh government legislated a national pension scheme and a universal medical insurance program. Nearly a decade later, in the wake of the 1997 Asian financial crisis, perennial opposition leader, Kim Dae-Jung, successfully ran on a social and economic policy platform which resulted in reforms to corporate governance as well as efforts to integrate what were then decentralized medical insurance funds. Kim's health care reform increased re-distribution across different occupational and income groups. In both Taiwan and Korea, democratic transition, and more importantly the institutionalization of relatively competitive elections, was critical in sparking social policy reform.

Japan, unlike Taiwan and Korea, was democratic throughout the postwar period. However, Japan's democracy had been dominated by one party, the LDP, which

remained undefeated in elections until the early 1990s. Positioned as an effective catch-all party, one which engineered Japan's postwar economic miracle, the LDP continually delivered economic growth, and for that it was consistently rewarded at the polls. However, increasingly mired in internal party scandals as well as the weight of Japan's sluggish economy, the LDP was defeated for the first time in 1993. The LDP was put on the defensive, as new political parties proliferated. Over 20 new political parties formed in Japan after 1993. For the first time in the postwar period, Japan's democracy featured competitive electoral contests, as viable alternatives to the LDP mobilized voters. And though the LDP did regain power later in the decade, it was only through the formation of various coalitions with other parties. The LDP-led governing coalitions of the late 1990s re-prioritized social policy reform, such as expensive programs in child care and long-term care for the elderly, and abandoned the LDP's welfare retrenchment plan of the 1980s. Like in Taiwan and Korea, competitive elections in Japan shaped the social policy agenda.

The introduction of elections in Taiwan, Korea and Japan during the late 1980s and early 1990s institutionalized a new political logic, a logic that was very simple: winning parties needed to *win* electoral support, which meant that they also needed to articulate winning platforms that appealed to voters. No longer could the ruling parties simply suppress dissent, as they had in authoritarian Taiwan and Korea. Nor could the dominant party, such as Japan's LDP, continue to simply presume its catch-all appeal to voters. Rather, political incentives had changed with the introduction of competitive elections. Parties needed to be more politically entrepreneurial. They needed to differentiate themselves from one another, and to do so they had to cultivate new and broader coalitions of electoral support. Parties were incentivized to mobilize voters around winning cleavages, and social welfare policy emerged as a winning issue in Taiwan, Korea and Japan during the 1990s. Polling data in all three places reveal that social policy reform and concerns about socio-economic inequality ranked as important priorities for voters. While economic growth continued to be a key priority for voters, it was no longer the only one.

Political change during the 1990s not only altered the incentives of the political – democratic – game, it also re-structured the social policymaking process. Within the state apparatus, for instance, the earlier omnipotent power of the bureaucracy in the developmental state began to give way to a more assertive legislature. Individual legislators and legislative committees increasingly steered the social policy reform agenda within the state. Alternations in power and the continual re-configuration of the legislature in Taiwan, Korea and Japan weakened the pre-existing ties between the

legislative and bureaucratic branches, thus transforming the national assembly from its former role of rubber-stamp into a viable institutional check on bureaucratic power. Legislators, rather than bureaucrats, were increasingly lobbied by interest groups. Weak party discipline, endemic in all three places, also meant less cohesion within parties, which resulted in the ad hoc formation of inter-party coalitions when it came to social policy reform. Elite survey data collected in Taiwan and Korea during the late 1990s suggests that legislative influence in policymaking increased after democratic transition.⁷ Changes were as significant in Japan. According to T.J. Pempel, the LDP's defeat in 1993 was tantamount to a major "regime shift" in how Japan's state apparatus functioned.⁸ Political change during the 1990s opened up the *political space* within which political entrepreneurs could operate.

This political space reached civil society as well. Democratic transition in Taiwan and Korea was initiated by societal mobilization from below, and the institutionalization of democratic rules of the game ensured that civic groups and social movements remained important actors thereafter. Civil society organizations in Japan emerged most forcefully in the early 1990s. Before then, civic groups tended to be local and usually formed in reaction to some specific grievance; civil society mobilization then was not national in scope and civic groups were not pro-active policy agenda-setters. By the 1990s, however, civil society groups had become important and effective social policy reform advocates in all three places. In Korea, for instance, groups such as the Citizens' Coalition for Economic Justice (CCEJ) and Peoples' Solidarity for Participatory Democracy (PSPD) were critical in shaping Kim Dae-Jung's social and economic reform policy agendas during the late 1990s. Taiwan's National Health Insurance Coalition successfully fought back the KMT government's efforts to privatize the management of the NHI program. And in Japan, groups such as the Women's Committee for the Improvement of Aged Society (WCIAS) pressured the government to create a universally inclusive long-term care insurance program during the mid 1990s; in fact, the WCIAS' influence was so strong that it was a member of the Ministry of Health and Welfare's policy advisory body.

In Taiwan, Korea and Japan, the effects of political change during the early 1990s – such as the institutionalization of competitive elections, the empowerment of national legislatures and the mobilization of civil society groups – re-constituted prevailing practices in social policymaking and social policy agenda-setting. The *political logic*

⁷ Joseph Wong, *Healthy Democracies: Welfare Politics in Taiwan and South Korea* (Cornell University Press, 2004).

⁸ T.J. Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Cornell University Press, 1998).

of social policy reform was altered. No longer was social welfare policy made from the top-down, nor was social policy reform subsumed within a broader economic growth agenda, as it had been in the hierarchically organized developmental state. Rather, social policy reform had become a winning agenda in and of itself, and the processes by which social policies were made had become considerably more porous.

East Asian Democracy and Welfare

Democratic transition in Taiwan and South Korea, and competitive democratic elections in Japan during the early 1990s, entailed a new political logic, a new political incentive structure inherent in democratic politics, which sparked initially, and shaped thereafter, the course of welfare state deepening in these East Asian cases. Democracy was an important variable. However, the installation of democracy alone does not guarantee the emergence of the welfare state, especially in late developing countries. There is ample evidence to demonstrate that, and we would be naive to think otherwise. Places such as Taiwan, Korea and Japan have, in many ways, become an aspirational model for social policy reform, with many countries attempting to emulate the East Asian experience. Emulation, however, has been difficult. Not because of a spurious causal connection between democracy and welfare, described above, but rather, because these particular East Asian cases benefited from other enabling factors which, in the end, made the transition from developmental state to welfare state more socially, politically and economically viable. Three enabling factors stand out.

Fiscal and Economic Capacity

The most common refrain from social policy advocates in many other parts of the world upon learning about the East Asian experience in welfare state deepening is that Taiwan, Korea and Japan are rich, while many countries in the non-Anglo-European world are not. And they are right. The political logic of democracy and welfare expansion requires that states have the fiscal capacity to implement reform and that citizens, in turn, have the available economic resources to contribute, especially in social insurance programs. During the 1990s, GDP per capita in Taiwan and Korea was much higher than in their Latin American counterparts; Japan's GDP per capita was among the highest in the world. East Asians were, quite simply, comparatively richer than those living in many other parts of the world. Their governments were also richer. Inter-regional variation in state fiscal capacity was just as pronounced, particularly among late-developing economies. For instance, during the 1990s, most

of Latin America's large economies were running chronic deficits and carried major debt burdens, for most equalling over 50% of GDP. Debt service burdens were also naturally very high, ranging from about 25% to nearly 50% of the value of exports. In contrast, Taiwan and South Korea, during that same period, ran minimal (to zero) budget deficits, debt was comparatively low, and debt service-to-export ratios were less than 11%.⁹ The East Asian developmental states were relatively healthy in fiscal terms and able to afford social welfare expansion during the 1990s. Simply put, being (comparatively) rich and democratic facilitated the welfare state in Taiwan, Korea and Japan.

Growth with Equity

That Taiwan, Korea and Japan sustained, on average, around 8% growth per year between the 1960s and 1980s is noteworthy. What is even more laudable, perhaps even miraculous, is the fact that rapid economic growth in Taiwan, Korea and Japan was accompanied by tremendous socio-economic equity. The gini coefficient in Taiwan and Japan consistently hovered around 0.30 throughout the postwar high-growth period; in South Korea, the gini ranged between 0.30 and 0.40. Contrast these measures with the average gini coefficient in Latin America in 1980, which was approximately 0.50, and it is clear that East Asia's industrializers were more in-line with the egalitarian economies of northern Europe. Growth with equity was in part motivated by political concerns. Japan's LDP was early on concerned about challenges from the socialist and communist parties. In Korea, student and worker movements prior to the authoritarian rule of Park Chung-Hee during the early 1960s ensured the developmental state there was similarly mindful of distributive outcomes in economic growth. In Taiwan, the KMT promoted socio-economic equity as a way of mitigating potential ethnic tensions between Chinese mainlander émigrés and ethnic Taiwanese, particularly as the mainlander-based KMT and its supporters were the minority.

But growth with equity was not only a political strategy; it was also an important part of East Asia's industrialization strategy. Poverty alleviation was a priority in Taiwan, Korea and Japan, though one that was embedded in the larger aims of aggregate economic growth. Land reform early on in the postwar period in Taiwan, Korea and Japan jumpstarted agricultural and industrial development and narrowed the distance between social classes. To facilitate continual industrial upgrading, the developmental state invested heavily in human capital development through, most notably, an

⁹ Haggard and Kaufman, 2008, p. 192.

emphasis on universal and accessible education. By the early 2000s, high school enrolment rates in all three places were near 100%. Universal education not only ensured a skilled labor force, it also facilitated social mobility, which in turn resulted in greater socio-economic equity. Policymakers in Taiwan, Korea and Japan also pursued the dual objectives of growth and equity through a full employment strategy, relying on, for example, Japan's income doubling plan of the 1960s, the heavy and chemical industries drive in Korea during the 1970s, and the promotion of small and medium sized enterprises (SMEs) in Taiwan that facilitated greater social mobility, more entrepreneurial opportunity, and narrowed the gap between worker and manager.

The *legacies* of growth with equity in Taiwan, Korea and Japan, however, were important in establishing the larger social, economic and political context in which social policy debates were mediated during the 1990s, when the nascent welfare state emerged in the region. Social welfare policy is fundamentally about re-distribution, meaning it is technically a zero-sum arrangement which creates winners and losers. The extent to which conflict between potential winners and losers can be mitigated and inter-class compromises are formed determines, in large part, the likelihood of effective re-distributive social policy. In this respect, the legacies of growth with equity in East Asia favored social welfare reform by lowering the economic, political and social costs of introducing re-distributive social welfare policies. The experience of growth with equity in Taiwan, Korea and Japan simply made it easier for political entrepreneurs to pursue equity-enhancing social policy reform.

First, relative income equity through the 1980s and into the 1990s lowered the *economic costs* of re-distributing wealth across wage groups and disparate (in terms of income) households. The distance between the richest and poorest was narrower in Taiwan, Korea and Japan – due to an existing distribution of income that was relatively egalitarian – meaning the costs of re-distribution and the prospects of welfare deepening were much less constrained. The potential winners in the social welfare bargain did not win big, but more importantly, those who lost also did not lose that much. Contrast this with the Latin American experience, where economic growth was accompanied with extreme socio-economic inequality. The economic costs of transferring wealth from the richest to the poorest there are much higher, as the prospective losers in re-distribution would, comparatively speaking, lose a great deal more.

Second, the legacies of growth with equity in Taiwan, Korea and Japan mitigated the *political costs* of re-distribution. Again, the contrast between these East Asian cases

and developments in Latin America is instructive. In places such as Chile, Mexico and Brazil, social class politics are intensely divisive. But whereas class conflict became a deeply entrenched part of the formal political party system in democratizing Latin America, this was not the case in Taiwan, Korea and Japan. Distributional battles were fought in East Asia, as they are elsewhere. However, because such battles were not fought among programmatic and ideologically left and right parties, the political costs of pushing (or resisting, for that matter) a social policy reform agenda were considerably lower. To be supportive of social welfare expansion, for instance, was not politically costly, provided that public opinion and broad and winnable, cross-class electoral coalitions supported such an initiative, which was the case in industrial East Asia. Moreover, the threat of alienating electoral support from those most likely to lose in re-distributive social welfare policy arrangements – i.e. higher income earners and the wealthy – was considerably reduced because the gap between the rich and poor was less pronounced. The prospects of constructing winning cross-class coalitions were, politically speaking, more likely. Simply put, the political costs of supporting welfare reform were less severe, and during the 1990s in particular, such support often yielded political gains.

And third, growth with equity in the East Asian developmental state lowered the *social costs* of re-distributive social welfare by blunting the perception of distinct social class divisions within society. Most Japanese, for instance, considered themselves to be a part of the middle mass. The vast majority of South Koreans who benefited from the developmental state's growth with equity strategy saw themselves to be from the middle class. Similarly, Taiwan's was perceived to be a "classless" society.¹⁰ This did not mean that social class divisions did not exist or that they did not animate politics in these East Asian societies. For example, the minjung movement in Korea, which prompted democratic transition during the late 1980s, was formulated, in part, along socio-economic class lines. However, we also know that soon after Korea's transition, the minjung coalition fell apart, leaving the ideological leftists marginalized from mainstream politics while the majority of middle class activists gravitated back towards the middle. It was the overwhelming social perception of "middle class-ness," a legacy of growth with equity in Taiwan, Korea and Japan that tempered the potentially divisive politics of social policy reform. Yasusuke Murakami's observation about Japan captures this perception when he writes that "people of the new middle mass do not see the issues around them in ideological terms of class conflict or of revolution."¹¹ The stakes, both real and

¹⁰ Michael Hsin-Huang Hsiao, ed., *East Asian Middle Classes in Comparative Perspective* (Academia Sinica, Institute of Ethnology, 1999).

¹¹ Yasusuke Murakami, "The Age of New Middle Mass Politics: the Case of Japan," *Journal of*

perceived, between social policy's winners and losers were not prohibitively high for social policy reformers to deepen the welfare state in Taiwan, Korea and Japan

Ideological Flexibility

A relatively unique feature of East Asian democracies, and particularly among the cases of Taiwan, Korea and Japan, was the seemingly non-programmatic nature of their political party systems. Unlike in the established democracies of Europe or the more recent transitional democracies in Latin America, Southern and Eastern Europe, political party systems in East Asia were (and are) not very well institutionalized in terms of the left-right ideological continuum. Party identification among voters was (and continues to be) weak. Parties were inconsistent in their electoral platforms. And intra-party cohesion was ephemeral, with splinter and factional parties breaking off quite regularly. Part of this can be explained by the historical dominance of catch-all ruling parties – such as the KMT in Taiwan, the Democratic Justice Party (DJP) in Korea or Japan's LDP – which basically crowded out competitors along the ideological spectrum, leaving little programmatic space for potential challengers. Part of this can also be explained by the legacies of the Cold War, which essentially destroyed any partisan affiliation with the left.

For many, the non-programmatic nature of party systems in Taiwan, Korea and Japan suggests that multi-party democracy is not well institutionalized there, and that the quality of democracy has suffered as a result. Moreover, the absence of a strong leftist political party, according to the conventional wisdom among welfare state scholars, means that the prospects for social welfare deepening are not promising. The fact that unions are not particularly cohesive and have failed to attach themselves with any political party, such as a programmatic social democratic party, further portends a weak link between East Asian democracy and the prospects of social policy reform. And yet, given what has happened in terms of social policy reform in Taiwan, Korea and Japan, an argument can be made that it was precisely the non-programmatic nature of the party system during the 1990s that facilitated rather than hindered the development of the welfare state in the region, that the *absence of ideological rigidity in the party system in fact favored the politics of welfare state deepening*.

The introduction of democratic competition during the late 1980s and early 1990s in Taiwan, Korea and Japan institutionalized a new set of political incentives for parties to become more politically entrepreneurial. In the face of new (or renewed) electoral

competition, political parties were incentivized to scramble to exploit new cleavages, articulate winning platforms and assemble winning electoral coalitions. Social welfare policy emerged as a winning issue. However, unlike in other democracies where political parties tend to be more ideologically programmatic, social policy reform in Taiwan, Korea and Japan was not understood to be the exclusive ideological domain of the partisan left. Put another way, social policy reform – be it in health care, pensions, public assistance or social care – was not experienced among parties and voters as an ideologically leftist or distinctly social democratic agenda. After all, it was the incumbent authoritarian party in Korea, the DJP, which universalized medical insurance by expanding coverage to nearly half the population in the late 1980s. The same notionally conservative political party legislated a national pensions program in 1988. In Taiwan, it was the authoritarian-turned-democratic KMT, and not the opposition DPP, which started developing a national health insurance program during the late 1980s and implemented it in 1995, just as it was the KMT when in opposition that pressured the DPP government in the 2000s to not raise health insurance premiums and to also increase old-age income allowances. Similarly in Japan, the nominally conservative LDP, and not the opposition, prompted state investments in new social protection schemes for child care, elderly care as well as new income security measures during the late 1990s.

Politically entrepreneurial parties such as the DJP, the KMT and the LDP crafted winning electoral coalitions around social policy reform, not because they were committed leftist social democrats but because they could win elections by running on such issues. But these parties were not constrained ideologically in doing so. Their efforts to articulate a pro social welfare agenda were not seen as illegitimate or ideologically inconsistent. Indeed, it was precisely the ideological flexibility and “free space” inherent in the non-programmatic party systems of democratic Taiwan, Korea and Japan which meant the social democratic reform agenda was there for the taking. Ideological and partisan flexibility, as opposed to programmatic rigidity, prevented political and ideological deadlock over social policy reform.

Conclusion

Whether or not Taiwan, Korea and Japan are substantive welfare states is debatable. Certainly, when compared with the “gold standard” of welfare states such as Sweden, then it is true that the East Asian cases examined here fall short (though Sweden today would likely fall short as well). But what is not debatable is the assertion that Taiwan, Korea and Japan have grown out of the developmental state model, or at least have

moved beyond the singularly focused high-growth model of state-led economic development, towards a much more comprehensive social policy regime. Beginning in the 1990s, social spending in all three places increased manifold. Existing social protection programs were expanded and in many cases universalized. Programs have also been created, reaching new constituents and protecting new vulnerable populations. And the purposes of social policy have evolved past the productivist logic of the developmental state era, into becoming more inclusive as well as re-distributive. Functionalist imperatives alone, however, cannot explain this transformation. Rather, this paper has provided a distinctly political explanation for welfare state deepening in Taiwan, Korea and Japan, and one for which the explanatory core was the political logic of democracy, and specifically the political dynamics that tied together *East Asian* democracy and social policy reform.

Looking forward, one should expect that the current social welfare policy reform trajectory will more or less stay the present course. It is unlikely, for instance, that we will see these social insurance regimes become fully government-financed welfare states, such as those in postwar Europe where general and earmarked tax revenues were re-distributed by the state for the purposes of social protection. The costs of breaking from existing social policy institutions in East Asia would be prohibitive and a wholesale re-structuring thus very unlikely. However, for similar path-dependent reasons, it is just as improbable that Taiwan, Korea and Japan will significantly retrench their current social policy regimes. People have come to expect, for instance, a modicum of egalitarianism, a normative expectation in part rooted in the legacies of postwar growth with equity, but which have also been carried forward with the expansion of social welfare reform in the 1990s. Efforts to retrench existing programs have met tremendous resistance and have by and large been unsuccessful. Democratic politics and the mobilization of voters have ensured that vested interests in and normative expectations about the current social policy regimes in all three places have become more fixed over time. Economic downturns and more general uncertainty in the region have not blamed the growing costs of social protection. Rather, it seems that the once powerful postwar idea that social welfare is necessarily inimical to economic growth no longer resonates in mainstream political and policy debates, which is perhaps the most convincing indicator that the postwar developmental state has indeed been transformed in ways that can accommodate a re-distributive welfare state.