

**Social Welfare Systems in East Asia:
A Comparative Analysis Including Private Welfare**

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Editorial Note

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Abstract

This paper is an overview of the social welfare systems of five East Asian countries, namely Japan, Korea, Taiwan, Hong Kong and Singapore. It analyses the overall costs of welfare as well as income distribution aspects, based on both aggregate data and a programme-by-programme review of their welfare states (presented in annex). Private welfare is introduced in the analysis in two ways. First, it is argued that sometimes welfare programmes are characterised by a mix of public and private interventions, along the three dimensions of provision, finance and decision. Second, this study explores the welfare roles played by private actors alone, namely enterprises and families. The main conclusions are that (i) Hong Kong and Singapore's public welfare expenditures will remain very low as long as they continue to rely mainly upon privately financed welfare programmes, (ii) Korea and Taiwan's public welfare expenditures will grow significantly in the coming years as their populations age, their old age pension programmes mature and their various insurance schemes are extended to marginal occupational groups, (iii) Japan's ageing problem is compounded by the weakening of the family as a provider of welfare, which will put an extra burden on her welfare state, (iv) Japan and Korea's enterprises are challenged in their chief welfare role, namely securing employment, which will also put an extra burden on their welfare states and (v) the main income equalising factor in East Asia is the very equal distribution of work across households, which is also threatened by the weakening of enterprise and family welfare (i.e.,

respectively rising unemployment and decreasing income pooling inside the family).

Introduction

Some East Asian countries have reached a level of industrialisation comparable to that of Western countries. This is particularly true of Japan and the four “New Industrialised Countries” (NICs): South Korea, Taiwan, Hong Kong and Singapore. On the other hand, their social welfare systems are widely considered to be underdeveloped. Indeed, their very success is by some seen to lie in the low emphasis they give to formal social welfare institutions. One fact supporting this view is their low level of public expenditures on social welfare as a percentage of GDP. Another element is the rhetoric of East Asian governments themselves, championing “Asian values” as an alternative to the Western “state-dependency” system. Until the recent Asian financial crisis, many Western politicians have expressed interest in that alternative, for different reasons depending upon their ideological position.¹

Several surveys of East Asian welfare states have already been carried out.² Many authors have taken a historical approach, seeking to explain why those welfare systems have turned out to be what they are. They have adopted either a political economy or a cultural perspective or both.³ They also discussed whether there is such a thing as an “East Asian model” of social security, as opposed to the often-quoted European models.⁴ This study will not dwell any further on these questions and perspectives.

My purpose is rather to examine the ways in which those five East Asian countries are dealing with social risks and income inequality, which affect any advanced economy. My overall research questions are the following: Is it true that East Asian states are less involved in social

¹ For a good discussion of “positive” and “negative orientalism” in welfare policy, see Goodman, White and Kwon (1998a or 1998b).

² Goodman, White and Kwon (1998a) offer a comprehensive and up-to-date review of this large literature.

³ See among others Anderson (1993), Campbell (1992), Chow (1988), Dixon and Kim (1985), Goodman and Peng (1996), Goodman, White and Kwon (1998a), Gould (1993), Jones (1990a and 1993), Kwon (1995), Rose and Shiratori (1986) and Shinkawa and Pembel (1996).

⁴ Such as the Bismarkian and Beveridgian models, or Esping-Anderson’s liberal, conservative and social-democratic models.

welfare than their Western counterparts? If yes, is the private sector playing a role as an alternative provider of welfare? If it does, what are the advantages and disadvantages of private versus public welfare provision? And finally, are the current East Asian welfare systems sustainable or will they have to adapt themselves to the current financial crisis, as well as to changing economic, socio-cultural and demographic conditions?

This paper aims at laying down the foundations for an economic and quantitative analysis of those broad questions. The five East Asian countries are compared to some major Western countries with two yardsticks: cost and income distribution. The underlying idea is that it is better for a country to have less income inequality with a cheaper welfare system, everything else being equal. However, ratios of public expenditures on social welfare to GDP and Gini coefficients are not taken at face value. This paper's objective is indeed to identify the main factors that influence those two macro-measures and to compare them across countries. This analysis must also reveal further elements to assess the effectiveness of East Asian welfare systems, for aggregate income inequality and cost alone are poor indicators indeed. Each country's welfare state is therefore studied in detail, and put into context by looking at some important background variables, such as demographic, economic and socio-cultural factors. At the outset, the welfare state is considered as only one part of a country's social welfare system, because the private sector plays important welfare roles as well, particularly in East Asia.⁵

Private welfare is given special attention in two ways. First, I will examine Goodman, White and Kwon (1998a)'s proposition that East Asian states do play an important role in welfare, albeit as regulators.⁶ Instead of providing services by themselves or using fiscal and spending instruments, they rely on their regulatory power to enforce the private sector to provide and finance certain types of welfare benefits. Burchardt (1997) proposes a more operational definition of this regulatory role (which she uses for Britain). In her typology of private versus public welfare programmes, she distinguishes three dimensions that can be independently controlled either by the state or by the private sector:

⁵ Several authors have stressed the importance of private actors in East Asian welfare systems. See among others: Goodman, White and Kwon (1998a), Hall (1988), Jones (1990a), Shinkawa and Pembel (1996).

⁶ See also Kwon (1997).

provision, finance and decision.⁷ Decision here refers to the ability of consumers to choose whether they want to participate in a programme at all, and if yes, what amount of services they want to buy. In other words, there must be an affordable possibility of “exit” and no intermediary or “agent” choosing for the consumer. This typology is particularly interesting as it allows us to separate three goals of privatisation: fostering competition among providers, lowering taxes and enlarging consumers’ choice. Those three goals may be pursued separately. For instance, contracting out services (private provision, public finance, public decision) may increase competition; distributing vouchers to consumers (public or private provision, public finance, private decision) may foster both competition and choice; charging user fees (public provision, private finance, public decision) allows for lower taxes.⁸ I will use this typology in chapter II to discuss the importance of hybrid welfare programmes in East Asian countries (programmes that are public in at least one of the three dimensions but may be private in one or both other dimensions).

The second way in which I will explore private welfare is by discussing the welfare roles played by some private actors without any input of the state (i.e., purely private programmes). Those actors are enterprises and families. I will show how they take in charge some tasks that are commonly under the responsibility of governments in Western countries but that are relatively neglected by East Asian states. As little data is available to measure family or enterprise welfare, I will limit myself to highlight some societal characteristics of some East Asian countries that have a direct impact on the need of the state to fulfil specific social welfare functions. As shall be seen, this discussion is quite complex, as it goes far beyond the field of social policy itself. Hence conclusions in this part are more tentative.

⁷ Provision refers to the legal status of the implementing agency. Government departments and quasi-public social security authorities are considered as public, while for-profit companies as well as charities and individuals are private actors. Finance refers to the programme’s financing sources. Taxes and social security contributions are public finance, while user charges and non-statutory contributions constitute private finance. Decision is considered private if two conditions are met: (i) there must be a range of alternative services available to consumers, which must be close in terms of price and quality and (ii) consumers must be able to choose services by themselves.

⁸ Combinations are also possible. For example, ‘marketing of public services’ corresponds to public provision, private finance and private decision.

This paper is organised as follows. The first chapter presents a brief description of the five welfare states (see the end of this introduction for a “user guide” of the descriptive framework).

The second chapter is a synthesis of the systematic programme-by-programme review of East Asian welfare states. It identifies some patterns shared by the five East Asian welfare states, as opposed to Western ones. Yet differences between the East Asian countries themselves are also highlighted, as well as their similarities with the West. The focus is put on patterns that bear on the level of public expenditures on social welfare and/or income distribution. For instance, to what extent welfare programmes are publicly or privately financed (which influences public expenditures)? How do different programmes across countries compare in terms of generosity (which influences both costs and income distribution)? And what are the mechanisms leading to either vertical or horizontal redistribution (which influence income distribution)?

To complement this programme-by-programme analysis, the third and fourth chapters present macro evidence of respectively the costs of social welfare and the structure of income distribution and discuss the caveats of such broad measures.

Chapters V and VI discuss the social welfare roles of enterprises and families, respectively. Again, the main questions refer to cost and income distribution aspects. Do East Asian enterprises and families take in charge a bigger share of the economic costs of social welfare than in the West? Are there any private mechanisms of income redistribution, as opposed to taxes and transfers? Those chapters also contain background information to put each country’s welfare system into context.

The conclusion summarises the main findings. A number of hypotheses on the interactions between private and public welfare in East Asia are suggested. I also emphasise the challenges that this private/ public social welfare mix is currently facing, as a result of the current financial crisis, as well as economic, socio-cultural and demographic factors.

Reference Guide to the Welfare States of Five East Asian Countries

The basic material for this study is a reference guide to the welfare states of five East Asian countries, presented in annex 1.⁹ It consists of one section for each country, divided into the same sector-based sub-sections. “Welfare state”, “social security”, “social welfare” or “social policy” are rather vague terms. The International Labour Organisation defines “social security” as all public programmes that aim to protect people against the following “social risks”: health care, maternity, invalidity, occupational injury¹⁰, disability, old age, survivor, family¹¹ and unemployment. My list of “social welfare” sectors includes two additional social policy areas, although to a lesser extent: education and housing.

For each country and sector, a number of programmes of programmes have been identified. Although the aim is to be as complete as possible, the sheer number of policy instruments makes it almost impossible to be exhaustive. Hence the choice of programmes is biased in several ways according to the availability of information: (i) small programmes tend to be neglected, (ii) cash programmes are better represented than services, (iii) some local government programmes are overlooked.

This reference guide is summarised in chapter I, which includes synthetic tables of the cash programmes of each country. Those tables include the following descriptive categories:

- *Instrument*: Social security instruments are taken from the taxonomy of Dixon and Chow (1992). Those concepts are meant to express most characteristics of a programme in a nutshell (see

⁹ Readers must be aware that programme descriptions are quickly outdated. The pace of change of East Asian social welfare systems has been particularly rapid in the 1990s. Earlier systematic attempts to describe East Asian welfare systems can be found in Dixon and Kim (1985) and Dixon and Chow (1992). There are also two excellent reference guides on social security systems throughout the world available on line, one produced by the US government (see US Government, 1997 or <http://www.ssa.gov/statistics/ssptw97.html>) and the other by the International Social Security Association (<http://www.aiss.org>).

¹⁰ To simplify the presentation, I have regrouped maternity, invalidity (or sick pay) and occupational injury into one group of “health-related temporary work interruption”, as opposed to disability that implies a permanent work impairment.

¹¹ I will focus on family or child allowances and programmes for lone parents, not on child support from separated parents.

table 1).¹² Insurance and assistance are well known. Allowance differs from insurance because it is not contributory, and from assistance because it is not means-tested but cover entire categories of people (e.g., the disabled, the elderly).¹³ A provident fund is nothing else than a mandatory saving scheme. It differs from insurance because there is no risk pooling. Since accounts are individualised, it does not involve any interpersonal redistribution. Employers' liability consists of labour laws enforcing employers to pay minimum benefits to employees in some circumstances (e.g., legal sick or severance pay). I have included health care among the cash programmes, although it is really a service, because it is primarily financed by insurance schemes. When it is not, I use the term "state provision" to mean government subsidies to (mainly public) health care facilities.

- *Coverage*: If the programme is an insurance or a provident fund, it is the proportion of people eligible to benefits, either as a percentage of the total population, in the case of health care, or as a percentage of the labour force, in the case of income replacement schemes. For allowance and assistance schemes, it is the proportion of the population that actually receives benefits, either as a percentage of the total population, or as a percentage of the relevant category of people (e.g., the elderly for an old age allowance).
- *Expenditures*: Each programme's total expenditures are given as a measure of their importance. They are presented in local currency as well as a percentage of GDP. Data for employers' liability schemes are never available.
- *Financing*: It is the share of the budget financed by taxes and by statutory contributions of employers and employees. An estimate of user fees is also included for health care.

¹² They are of course "ideal types", with characteristics that do not always fit particular programmes.

¹³ Some allowances are means-tested. Nevertheless, they still aim to catch a broad set of people, such that the test of means is normally designed to exclude the rich, as opposed to assistance schemes that aim at targeting the poor.

Table 1: Social Security Instruments

	Assistance	Insurance	Allowance	Provident Fund	Employers' Liability
Purpose	poverty alleviation	poverty prevention	social compensation	poverty prevention	poverty prevention
Funding	taxes	contributions	taxes	contributions	employers
Eligibility	means test	contributions	belonging to some social or demographic category	contributions	current employment
Benefits	flat-rate cash & in-kind	earnings-related cash	flat-rate cash	contributions refund	earnings-related cash
Focus	persons in need	persons suffering interruption of earnings	persons with additional income need	persons suffering interruption of earnings	persons suffering interruption of earnings

Source: Adapted from Dixon and Chow (1992).

I. Description of the Welfare States of Five East Asian Countries

I.1 Japan

Japan has a fully developed welfare state. Its pillar is social security, composed of a large number of insurance schemes as well as various miscellaneous programmes. Its main branches are health care and old age pensions, both sectors in which Japan achieved universal coverage a long time ago. Health insurance schemes usually also provide invalidity and maternity benefits, while pension schemes generally include disability and survivor benefits. The other social security programmes are (i) several occupational injury insurance schemes, (ii) three means-tested family allowances, (iii) an unemployment insurance scheme, (iv) war victims pensions, (v) public health programmes, (vi) the public assistance and (vii) personal social services.

Social security in Japan is very complex because of its institutional fragmentation, especially in the health care and old age pensions sectors, which is the product of a long history of incremental development. There is not one health or old age insurance scheme, but different systems existing in parallel, the boundaries of which correspond to broad occupational groups (e.g., civil servants, private sector employees, the self-employed, seamen, teachers and so on). Moreover, there are

numerous insurance schemes within each system, managed by a large number of quasi-public institutions that are all regulated by the Ministry of Health and Welfare. The level of both contributions and benefits may vary considerably across systems. Likewise, the government subsidises all insurance schemes in quite different proportions. Some genuinely national schemes have been added on top of this already complex structure, in an attempt to limit social stratification. The main examples are the National Pension, which provides uniform benefits for all, on top of which the occupational pensions are added (two-tier system), and the Health Services System for the Aged, covering the health care costs of all people over 70 years old.

Personal social services have received fresh attention since the issue of population ageing has surfaced as the main welfare challenge in Japan. The government has launched the Gold Plan (1989-99) and the Angel Plan (started in 1994) to increase the supply of personal care services for, respectively, the elderly and families with children. It has also recently voted the introduction of a long-term care insurance to cover the costs incurred by old people who need constant care. However, the sector of personal social services still faces serious challenges, as will be discussed in chapter VI.

Besides social security, education is the other component of the Japanese welfare state. It is either provided or subsidised by the government and is mandatory and almost free at the primary and secondary levels. The state's intervention in housing is comparatively much less important, and focuses on the provision of houses for sale for the middle-class, with some cheap rental flats available for the poor.

Table 2: Synopsis of the Main Cash Welfare State Programmes in Japan (1994)^a

Programmes	Instruments	Expenditures ^b		Coverage ^c	Financing ^d			
		Ybn	% GDP		S	Er	Ee	Tr
Health Care								
EHI (gov't managed)	insurance	4,077	0.85	30%	12	42	41	
EHI (society managed)	insurance	2,940	0.61	26%	1	50	39	
National Health Insurance	insurance	5,132	1.07	34%	45	0	38	11
MAAs	insurance	1,100	0.23	9%	4	45	23	13
HSSA	insur./ state prov.	7,780	1.62	..	32	0	0	68
Public Health Progr.	state provision	637	0.13	..	100	0	0	0
Public Assistance	assistance	794	0.19	0.54%	100	0	0	0
Total		22,46	4.69		U: add ± 13.3% ^f			
		1						
Invalidity, maternity occupational injury								
EHI (gov't managed)	insurance	342	0.07	30%	12	42	41	
EHI (society managed)	insurance	237	0.05	23%	1	50	39	
National Health Insurance	insurance	81	0.02	..	45	0	38	11
MAAs	insurance	81	0.02	8%	4	45	23	13
Gov't Empl. Acc. Comp.	insurance	34	0.01	7% ^g	0	92	0	
Workmen Acc. Comp. Ins	insurance	685	0.15	70% ^g	0	75	0	
Total		1,460	0.30					
Old age, survivor & disability								
National Pension	insurance	6,755	1.41	47%	12	0	14	61
Employees Pension Ins.	insurance	14,73	3.07	49%	8	26	23	26
		1						
MAAs (public sector)	insurance	6,832	1.43	8%	2	46	23	13
MAAs (private sector)	insurance	520	0.11	1%	20	17	41	8
Public Assistance	assistance	494 ^e	0.10 ^e	4.5% ^h	100	0	0	0
Total		29,33	6.12					
		2						
Family								
Child Allowance	allowance/ employer liab.	171	0.04	63% ⁱ	100	Er: add ± 233%		0
Child Support Allowance	allowance	260	0.05	106% ^j	100	0	0	0
Spec. Child Dep. Allow.	allowance	177	0.04	..	100	0	0	0
Public Assistance	assistance	53 ^e	0.01 ^e	9.2% ⁱ	100	0	0	0
Total		665	0.14					
Unemployment								
Employment Insurance	insurance	1,889	0.39	50% ^g	10	64	0	
Public Assistance	assistance	42 ^e	0.00 ^e	0.06% ^k	100	0	0	0
Total		1,931	0.40					
Total		55,84	11.65					
		9						

Sources: Social Development Research Institute (1996), Health and Welfare Statistics Association (1997) and Statistics Bureau (1997).

Notes: a. Read introduction for definitions and annex 1 for more details. b. Excludes administrative costs. c. 1995. d. S= state; Er= employers (including state for civil servants); Ee= employees; Tr= transfer from another social security branch; U= users. Financing sources don't add to 100% because of capital income. e. Breakdown of public assistance budget is an estimate (total correct). Public assistance benefits include cash, housing, education and others, but not health care (counted separately). f. Of which 11.7% of co-insurance fees and 1.6% of uncovered expenses, excluding over-the-counter pharmaceuticals (total health care expenditures for 1994: Y25,790.8 billion). g. 1993. h. % of elderly households. i. % of children under 3 years old. j. % of lone-parents households. k. Recipient households other than elderly, disabled and lone parents as % of labour force.

1.2 Korea

The Korean social security system is dominated by a few public insurance programmes, divided along occupational lines. In the health care sector, civil servants and private school teachers have their own schemes. Private sector employees must join a separate system, which is administered by a large number of firm-based insurance carriers. Universal health care coverage has been achieved recently thanks to the introduction of a third system in 1989, the Regional Health Insurance, to catch farmers, the urban self-employed and employees of small firms. It is administered by local governments and is subsidised by the government at a rate of 50%. User fees remain high because of high co-insurance rates as well as the lack of reimbursement of some services. The Medicaid programme pays for the health care of the poor, although only indigent elderly and disabled people without family support may expect completely free health care.

In the old age, survivor and disability sectors, civil servants and private school teachers are the only groups having a pension scheme of their own. The rest of the working population is covered by the National Pension Programme, introduced in 1988. It is a funded scheme with defined benefits. 20 years of contributions are required to get full benefits, which means that only survivor and disability benefits are disbursed at the time being, as well as lump-sum refunds of contributions. The government reviews ways to reform the system, because it appears that the entitlements are too generous compared to contributions, such that the fund will collapse in the middle of the next century. The government does not subsidise the NPP at all.

Other major programmes are the Industrial Accident Compensation Insurance (IACI), the oldest Korean insurance scheme, and the Employment Insurance Programme. There is also the Livelihood

Protection Programme, the Korean public assistance, which offers a minimum cash income as well as a range of subsidies for essential goods. Middle-aged, able-bodied people generally do not receive cash benefits but are rather enrolled in public works projects.

The above brief presentation suggests that Korea has developed a fairly comprehensive social security system. However, it is important to keep in mind that a large proportion of the population remains uncovered, except for health care insurance. Indeed, the other insurance schemes are not mandatory for workers of firms with less than five employees, nor for the self-employed and family helpers, with the exception of the NPP.¹⁴ Private and public sector workers of firms with at least five employees actually represent only about 45% of the labour force.¹⁵ Yet workers of small firms that do not join the IACI are protected by the Labour Standards Law, which enforces their employers to pay them at least some benefits. Similarly, legal severance payments will continue to play an important role as long as the NPP does not deliver its full benefits.

Education is another major part of Korea's welfare state. It is mandatory and almost free for nine years. The government is also actively involved in the housing market but has focused on building housing units for sale, thus targeting the middle class. The government has more recently turned the attention on renting cheap housing to the poor.

¹⁴ The NPP has recently been extended to the self-employed but this is not fully reflected yet in the coverage figure presented in table 3.

¹⁵ See section IV.2. According to the 1995 census of establishments carried out by the National Statistical Office, 30.6% of workers were employed in establishments of less than five employees (including public sector workers). However, that survey only catches a total of 13,634,273 workers, compared to a total labour force of 20,377,000. The surveyed population corresponds more or less to the total of people "active in the formal urban sector" of annex 3, as it excludes agricultural establishments owned by an individual, the military and "simple stores without fixed facilities and business place". Note that establishments mean physical workplaces, not firms. In fact, 22% of employees were working in branch offices or factories belonging to a larger company, which leads to an overestimation of employees working in firms of less than five employees.

Table 3: Synopsis of the Main Cash Welfare State Programmes in Korea (1996)^a

Programmes	Instruments	Expenditures		Coverage	Financing ^b		
		Wbn	% GDP		S	Er	Ee
Health Care^c							
Civil Servants and Private Sch. Teachers Health Ins.	insurance	588	0.15	11%	0	50	50
Industr. Empl. Health Ins.	insurance	1,803	0.46	37%	0	50	50
Regional Health Ins.	insurance	2,430	0.62	50%	50	0	50
Medicaid	assistance	173 ^d	0.08 ^d	4%	100	0	0
Ministry of Health ^e	state provision	..	..	..	100	0	0
Ministry of Defence ^f	state provision	..	..	1.4%	100	0	0
Total		4,994	1.28			U: add ± 136% ^g	
Invalidity, maternity occupational injury							
Ind. Accident Comp. Ins.	insurance	777 ^d	0.36 ^d	40%	0	100	0
Labour Standards Law	employers' liab.	..	..	20%	0	100	0
Old age, survivor & disability							
National Pension Progr.	insurance	1,118	0.29	35%	0	50	50
Gov't Off. Pension Progr.	insurance	..	..	5% ^h	0	50	50
Pr. Sch. Teach. Pension Pr	insurance	..	..	1% ^h	0	50	50
Labour Standards Law	employers' liab.	..	..	..	0	100	0
Livelihood Protection Pr.	assistance	144 ^d	0.07 ^d	4% ⁱ	100	0	0
Total		1,262	0.32				
Family							
Livelihood Protection Pr. ^j	assistance	..	..	..	100	0	0
Unemployment							
Employment Ins. Progr.	insurance	..	..	20%	100	0	0
Total		7,033	1.80				

Sources: National Statistics Office (1997), National Pension Corporation (1996), Soon-Won Kwon (1993) and Huck-Ju Kwon (1998b).

Notes: a. Read introduction for definitions and annex 1 for more details. b. Estimates; S= state; Er= employers (including state for civil servants); Ee= employees; U= users. c. Excluding cash benefits (maternity grant, funeral grant and others). d. 1991. e. Subsidies to public hospitals and public health programme. f. Free health care for the military. g. Estimate based on 1989 figures of Soon-Won Kwon (1993). h. 1994. i. All recipients (including non-elderly) as % of total population. j. See data in annex 1 (no breakdown available).

I.3 Taiwan

Just like Korea's, Taiwan's social security has been significantly developed in the last decade. It is based on a social insurance system that is now close to achieving comprehensive and universal coverage of the population.

The first component of this system is a number of occupation-based insurance schemes. The main one is the Labour Insurance (created in 1958), a scheme covering several risks: (i) invalidity, (ii) disability, (iii) maternity, (iv) occupational injury, (v) retirement and (vi) death (plus funeral costs). It is mandatory for private sector workers whose enterprise employs at least five people.¹⁶ However, the actual coverage figure is higher than the total number of private sector workers, including family helpers.¹⁷ Government employees are covered by a similar insurance of their own, which also covers their dependants.¹⁸ Farmers have their own insurance as well, albeit only for maternity, disability and death. However, the government introduced an old age allowance for them. There are some minor insurance schemes for other occupational groups.¹⁹

The second component is National Health Insurance (NHI). It is a comprehensive health insurance that is very close to achieving universal coverage. Launched in 1995, it is in fact the product of the merger of several previous programmes, including the health care branch of the Labour Insurance and of the government employees' schemes. Thanks to additional government subsidies, the NHI now covers about a third of the population that was previously not covered by any insurance at all.

¹⁶ Private sector workers include: workers of the industrial, commercial, mining, forestry, transportation, communication and public utility sectors, journalists, employees of non-profit organisations, fishermen, persons receiving vocational training in institutes registered with the government and members of unions, as well as some teachers and employees of government agencies who are not covered by the Government Employees Insurance.

¹⁷ This may be due to fraud, as employers used to register false employees such as family members. Although they had to pay the premium, they attached a higher value to the health care benefits of LI. LI coverage has indeed dropped significantly since the introduction of the NHI, which took over the LI's health care branch.

¹⁸ Besides this Government Employees Insurance, there is also an Insurance for Teaching and Administrative Staffs of Private Schools and a Retired Government Employees Insurance. Military officers pay special low premiums.

¹⁹ Professional groups are eligible for group life insurance sponsored by the Central Trust of China. Each professional group forms an insurance unit that pays two thirds of the premium, while those insured pay the rest. The government also sponsors comprehensive accident insurance for students and pays the full cost of premiums for aboriginal and offshore island students (see Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>). These minor schemes will be ignored in this paper.

The government considers to privatise the NHI's administration, which would considerably change Taiwan's health care system.

Table 4: Synopsis of the Main Cash Welfare State Programmes in Taiwan (1996)^a

Programmes	Instruments	Expenditures		Coverage	Financing ^b		
		NT\$bn	% GDP		S	Er	Ee
Health Care							
National Health Insurance	insurance	221.1	2.96	93%	36 ^c	38	26
Ministry of Health ^d	state provision	42.42	0.57	..	100	0	0
Ministry of Defence ^e	state provision	..	..	1.7%	100	0	0
	Total	263.52	3.53			U: add ± 56%	
Invalidity, maternity occupational injury							
Labour Insurance	insurance	6.46	0.09	80%	17	48	27 ^f
Farmers Insurances ^g	insurance	0.13	0.00	19% ^h	70	0	30
	Total	6.59	0.09				
Old age & survivor							
Labour Insurance	insurance	60.34	0.81	80%	17	48	27 ^f
Government Employees Insurance ⁱ	insurance	14.06	0.19	7%		65	35
Farmers Insurance ^j	insurance	5.38	0.07	19% ^h	70	0	30
Old Age Allowance	allowance	..	..	20% ^k	100	0	0
Farmers' Old Age Allow.	allowance	12.43	0.17	22% ^k	100	0	0
Public Assistance	assistance	2.29	0.03	0.54% ^l	100	0	0
	Total	94.5	1.26				
Disability							
Labour Insurance	insurance	3.65	0.05	80%	17	48	27 ^f
Government Employees Insurance ⁱ	insurance	0.31	0.00	7%		65	35
Farmers Insurance ^j	insurance	0.55	0.01	19% ^h	70	0	30
Public Assistance	assistance	.. ^m	.. ^m	.. ^m	100	0	0
	Total	4.51	0.06				
Family							
-	-	-	-	-	-	-	-
Unemployment							
Unempl. Assist. Progr.	allowance	..	..	..	100	0	0
Public Assistance	assistance	.. ^m	.. ^m	.. ^m	100	0	0
Total		369.12	4.94				

Sources: National Health Insurance Bureau, <http://www.nhi.gov.tw> (December 1997). Bureau of Labour Insurance (1997), Central Trust of China (1997), Directorate General for Budget, Accounting and Statistics (1997a) and information provided by the courtesy of the Farmers Insurance Bureau.

Notes: a. Read introduction for definitions and annex 1 for more details. b. S= state; Er= employers; Ee= employees; U= users. Italics are estimates. c. Includes direct subsidy to NHI, plus contributions as employer of government employees, plus contributions for special occupational groups. d. Subsidies to public hospitals and public health programmes. e. Free health care for the military. f. Financing sources don't add up to 100% due to capital income. g. Maternity benefits only. h. 30% of the

insured under the Farmers Insurance are over 65 years old and are probably not reported in the labour force statistics, such that the coverage figure is overestimated. i. Includes Retired Government Employee Insurance and Insurance for Teaching and Administrative Staffs of Private Schools. j. Survivor benefits only. k. % of all people 65 years old and over. l. All recipients (including non-elderly) as % of total population (no breakdown available). m. See Old age, survivor and disability section in annex 1.

A third component may soon be added to this system, the National Pension Insurance (NPI). Although its introduction has not been formally approved yet, the civil service has set up a concrete plan that the government is likely to adopt before the next elections. The NPI will be a funded insurance scheme with defined benefits. It will offer flat benefits for a flat premium. In a transitory period, the LI will continue to serve its insured population, but its old age benefits will be aligned on those of the NPI.

Besides insurance schemes, the Department for Social Welfare provides a variety of welfare services, as well as a small assistance programme. Last but not least, nine years of mandatory education is provided almost free by the state. The housing policy is relatively much less developed.

1.4 Hong Kong

Social security is only one of the pillars of the welfare state in Hong Kong, for the state plays a major role as direct provider of education, health care and housing. Education is mandatory for nine years. It is very cheap in private and subvented schools, but there is also a marginal private sector. Public health care is also available to all and almost free. Yet the poor quality of health care services and the long waiting lists lead many people to opt out for the private sector, especially for outpatient visits. The state is also the main provider of housing, although rental fees cover the full costs of building. Still, some cross-subsidies exist in favour of poor households and rents do not reflect the full value of the land owned by the government. The state's intervention in personal social services is on the other hand relatively limited.

As far as social security is concerned, the main instruments in Hong Kong are assistance, allowance and employers' liability. The Comprehensive Social Security Assistance (CSSA) is a programme providing subsistence income to poor people irrespectively of age, health or even employment status (beneficiaries may earn some

income).²⁰ Recipients must have both an income and savings below prescribed levels and a “limited capacity to work”. The benefits include a flat cash payment depending upon status²¹ plus occasional *ad hoc* aid. A very low proportion of the population depends upon it and it is highly stigmatised (MacPherson, 1992).

Table 5: Categories of CSSA recipients (1995/96)

	Number of recipients
Old age	84,243
Blind, deaf, physically and mentally disabled	10,058
Ill health	14,450
Single parents	8,982
Low earning	1,814
Unemployed	10,131
Others	6,523
Total recipients	136,201
Total budget (HK\$m)	4,831.1

Source: Department of Census and Statistics (1996).

The Social Security Allowance (SSA), on the other hand, provides cash benefits at a flat rate to some broad categories of people (the elderly and the disabled), without neither contribution nor test of means. The take-up rates are therefore very high. However, these benefits are very low and by no means enough to live on. They should rather be considered as covering extra needs due to disability or age (MacPherson, 1992).

Prior to the transfer of Hong Kong to China, the government had agreed upon the introduction of a provident fund scheme to foster the economic security of the fast ageing population. If implemented, this will progressively change the nature of Hong Kong’s social security. Employers’ liability programmes cover the sectors of occupational injury, invalidity, maternity, unemployment and old age pension.

²⁰ Information on the CSSA and the SSA is taken from MacPherson (1992) and Social Security Administration (1997).

²¹ From HK\$1,615 to HK\$4,135 per month for singles (£133 and £342) and from HK\$1,440 to HK\$3,365 for family members, depending upon the category of the recipient (in 1997).

Table 6: Synopsis of the Main Cash Welfare State Programmes in Hong Kong (1995)^a

Programmes	Instruments	Expenditures		Coverage	Financing ^b		
		HK\$bn	% GDP		S	Er	Ee
Health Care							
Hospital Authority	state provision	16.025 ^c	1.58	82% ^d	100	0	0
Invalidity, maternity occupational injury							
Invalidity pay	empl. liability	..	..	84.3% ^e	0	100	0
Maternity pay	empl. liability	..	..	84.3% ^e	0	100	0
Occupational inj. pay	empl. liability	..	..	84.3% ^e	0	100	0
CSSA (ill health)	assistance	0.5 ^f	0.05 ^f	0.48% ^g	100	0	0
Old age & survivor							
Long Service Pay	empl. liability	..	..	..	0	100	0
Old Age Allow. (SSA)	allowance	0.7 ^h	0.06 ^h	54% ⁱ	100	0	0
Higher Old Age Al. (SSA)	allowance	2.068 ^h	0.19 ^h	82% ^j	100	0	0
CSSA	assistance	2.990 ^f	0.28 ^f	14% ^k	100	0	0
	Total	5.758	0.53				
Disability							
Disability Allow. (SSA)	allowance	0.915	0.08	1.11% ^l	100	0	0
CSSA	assistance	0.357 ^f	0.03 ^f	0.16% ^l	100	0	0
	Total	1.272	0.12				
Family							
CSSA (single parents)	assistance	0.319 ^f	0.03 ^f	0.15% ^l	100	0	0
Unemployment							
Severance Pay	empl. liability	..	..	84.3% ^e	0	100	0
CSSA	assistance	0.655 ^f	0.06 ^f	0.62% ^l	100	0	0
Total		24.529	2.35				

Sources: Department of Census and Statistics (1997a, 1997b and 1997c).

Notes: a. Read introduction for definitions and annex 1 for more details. b. S= state; Er= employers; Ee= employees; U= users. c. 1994. d. 1988. The entire population is entitled to benefits but a minority chooses to opt out of the public sector, paying high user fees in the private sector. e. All civil servants and private sector employees. f. Estimate based on table 5 (categories "low income" and "others" added in unemployment). g. % of labour force. h. Own estimate for breakdown between the two old age allowance (total is exact amount). i. % of 65 to 70 year-olds. j. % of the over 70 year-olds. k. % of the over 65 year-olds. l. % of entire population (proportion of relevant population not available).

1.5 Singapore

The dominant welfare instrument in Singapore is the provident fund. The Central Provident Fund (CPF) is a quasi-public institution managing workers' mandatory savings that are channelled to three

individual accounts: the Ordinary Account, the Medisave Account and the Special Account. The Ordinary Account may be used to finance housing, education as well as CPF insurance schemes and approved private investments²². The Medisave Account covers health care expenditures. The Special Account is for old age income maintenance. All employees must join the CPF, the self-employed being required to contribute to Medisave only. An individual may use his CPF savings for himself or his immediate family. Both employees and their employers contribute 20% of the wages each to the fund (subject to a floor of S\$50 per month for the employee and S\$200 for the employer and to a ceiling of S\$6,000, resp. £23,£91 and £2,724). This rate decreases with age.²³ CPF contributions are exempted from tax and earn interest. The government runs a number of grants for some CPF members and occasionally tops up CPF accounts with gifts. Almost the whole fund (95.7%) is invested in government bonds or deposited in the central bank for purchase of future government bonds. Those bonds are issued especially for the CPF, are not tradable and have a floating interest rate pegged to the CPF interest rate, itself aligned on private banks rates.²⁴

Table 7: Basic Data on Singapore's Central Provident Fund (1996)

Number of members^a	2,741,804
Number of active members ^b	1,395,015
of whom self-employed members ^c	201,163
Total revenues (S\$m)	17,076
of which contributions	13,858
of which government grants	699
of which capital income	2,519
Total withdrawals (S\$m)	10,530
of which for CPF insurance schemes ^d	470
of which for CPF housing schemes ^e	5,058
of which for private investment	2,745
Total balances (S\$m)	72,567

²² After setting aside S\$50,000 (£22,706, called the Minimum Sum), CPF members may invest up to 80% of the balance of their savings in a large variety of approved financial instruments. They also have the option of buying non-residential properties and special discounted shares. All those investments are registered by approved banks, such as they cannot be realised for consumption expenditures.

²³ It becomes 20% after 55 years of age, 15% after 60 and 10% after 65.

²⁴ See Central Provident Fund, <http://www.cpf.gov.sg>, and Central Provident Fund Board (1997). Figures of 1996.

Interest rate (% , annual rate Jul-Dec) 3.48 (Ordinary & Medisave)
4.73 (Special & Retirement)

Source: Central Provident Fund Board (1997).

Notes: a. People who have an account. Add dependants to obtain number of potential beneficiaries. b. Members currently paying contributions. c. 32% of whom have voluntarily opened Ordinary and Special Accounts on top of the mandatory Medisave account. d. MediShield, Dependants Protection Scheme and Home Protection Scheme. e. Public Housing Scheme and Residential Properties Scheme.

Table 8: Synopsis of the Main Cash Welfare State Programmes in Singapore (1996)^a

Programmes	Instruments	Expenditures		Coverage	Financing ^b		
		S\$m	% GDP		S	Er	Ee
Health Care							
Ministry of Health	state provision	1,195	0.90	..	100	0	0
Medisave (CPF)	provident fund	316	0.24	80% ^{cd}	0	50	50 ^e
MediShield (CPF)	provident fund	31	0.02	50% ^c	0	0	100
	+ insurance						
MediFund	assistance	13	0.01	3% ^f	100	0	0
	Total	1,555	1.17				
Invalidity, maternity occupational injury							
Invalidity pay	empl. liability	..	..	83% ^g	0	100	0
Maternity pay	empl. liability	..	..	83% ^g	0	100	0
Occup. injury pay	empl. liability	..	..	83% ^g	0	100	0
	Total	..	..		
Old age & survivor							
Central Provident Fund ^h	provident fund	1,493	1.13	70% ⁱ	0	50	50
Civil servants' pension	empl. liability	..	..	..	100	0	0
Dependants Protection Scheme (CPF)	provident fund	67 ^j	0.05 ^j	70% ⁱ	0	0	100
	+ insurance						
Public Assistance	assistance	4	0.00	0.8% ^k	100	0	0
	Total	1,564	1.18				
Disability							
Central Provident Fund	provident fund	10	0.01	70% ⁱ	0	50	50
Dependants Protection Scheme (CPF)	provident fund	.. ^j	.. ^j	70% ⁱ	0	0	100
	+ insurance						
Public Assistance	assistance	0.5	0.00	..	100	0	0
	Total	10.5	0.01				
Family							
-	-	-	-	-	-	-	-
Unemployment							
-	-	-	-	-	-	-	-
Total		3,129	2.36				

Sources: Central Provident Fund Board (1997), data received by the courtesy of the Ministry of Health.

Notes: a. Read introduction for definitions and annex 1 for more details. b. S= state; Er= employers; Ee= employees; U= users. c. 1995. d. Dependants must be added (data not available). e. Small state subsidy ignored. f. Number of claims, not of beneficiaries. g. All employees and civil servants. h. Minimum sum and final withdrawal. i. Proportion of active CPF members in the labour force. j. No breakdown available between death and disability sectors. k. % of elderly over 65 years old.

The sectors in which the state is more directly involved are education and housing. The government provides and finances 10 years of mandatory education. The state is also the major provider of housing and promotes house ownership through the CPF. Finally, the Ministry of Community Development provides or finances a variety of social services and a small, strictly means-tested income support allowance.

II. Comparative Analysis of the Five East Asian Welfare States

The previous chapter summarised the welfare state programmes for each country separately. This chapter identifies similarities and differences between them. The first section discusses patterns in the choice of social security instruments across countries (social security consisting of cash programmes and health care). The second section takes a first approach to private welfare by examining in more details the shallow boundaries between the public and private sectors in social security. The same exercise is undertaken for in-kind benefits in the third section (i.e., education, housing and personal social services²⁵). In the fourth section, a number of generalisations that are often used to describe East Asian welfare systems are reviewed and commented. The central theme throughout that section is how redistributive East Asian social welfare systems are, vertically, horizontally as well as in a life-cycle perspective. The last section summarises the main findings.

II.1 Different Structures of Social Security

Table 9 maps out the main instruments of social security used by the different countries in each sector. Assistance is used in almost all

²⁵ Personal social services mean residential, day-care and outreach services for the elderly, the disabled and the youth, such that this category cuts across the sectors used in annex 1.

countries and sectors as the main poverty alleviation instrument (see table 1 in introduction). As to poverty prevention instruments, it is not rare for a state to use several of them in the same sector. This may be either to reach different groups of people (e.g., Taiwan's old age allowance for farmers, Korea's employers' liability scheme for occupational injuries in very small firms), or simply to complement each other (e.g., direct subsidies to hospitals on top of health insurance schemes, Singapore's MediShield insurance). In this case, I have ranked instruments by size of expenditures.

A clear pattern emerges for Japan, Korea and Taiwan. They rely on insurance as their main "poverty prevention" tool for all branches of social security (together with limited subsidies to public health care facilities). They also all use a public assistance programme as a "poverty alleviation" tool to catch the marginal population. This pattern is exactly the same as in most European countries.

An important nuance must be added for Korea and Taiwan, however. Some of their insurance schemes are really universal and offer comprehensive benefits, like their health care insurance. In the old age sector on the other hand, coverage is still rather limited in Korea, where the National Pension Programme (NPP) is progressively becoming universal by being extended to all occupational categories. Moreover, Kwon (1998a) stresses that the NPP does not offer full pensions yet, because workers have not had the opportunity to contribute to the scheme for enough years. As a result, all private sector employees are still protected only by the minimum legal severance pay, while farmers, the self-employed and the large proportion of day-labourers and workers of very small companies are left to their own means of subsistence in their old age. In fact, government employees are the only ones entitled to a substantial legal pension.²⁶ In Taiwan, the existing occupational insurance schemes together achieve a fairly high coverage rate, yet they offer quite low benefits for private sector employees, or even no old age benefits at all for farmers. That's why the government recently introduced allowance programmes and is planning to set up the National Pension Insurance, which will protect private sector workers better. A similar remark may be made for the other sectors. Occupational injury was historically the first risk covered by social insurance, just like in most countries in the world. On the other hand,

²⁶ Employees of large firms also receive substantial pension but at the discretion of their employers only (see section V.1).

unemployment insurance has only appeared recently in Korea but does not cover many employees. In Taiwan, there is only an unemployment allowance for the moment, but an unemployment insurance scheme is scheduled to be introduced soon. Both countries also lack any comprehensive family or child benefits.

Hong Kong and Singapore both offer very different pictures. Hong Kong relies on direct state provision for health care and on a mix of legal severance pay and allowances for old age and disability. The Central Provident Fund covers those two sectors in Singapore. Employers' liability is the main instrument for invalidity, maternity, occupational injury and unemployment in both countries.

Table 9: Social Security Instruments by Country and Sector

	Japan	Korea	Taiwan	Hong Kong	Singapore
Health care	insurance state provision assistance	insurance state provision assistance	insurance state provision assistance	state provision	state provision prov. fund insurance assistance
Invalidity, maternity, occupational injury	insurance	insurance employer liab.	insurance	employer liab.	employer liab.
Old age, disability	insurance assistance	insurance employer liab. assistance	insurance allowance assistance	employer liab. allowance assistance	prov. fund insurance assistance
Family	allowance/ employer liab. assistance	assistance	assistance	assistance	assistance
Unemployment	insurance assistance	insurance assistance	allowance assistance	employer liab. assistance	employer liab.

II.2 Public/ Private Mix of Social Security

This section examines Goodman, White and Kwon (1998a)'s proposition that East Asian states pursue social welfare aims mainly through regulation instead of provision and finance. To this end, I apply Burchardt's operational definition of regulation as "decision" (see introduction).

Importance of Private Finance in Hong Kong and Singapore

Goodman, White and Kwon (1998a)'s proposition applies very well to Singapore, because her social security system relies entirely upon a provident fund and the Labour Law. In terms of Burchardt (1997)'s taxonomy, provident funds may be characterised by public provision, private finance and public decision. Indeed, the Central Provident Fund is managed by a quasi-public board and membership is mandatory for employees, implying that both provision and decision are public. Since contributions are held in individualised accounts, they may really be considered as the contributors' own money, hence finance is private. On the other hand, employers' liability schemes are characterised by private provision, private finance and public decision. Indeed, they are managed and financed by enterprises, but decision is public because they are mandatory as well. Thus, social security in Singapore is entirely financed by the private sector. Likewise, as shall be explained in the next section, Singapore's comprehensive housing policy is also financed almost entirely by user charges. As a result, Singaporean public expenditures on social welfare are basically limited to education, with some subsidies to public hospitals and a small budget for personal social services (the size of the public assistance programme is hardly worth mentioning).

The case of Hong Kong is subtler. Her allowance and assistance schemes as well as her health care system are all fully public programmes. However, the former are not very generous and the latter is of poor quality, such that many patients opt out to the private sector. More significantly, the importance of employers' liability schemes in Hong Kong's social welfare system is often overlooked, probably because there are no data to measure it. Yet, the legal severance pay appears to be more generous than the various allowances (see table 13 in section II.4 below). In other words, Hong Kong's social security might also be financed mostly by the private sector.

As to Japan, Korea and Taiwan, Goodman, White and Kwon (1998a)'s description of East Asian welfare states as regulatory states needs important qualifications. As argued above, the basic structure of their social security is no different than that of most European countries, with insurance and assistance schemes that are fully public according to

Burchardt (1997)'s taxonomy.²⁷ Some exceptions must be kept in mind, however. One of them is the importance of the employers' liability instrument in Korea's old age pension sector, although it is being phased out with the introduction of the NPP. The other significant exception is the health care sectors of both Korea and Taiwan, where insurance schemes include high co-payments or user charges, such that health care finance is about half public and half private.

Institutional Fragmentation and Lack of Competition and Choice in Japan, Korea and Taiwan

Another finding that supports Goodman, White and Kwon (1998a)'s emphasis on regulation is that decision is the only dimension that is almost always public. Singapore's MediShield scheme is the only exception that leaves some space for consumers' choice. If the government allows CPF members to purchase a wider range of private health insurance schemes, genuine competition will also appear in the Singaporean health care system.

The decentralised or fragmented social security systems of Japan, Korea and to a lesser extent Taiwan suggest that there is some scope for choice and competition. They involve many institutions, some of which are closely connected to individual companies (e.g., Japan and Korea's health insurance societies). The image of autonomous quasi-public organisations competing under state regulation contributes to the idea that those systems are run like the private sector. However, a multiplicity of providers, either private or public, is a necessary but not sufficient condition to create competition and give some choice to users. The key element is to devolve decision to users. This is not the case in Japan, Korea and Taiwan. Workers may not choose their insurance carriers but are assigned to a particular institution according to their occupational status, employer or region. That factor greatly inhibits competition. In fact, such fragmented systems may turn out to be more a liability than an advantage as they multiply administrative costs. They also raise the issue of a lack of national solidarity. Different occupational groups have different levels of risks and of earnings to pay their contributions, such that some social security institutions are bound to be

²⁷ Although separated from central government, the boards managing the mandatory insurance schemes are as closely connected to government as the quasi-public organisations of continental Europe. In both cases, social security expenditures are included in general government accounts.

wealthier than others. This induces much rent seeking, i.e., wasteful efforts to tap the others' surpluses or to protect one's own. Yet the multiplicity of providers combined with public decision may have some advantages compared to an integrated system: (i) it allows for some experimentation, (ii) it may induce cost discipline so far as comparisons can be made between organisations with different mix of consumers and hence needs and (iii) it might be more effective to tackle moral hazard as it reduces the distance between providers and consumers.

Table 10: Institutional Fragmentation of the Social Security Systems of Japan, Korea and Taiwan

number of institutions	Japan	Korea	Taiwan
Health care (insurers)	many	Many	one
Invalidity, maternity	many	-	few
Occupational injury	few	one	few
Old age, disability	few	few	few
Family	one	-	-
Unemployment	one	one	one

Hong Kong and Singapore have genuine centralised social security systems, managed directly by the government in the former and by the Central Provident Fund in the latter. In both cases, we clearly have public provision and decision.

II.3 Public/ Private Mix in Social Services

I now turn to non-cash welfare benefits, with an emphasis on the interaction between public and private actors according to Burchardt (1997)'s taxonomy.

As Jones (1993) points out, the importance of education in East Asian social welfare systems can hardly be understated. It is the social sector in which East Asian states commit themselves the most to protect their citizens. Education is mandatory and mostly free for at least nine years in the five selected countries. Although there is a mix of public and private schools, elite schools are not necessarily the private ones. As a matter of fact, governments finance both private and public schools and strictly control their whole curriculum. Schools do charge user fees, which are higher in private schools (to finance more extra-curricular activities, for instance). In Hong Kong and Singapore, education is more segmented, with some expensive elite schools attracting a significant minority of students. Higher education is a sector on its own, with more user fees, more private schools and above all private decision as attendance is not mandatory and there is a wide variety of providers with similar prices and quality. Overall, state intervention in the education sector in the selected countries is therefore not fundamentally different than in the West. The importance of afternoon schools and tutorials, which represent a purely private sector, is perhaps the most striking peculiarity of East Asian countries.

At the other extreme, the social welfare sector for which East Asian states are the least directly involved is probably personal social

services.²⁸ They all play a residual provision and financing role for residential institutions for the elderly, children and the disabled, leaving the bulk of the work to families or charities. This is changing fast in Japan, however, where the government initiated ambitious plans to increase the number of places in facilities for both the aged and children, respectively the Gold Plan and the Angel Plan (see annex 1). It is also planning the introduction of a long term care insurance to help people in need to purchase those services. As to outreach social work, they also heavily rely on the private sector (see section VI.2). In short, the government's role in personal social services is essentially to organise or co-ordinate private initiative, with possibly adding some financial aid. In this sense, states play a social welfare role as "regulators" to use the term of Goodman, White and Kwon (1998a), although in Burchardt's taxonomy decision is mainly private as the purchase of personal services is not mandatory and private providers are often directly competing with public institutions that also charge user fees.

Finally, housing policy is very developed in Hong Kong and Singapore. The two city-states' governments have been drawn into direct involvement in the housing sector for obvious geographic and historic reasons: immigrants flowed in after World War II, squatting and crowding scarce land. The state has thus become the provider of housing for a majority of citizens in both countries. Its role in finance is marginal, however, since both countries' housing boards charge rents to tenants and sell flats at rates that cover all or most of their costs, although not necessarily land costs. Decision is private too, because residents can freely choose private housing, although private providers specialise up market. The dominant form of government involvement in the housing sector in Hong Kong and Singapore is thus "marketing of public services" (i.e., a combination of public provision with private finance and private decision), the public sector competing with the private sector. Housing policy in Japan, Korea and Taiwan is more modest though important as well. In those three countries, governments have focused on encouraging people to purchase their own houses or flats by providing them with subsidised loans. Therefore, housing policy has targeted the middle class rather than the poor who are unable to save enough money to purchase a flat. Yet they also build some public housing for rent at cheap rate for the poor. More significantly, the housing market in all five countries is relatively strictly regulated,

²⁸ See Maruo (1986).

especially in urban areas. In Korea for instance, the government manages to keep private housing prices relatively low through a system of lotteries and waiting lists (see annex 1). This is another case of state intervention through regulation.

II.4 How Well Do East Asian Social Welfare Systems Protect Workers?

This section discusses several patterns that are often used to describe East Asian social security systems in light of the systematic review presented in annex 1. Most of those patterns do indeed fit some countries quite well. However, it will also be shown that they may also be very misleading for others, as each country has a unique system.

Few Entitlements?

Is the Asian rhetoric against state dependency reflected in the five selected countries' social security systems? It has been argued that all countries except Hong Kong rely upon contributory schemes, either insurance or provident fund. The flip side of that statement is that there are indeed few non-contributory entitlements, such as allowances, again with the exception of Hong Kong (albeit they are quite low even there). Similarly, public assistance benefits are usually not regarded as entitlements in East Asia. In Western countries, a person fulfilling objective criteria has a right to receive the full minimum income. In the countries studied here, civil servants have more discretion on the allocation of public assistance and it is not rare for them to give only partial benefits. In the context of full-employment, the physical ability to work is paramount to withhold at least part of them. Moreover, Peng (1998) stresses the fact that the Japanese civil law requires people to support their family members, which include spouses and children but also parents and siblings. As a result, social workers check resources of family members that do not necessarily live together before allocating benefits. The other countries also apply the test of means to the extended family.

Actuarially Fair Social Security Schemes and Limited Vertical Redistribution?

Is it true that, in the five selected countries, what you get from the system is what you put in? Although most social security schemes are contributory, it does not mean that they do not redistribute income. In Singapore however, it does, because the CPF's individualised accounts do not allow any interpersonal redistribution. In Hong Kong, this pattern does not hold at all, except for employers' liability schemes. In

Japan, Korea and Taiwan, some qualifications are required. It is true that income replacement insurance schemes are generally not designed to redistribute wealth from rich to poor. Both contributions and benefits are proportional to earnings (although floors and ceilings to both contributions and benefits do imply some redistribution). As a result, insurance schemes are actuarially fair in some sectors (e.g., invalidity, maternity and occupational injury).²⁹ Among the main old age pension schemes, only Korea's National Pension Programme includes an explicit vertical redistribution element, as benefits are based on a weighted average of one's own earnings and average earnings (see annex 1). On the other hand, most old age insurance schemes are not actuarially fair because they involve some intergenerational redistribution (see below). Finally, the health care sector is a clear exception: there is scope for vertical redistribution as contributions are proportional to income while benefits are not.

Preference for Lump-Sum Grants over Annuities and Low Horizontal Redistribution in Old Age Pensions?

Hill and Lee (1992) point to the preference for lump-sum grants over annuities in East Asian countries, especially in the disability and old age pension sectors. Again, this holds perfectly for Singapore's Central Provident Fund but not at all for Hong Kong. For Japan, Korea and Taiwan, it used to be true but they are moving towards annuities. Japan's public pension schemes now offer mostly annuities, but many companies still give lump-sum severance payments (see section V.1). In Korea, the National Pension Programme will offer annuities from 2007 onwards. As of now, most retired employees receive lump-sum grants, both under the NPP and under the Labour Standards Law (civil servants may choose an annuity). Finally, Taiwanese retirement insurance schemes all offer lump-sum grants only, as opposed to the allowance schemes. However, this will change as well with the introduction of the National Pension Insurance.

²⁹ An insurance scheme is actuarially fair if insured people's contributions correspond to their expected benefits. In other words, people who buy the insurance may win or lose *ex post* but not *ex ante*. For instance, an actuarially fair pension insurance policy is one that offers benefits that are proportional to lifetime contributions and life expectancy at retirement age. Individuals who happen to live longer than that age will benefit from the system and those who die earlier will lose, although all were expected to receive an amount equal to their contributions.

The difference between lump-sum grants and annuities matters in terms of social protection. In fact, an old age scheme offering lump-sum grants only can hardly be called insurance but should rather be considered as a mandatory saving plan, because it does not cover the “risk” of prolonged life without sufficient resources. Although risk-prone individuals may prefer lump-sum grants, annuities do offer more social protection. The cases of Taiwan and Singapore show that individuals tend to be risk-prone as few of them voluntarily buy annuities with their lump-sum grants. Yet, this might simply reflect a lack of consideration for the future, as retiring people prefer spending their grant on a bigger house or on their children’s wedding. Or it may just be the rational thing to do given that lump-sum grants are often much too low to buy annuities sufficient to live on (see table 13 below). This should certainly be a source of concern.

Preference for Funded over Pay-as-you-go Systems and Low Intergenerational Redistribution in Old Age Pensions?

It is true that all countries except Hong Kong have built some kind of fund to finance their old age pension, and even Hong Kong may move in that direction. Singapore has a genuine funded retirement system with defined contributions, which means that benefits are uncertain and will depend upon the financial performance of the fund. The CPF’s balance has consistently increased over the years to reach a staggering 54% of GDP (see table 11).³⁰ Contributions indeed amount to 40% of basic wages, while withdrawals have failed to match the pace despite the ageing of the population. This huge reserve represents a bonanza for public investments, as more than 95% of it is invested in government bonds or deposited at the central bank.³¹ For Goodman, White and Kwon (1998a), this characteristic is part of what they call “developmental welfare”, or the subordination of welfare policy to the priority of economic development through capital accumulation.

³⁰ Private investments financed through the CPF should be added to that figure.

³¹ Nevertheless, Singapore’s pension system must be considered as a genuinely funded system because the government’s general account does not run a structural deficit. This stands in contrast to the US social security, whose “fund” has been used over the years to finance large federal deficits, such that the public sector as a whole does not have a real reserve for the present generation’s old age pensions.

Table 11: Reserves of Social Security

	Surplus (%GDP)	Balance (%GDP)
Japan	+3.2 ^a	+29.2 ^b
Korea ^c	..	+5.4
Taiwan ^d	+0.8	+2.8
Hong Kong	-	-
Singapore ^e	+4.4	+54.5

Sources: Social Development Research Institute (1996). Ministry of Health and Welfare (1997). Kwon (1998). Bureau of Labour Insurance (1997). Central Provident Fund Board (1997).

Notes: a. Balance of total social security (1994). b. Reserve of EPI and NP only (1995). c. NPP only (1994). d. Labour Insurance reserve for old age benefits only (1996). e. CPF members' accounts (1995).

By contrast, Japan's pension plans are pay-as-you-go. Still, they are managed conservatively and have progressively but steadily accumulated large surpluses. As a result, capital income represented as much as 8.9% of total social security revenues in 1994.³² As argued later, such a policy makes perfect sense in light of the ageing of the Japanese population. Yet, it would be misleading to conclude that it has prevented large intergenerational transfers. Ogushi, Kimura and Hatta (1996) use a number of methods to assess intergenerational transfers of the two main Japanese pension plans. Their conclusion is that the first generation of EPI members were largely net recipients of the system, while members born between 1948 and 1965, depending upon the methodology, were net contributors. This reflects an initial over-commitment of the EPI scheme. This intergenerational transfer was sustainable as long as the demographic structure of Japan was young. The population has been growing very fast however, which has been putting the system under stress. Had the Japanese government not reacted early to that phenomenon, pay-as-you-go pension schemes would have run large deficits instead of healthy surpluses and the full cost would have been born only by later generations. A 1986 reform has turned EPI into a more actuarially fair system but intergenerational transfers still exist. By contrast, the National Pension would now be almost actuarially fair, according to Ogushi et al. (1996).

Taiwan and Korea stand in between Japan and Singapore. On the one hand, Taiwan's Labour Insurance (LI) and Korea's National Pension

³² See Miyajima (1997) and Social Development Research Institute (1996).

Programme (NPP) are funded schemes. On the other hand, they have defined benefits, which means that insured workers are entitled to a pension calculated according to a specific formula taking into account their lifetime contributions but independent of the actual interests earned by the fund. Such a system may lead to intergenerational transfers or not, depending upon its management. In the case of LI, contributions have been adjusted such as the scheme is almost actuarially fair, in the sense that the current funds almost correspond to future expected benefits due. By contrast, NPP is expected to run large deficits and its fund will eventually become negative if contributions are not raised or if the entitlement is not changed (see annex 1). The Government Employees' Insurance of Taiwan was also intended to be actuarially fair at its inception but is now running large deficits, covered by the government. Anyway, table 11 shows that Korean and Taiwan's funds do not represent a large amount in terms of GDP, because NPP has been introduced only recently, hence its fund is bound to increase a lot before declining, while LI offers only quite low benefits.

Again, Hong-Kong is an exception with a genuine pay-as-you go system. Benefits are paid from the general government's accounts such that there is no special fund from which to take the balance for table 11. Still, one important evolution in Hong Kong's social security system might be the introduction of a provident fund, which would be an actuarially fair scheme.

High Co-Payments and Low Horizontal Redistribution in Health Care?

Korea and Taiwan have both introduced universal and comprehensive health insurance plans recently. Yet, patients must still worry about high health care bills as they are charged high co-insurance user fees and some services remain uncovered at all. As a result, out-of-pocket expenses amount respectively to about 58% and 36% of total health care costs.³³

Singapore fits this pattern even better, because patients pay their health care bill entirely by themselves, albeit through their mandatory saving account (although the state helps them indirectly through subsidies to public hospitals). In a pure provident fund system, there is no place for either vertical or horizontal redistribution. While the first

³³ For Korea, figure of 1989 from Soon-Won Kwon (1993). For Taiwan, figure of 1996 from National Health Insurance Bureau, <http://www.nhi.gov.tw> (December 1997).

aspect may be defended from some ideological point of view, the latter appears groundless in the health care sector. For the experience all over the world demonstrates that people are risk averse about their health. In the United States where health insurance is not mandatory, most of those who can afford one voluntarily buy one. This is discouraged in a pure provident fund system. Since people must put some money aside anyway, purchasing a private insurance is like paying a second time. That's why the Singaporean government has moved towards a system combining provident fund and insurance, to allow redistribution between the healthy and the sick but not between the rich and the poor. First, the CPF has introduced an insurance scheme of its own, MediShield, covering major health risks only. Second, the government considers to extend the range of private insurance schemes that members are allowed to purchase with their CPF savings. Those reforms may progressively turn Singapore's health care model into an American system dominated by private insurance. Yet the Singaporean government asserts that it will regulate private insurance firms much more closely than the United States government does, to avoid the well-known problems of that model.

Hong Kong also has a peculiar health care system. On the one hand, the direct provision of health care by the government should guarantee the perfect pooling of health risks at the national level. On the other hand, the low quality of services pushes a large proportion of patients to the private sector, which creates a dual system.

Japan is an exception here, as her health insurance schemes include very reasonable co-payment rates by any international standard (equal to about 12% of total health care costs in 1995), implying a genuine solidarity between healthy and sick people.

Low Generosity?

Another often-quoted pattern of social security in East Asian countries is their lack of generosity. Generosity of income replacement schemes may be measured in two ways: their replacement rates and, for those that are temporary, their duration. Table 12 compares the generosity of occupational injury, invalidity and unemployment schemes across the five countries plus a few Western countries. It appears that there is no big gap between the two groups, although continental European countries are slightly more generous across the three sectors. The only pattern that emerges to support the low generosity claim is the low duration of unemployment benefits and to a lesser extent invalidity

benefits in East Asia, and perhaps the low level of lump-sum grants that compensate permanent disability in case of occupational injury (see annex 1).

Old age pension schemes are important to consider as well because they represent by far the bulk of cash transfers. Unfortunately, they are much harder to compare due to their diversity, their multiplicity (in some countries and industries, workers cumulate several pensions) and the distinction between lump-sum grants and annuities. Table 13 provides rough estimates, based on average benefits per person divided by average insured earnings.³⁴ Lump-sum grants are converted into annuities at the rate of 7%. This is really a rule of thumb rather than an accurate estimate.³⁵ It turns out that Japan's pensions are about as generous as those of the United Kingdom and the United States for instance. Korea's NPP is also very generous, although the replacement rate presented here is not based on actual expenditures, but on the entitlement formula explained in annex 1. The other countries are lagging far behind (except Taiwanese civil servants!³⁶). Even Singapore's pensions look very low despite the staggering 40% contribution rate. This can be explained by two factors. First, like the Korean NPP, the CPF needs more time to deliver its full benefits because it started with much lower contribution rates, such that workers retiring now did not put as much money in their accounts as the present working population. Second, withdrawals used to finance long term investments such as housing are not recorded as old age benefits, although they serve the same purpose.

³⁴ For some schemes, average earnings of the whole economy have been used instead (read notes of table 13). Insured earnings are generally basic wages, excluding bonuses and other benefits. Hence the replacement rates based on them tend to be overestimated (see for instance the two estimates presented for Japanese EPI). Note also that replacement rates of old age pension schemes are usually calculated on the basis of the last salary prior to retirement, which is typically higher than average insured earnings because wages rise with age and seniority.

³⁵ This rate corresponds to the current price of annuities in the British insurance market and was used by the former British government in its "Basic Pension Plus" plan. Roughly, it means that the lump-sum grant can be depleted in 14 years ($100/7$), the interests earned covering the few additional years of expected life. Of course, life expectancy at retirement age varies across countries, such that this rate should ideally be adapted for each country. Since workers retire from their main job earlier in East Asia than in Britain, this rate should be regarded as an overestimation.

³⁶ Some senior officials receive very generous pensions.

Table 12: Basic Wage Replacement Rates and Duration of Selected Income Security Schemes (1997)

	Invalidity		Unemployment		Occupational injury	
	rate	months	rate	months	rate	months
Japan	60%	18	60%	3-10	60%	open
Korea	-	-	50%	1-7	70%	open
Taiwan	50%	12	flat:39% ^a	4	70%	open
Hong Kong	80%	3	66%	- ^b	80%	open
Singapore	100%	0.5/year	..	..	66%	open
United Kingdom	flat:15%	7	flat:13%	6	flat:15%	open
France	50%	12	57.4%	4-27	60-80%	open
Germany	100-70% ^c	1.5-20 ^c	67%	2-28	100-70%	open
Sweden	75%	open	75%	10	75%	open
United States	- ^d	- ^d	ca. 50%	6	66%	open

Source: Social Security Administration (1997).

Notes: Basic rates only: benefits may vary according to a series of variables. “Open” means that the benefits are due either for any required length or lead to a lump-sum payment based on previous earnings in case of permanent disability to work. “Flat” means that the benefit is not proportional to earnings (percentage in terms of average wage in manufactures). a. 1997. b. Lump-sum (see annex 1). c. Second rate applies for second period. d. Only six States have some invalidity benefit schemes.

Although public assistance is much less important in budgetary terms, it is very significant because it defines the bear minimum which poor people must live with. Table 14 shows the level of the public assistance cash benefit in each country as a percentage of GDP per capita. Again, some caution is required to interpret those data, because cash benefits are only one form of assistance, complemented by other subsidies, which in some countries are quite significant (e.g., housing benefits in Britain). Nevertheless, it is clear that the Japanese and Taiwanese public assistance is no more generous than the least generous European assistance schemes, and that the other East Asian countries are even stricter.

Table 13: Replacement Rates for various Old Age Pension and Disability Schemes (1996)

	Retirement Age	Average replacement rate (% average wage)	
		Old Age	Disability
Japan			
National Pension ^a	65	13	19
MAA (central gov't)	60 ⁱ	51	23
Employees Pension Insurance	60 ⁱ	49	21
Employees Pension Insurance ^b	60 ⁱ	43	..
Korea			
National Pension Programme ^c	60	61	..
Labour Standards Law ^{df}	60	20	-
Taiwan			
Labour Insurance ^d	60	11	6
Government Employees Ins. ^d	60	283	6
Farmers Old Age Allowance ^c	65	9	-
Singapore			
Central Provident Fund ^{be}	55	26	9
Hong Kong			
Long Service Pay ^{df}	open	13	-
Social Security Allowance ^{ag}	70	7	24
Social Security Allowance ^{ah}	65	6	12
Germany			
Workers' Pens. + Empl.' Pens. ^b	65	31	..
Sweden			
National Pension ^b	65	58	..
United Kingdom			
National Pension ^b	65 (male) 60 (female)	43	..
United States			
Old age, Surv. & Dis. Pension ^b	65	48	..

Sources: Health and Welfare Statistics Association (1997), Bureau of Labour Insurance (1997), Central Trust of China (1997), Central Provident Fund Board (1997), Department of Census and Statistics (1996).

Notes: a. Based on average earnings of the whole economy rather than average insured wage. b. Computed by Ministry of Health and Welfare of Japan; includes additional pensions if applicable; rate of couples; based on average earnings of the manufacturing sector (figures of 1993). c. Theoretical pension, based on entitlement formula for an average wage (see annex 1). d. Lump sum grants programmes (see text for methodology). e. Median balance at age 55. f. Theoretical pension, based on 35 years of seniority at the same company. g. Higher Old Age Allowance (over 70 years old) and higher rate of Disability Allowance. h. Old Age Allowance and normal rate of Disability Allowance. i. 59 for women until 1999.

Beyond those quantitative comparisons, East Asian welfare systems can also be described as less generous in terms of the patterns explained above, at least for some countries and sectors:

- Few entitlements: Access to most benefits is conditional to contributions and even the notion of right to a minimal income from public assistance is not as clear as in Western countries.
- Actuarially fair schemes: Social security programmes are usually designed to avoid vertical redistribution.
- Preference for lump-sum grants over annuities: Retired people are not fully protected against poverty in the event of a prolonged life.
- Preference for funded over pay-as-you-go systems: Either intergenerational redistribution is avoided through funded systems, or governments manage pay-as-you-go schemes conservatively to avoid building debts for future generations.
- High co-payments in health care: Horizontal redistribution in the health care sector is limited by high co-insurance fees.

Table 14: Generosity of Public Assistance (Cash Benefit for a One-Person Household)

	Benefit (% GDP/cap.)
Japan (1996) ^a	26
Korea (1994)	14
Taiwan (1997) ^b	23
Singapore (1995)	6
Hong Kong (1995)	6 – 15
Denmark (1992)	40
France (1992)	29
Germany (1992)	22
United Kingdom (1992)	22

Source: Health and Welfare Statistics Association (1997), Kwon (1998b), Government Information Office <http://www.gio.gov.tw/info/yearbook/content.htm> (December 1997), European Commission (1996).

Notes: a. Elderly person in a region with middle costs of living. b. Taipei city only.

II.5 Summary

The previous discussion has concentrated on the main differences between the selected East Asian countries and some Western countries. The East Asian specificity should not be overestimated, however. On the one hand, Goodman, White and Kwon (1998a) remind us that all East

Asian countries have imported fundamental institutional structures and systems from the West. For instance, the Japanese system is very similar to the Bismarkian model as it is dominated by insurance and is institutionally fragmented along occupational lines.³⁷ Korea and Taiwan have in turn been very influenced by the Japanese colonisation. Hong Kong has likewise imported institutions from her British colonial master. On the other hand, there is also a large diversity among the five selected East Asian countries. At the end of the day, each country, be it Western or Asian, has its own unique social welfare system.

This chapter has also emphasised the big difference between Japan, Korea and Taiwan on the one hand and Hong Kong and Singapore on the other. To sum up, the former group has adopted social welfare systems similar to those of most European countries, and they are progressively developing into full-fledged welfare states. In Japan, this development has already been achieved. In Korea and Taiwan, a strong welfare infrastructure already exists, although their welfare states still appear to be small compared to the West. They are likely to grow as (i) a recently introduced national old age pension programme in Korea is progressively phased in, while Taiwan is contemplating to introduce one as well and (ii) social security programmes are progressively universalised, as they are extended to more occupational groups (e.g., employees of small firms, the self-employed). Those developments surely require ambitious and hotly contested policy reforms. However, my point is that they lie in the logic of the system itself. There is a welfare state dynamic at work in Japan, Korea and Taiwan.

Nevertheless, I have also identified a number of strategies by which those three countries' governments have limited the growth of the welfare state. In other words, within a general social welfare structure similar to most Western countries, they have adopted features limiting the overall generosity of the system, such as striving to make their insurance schemes as actuarially fair as possible. In the housing and personal social services sectors, the state has also mainly relied upon regulation of the private sector, with some financial incentives, although the Japanese government has launched ambitious programmes to increase the supply of personal social services in the last few years.

The governments of Hong Kong and Singapore are opposing any Western-like welfare state more strongly. Their rhetoric is backed by

³⁷ However, Jones (1990) notes that workers' participation, an essential characteristics of the Bismarkian model, is absent of the Japanese system.

social welfare structures that have already reached their full development, with minimal state intervention as far as expenditures are concerned. Indeed, in contrast to Korea and Taiwan, increasing the size of their welfare states would require major institutional changes, rather than the development of existing structures. That is why few social welfare advances have been achieved in recent years. It does not mean that no change will happen at all, however. In Singapore, an institutional reform under way is to combine the provident fund system with insurance schemes in the health care sector. But that would increase the role of the private sector, not the state. Hong Kong is a more peculiar case. In theory, she could become a full-fledged welfare state within its existing institutional framework: the state could just increase the Hospital Authority's budget and multiply the various allowance and assistance benefits several folds. Yet the sheer cost of such reforms, which would be financed by taxes only, prevents them from happening. Ironically, Hong Kong's allowances cannot be made more generous because they are potentially too generous (i.e., non-means-tested, flat rate, non-contributory). That's why Hong Kong now contemplates partial institutional shifts. For example, the government considers to create a provident fund for old age pensions to meet the challenge of the ageing population. Again, this alternative reveals the government's intention to keep a minimalist welfare state in terms of tax and spending. Nevertheless, I have stressed that public spending is not the only relevant measure of the size of welfare states, because governments can also enforce the private sector to provide welfare benefits. This is particularly the case in Hong Kong and Singapore that rely upon provident fund and employers' liability as their main social security instruments.

III. Cost Analysis

This chapter examines the overall cost of social welfare in East Asian and Western countries. In the first section, various sources of aggregate data are used to complement the programme by programme approach of chapter I. The second section presents aggregate private welfare expenditures. The third section takes into account differences in age structure that significantly affect the objective needs for social welfare. The last section is a summary.

III.1 Aggregate Public Expenditures on Social Welfare

International comparisons of public expenditures are not an easy exercise, let alone of private expenditures. Most governments publish synoptic budgets with functional breakdowns, including the following typical social welfare categories: education, health, “housing and community development” and “social security and welfare”.³⁸ Those categories are rather broad, and more detailed information on the latter would be particularly welcome. This is the point of the systematic overview of annex 1 summarised in the previous chapters. On the other hand, looking at the government’s aggregate data is a better way to have a grasp of the overall spending, for simply adding up the budget of individual programmes can be misleading (i.e., risk of omission and double counting). Thus, the bottom-up and top-down approaches are complementary.

Nevertheless, much caution is required in assessing aggregate figures too. The way public expenditures are allocated across sectors varies from country to country. For instance, Hay (1992) assesses that public health care expenditures in Hong Kong are at least twice as big as they appear in the government’s accounts, because many relevant expenditures appear in the accounts of other departments: (i) medical staff’s pensions and fringe benefits (sometimes bigger than their basic salary), (ii) implicit rental value of the land and facilities owned by the state, (iii) goods and services provided free by other departments such as laundry done by prisoners, maintenance work, stationery, telecommunications, transportation and so on (the list is long). If these hidden expenditures were taken into account, Hong Kong’s health care expenditures as a percentage of GDP might well be about average compared to OECD countries, instead of being very low. A similar remark must be made about education. Countries treat differently expenditures on research, pre-school centres, vocational training, school buses and lunches, scholarships and administrative costs. Likewise, the cost of housing policies is probably the hardest to compare, for tax relieves and subsidies in the form of pricing under market value are often unaccounted for. Moreover, expenditures under “community development” may mean many things, some of which not belonging to

³⁸ Health would typically include public health programmes and subsidies to hospitals, but expenditures of health insurance are included in “social security and welfare”. This is of course one source of bias for sector comparisons, since countries use both kinds of instruments in various degrees.

social welfare at all.³⁹ Finally, the tax system of each country may bias comparisons in three ways: (i) tax exemptions are really equivalent to expenditures although they are not counted, (ii) the tax regime to which social security benefits are subject vary widely across countries and (iii) various indirect tax regimes also influence their purchasing power.⁴⁰

Some international institutions make an effort at standardising the statistics to avoid these caveats. This is the case of the International Monetary Fund's "Government Finance Statistics", the OECD's national accounts and SOXC, the OECD's social expenditures data base.⁴¹ Even then, aggregate welfare expenditures for the same country can vary by up to 25%! Moreover, Taiwan and Hong Kong are members of neither of those organisations. National sources are therefore used in this section for those two countries. For Taiwan, the national accounts include a functional breakdown of general government expenditures without the category "health", which is included in the sector "social security and welfare". For Hong Kong, the Department of Census and Statistics has computed the total public expenditures on health, education and social security and welfare. Expenditures of the Housing Authority are also added, although it should really be considered as private spending, as argued in chapter II. For Singapore, only central government expenditures are available and I use the IMF data. They include some but not all quasi-government agencies (the Housing Development Board and the Central Provident Fund are excluded). Expenditures made under the CPF are also added, which may be considered as private expenditures. Although Korea is a member of OECD, it is not included in SOXC yet. Hence data presented here are from OECD national accounts instead. Finally, SOXC is used for Japan and the selected Western countries. The data for those countries should therefore be more comparable than the other ones. Compared to other sources, SOXC tends to underestimate aggregate expenditures by between 15% to 25%,

³⁹ See International Monetary Fund (1986) or OECD (1996c) for a discussion of methodological problems of international government expenditure comparisons.

⁴⁰ Even if the building and maintenance costs of public housing are entirely covered by rents paid by tenants, hidden subsidies may subsist if rents don't include the market price of the land owned by the government, which can be very substantial in cities like Hong Kong and Singapore.

⁴¹ The International Labour Organisation has also published a series titled "The Cost of Social Security". Unfortunately, the last available issue is for the years 1987-89 and it excludes Korea, Taiwan and Hong Kong.

notably by ignoring administrative costs. On the other hand, it is one of the most processed sources and it provides detailed sector data.

Those caveats kept in mind, tables 15 and 16 present the magnitude of social welfare expenditures for several East Asian and Western countries. The difference in spending between East and West is striking. The governments in Hong Kong and Singapore barely spend more than 5% of GDP on any kind of social welfare. Those of Korea and Taiwan spend about twice as much, around 10% of GDP (if national sources were used for Korea instead of the OECD national accounts, Korea would hit the 10% line). This is still way below Western countries. However, Korea and Taiwan do not spend significantly less in education. Most of the difference comes from health care and social security and welfare. In fact, health care expenditures covered by public insurance must constitute the bulk of the “social security and welfare” line for Korea and Taiwan (see chapter I). So the main gap between them and Western countries stems from pensions and other cash programmes and services.

Table 15: Aggregate Social Welfare Expenditures in the Four NICs^a (%GDP)

	Korea (1995)	Taiwan (1996)	Hong Kong (1995)	Singapore (1995)
Education	3.73	5.00	2.63	1.78
Health care	0.24	-	1.67	1.21
Social security & welfare	3.12	5.71	1.22	0.79
				(2.20) ^c
				(6.00) ^d
Housing & community dvlpt	1.56	0.38	(1.40) ^b	1.29
Total	8.7	11.10	5.52 (6.92)^b	5.08 (6.49)^c (10.29)^d

Sources: OECD (1997a), Directorate General of Budget, Accounting and Statistics (1997a), Department of Census and Statistics (1997c), International Monetary Fund (1996) and Central Provident Fund Board (1996).

Notes: a. Consolidated, general government expenditures, current plus capital accounts (except Singapore: central government expenditures, with some extra-budgetary funds). b. Including the Housing Authority. c. Including social security-related CPF withdrawals. d. Including housing and social security-related CPF withdrawals.

Table 16: Aggregate Social Welfare Expenditures in some OECD Countries^a (%GDP, 1993)

	Japan ^b	France	Germany	Sweden	United Kingdom	United States
Education	3.70	5.60	4.70 ^c	6.70	5.20	5.20
Health care	5.27	7.28	6.43	6.22	5.75	5.85
Old age, surv. pensions	5.70	11.69	11.24	10.30	7.15 ^d	6.19
Unemployment ^e	0.36	3.33	4.34	5.84	1.78	0.79
Family benefits	0.20	2.12	1.37	2.78	1.81	0.35
Other social security ^f	0.57	2.05	3.03	4.44	2.34	1.60
Personal soc. services	0.42	1.11	1.01	6.39	1.05	0.35
Housing benefits	..	0.92	0.24	1.17	1.84	..
Others	0.12	0.22	0.59	0.91	1.7	0.55
Total	16.14	34.33	32.97	44.73	28.62	20.84

Sources: OECD (1996c) and OECD (1996a) for education.

Notes: a. Consolidated, general government expenditures, current plus capital accounts. b. 1992 (except education: 1993). c. 1994. d. This figure significantly overstates national data. e. Includes benefits plus active labour market policies. f. Includes disability, occupational illness and injury and sickness.

Japan is also trailing behind Western countries in terms of aggregate social security expenditures. The gap is much narrower, however, especially compared to the United States. Unlike the other East Asian countries, the Japanese government spends about as much on health care as its Western counterparts. The gap is not so big for old age pensions either, at least compared to the United Kingdom and the United States. The bulk of the difference is situated in the other sectors, from unemployment to housing benefits. In fact, the three big spending sectors of education, health care and old age pensions represent together 91% of all social welfare expenditures in Japan, compared to 83% in the United States, 72% in France, 68% in Germany and only 63% in the United Kingdom and 52% in Sweden.

III.2 Social Security Expenditures and Ageing Population

When comparing aggregate social welfare expenditures, it is critically important to take into account demographic variables such as age and sex. Both health care and old age pension expenditures are a direct function of the age structure of the population. Table 17 illustrates the wide difference in age structure between East Asian and Western countries. While Japan has already a higher proportion of over 65 year-

olds than the United States, and about the same proportion as in France, the other East Asian countries have much younger populations. However, the population is ageing faster in all East Asian countries and is expected to catch up with the old age structure of Europe. In fact, Japan is still in the midst of one of the fastest ageing process in the world, and is expected to become one of the oldest people by the middle of the next century.

Table 17: Ageing Societies - Population Forecasts as of 1994 (Medium Variant)

% population 65 and over	1995	2020	2040	Fertility rate (1990-95)
Japan	14.1	25.2	29.1	1.50
Korea	5.9	13.2	19.3 ^a	1.73
Taiwan	7.6	14.1 ^b	21.5 ^c	1.80
Hong Kong	10.2	19.3	32.6	1.21
Singapore	6.7	16.0	24.4	1.73
United Kingdom	15.5	18.0	23.1	1.81
United States	12.6	16.1	20.6	2.08
France	14.9	19.7	24.3	1.74

Sources: Department for Economic and Social Information and Policy Analysis (1995), National Statistical Office (1997) and Directorate General of Budget, Accounting and Statistics (1997a).

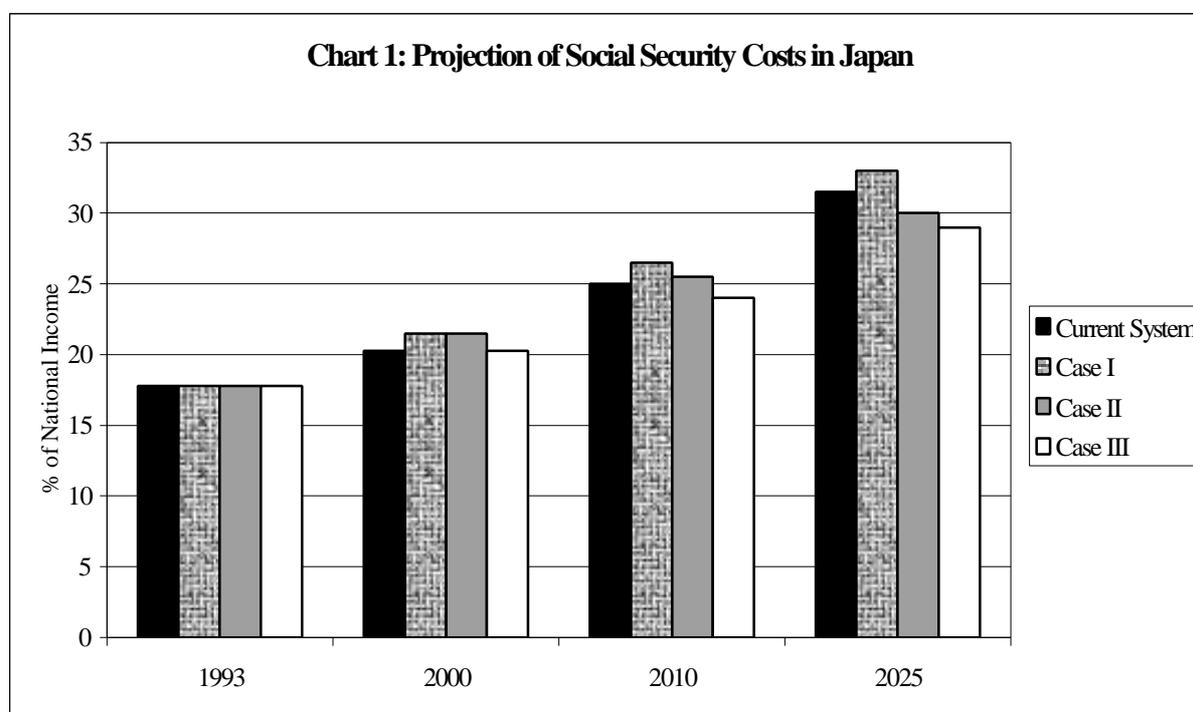
a. 2030. b. 2021. c. 2036.

The Japanese government, and indeed the Japanese people themselves, are very well aware of the implications of rapid ageing on the cost of their social security system. Numerous projections and policy reform proposals have been generated in the last few years. Chart 1 presents projections from the Council on Welfare Vision for an Ageing Society, a committee of the Ministry of Health and Welfare. Four scenarios are presented: (i) the current system is unchanged, (ii) current system plus improved measures for child and elderly care (Case I), (iii) reform of the pension system and improvement of the health care sector efficiency, plus the additional measures for child and elderly care (Case II) and (iv) reform of the pension system and improvement in health care sector efficiency without additional measures for child and elderly care. The scenarios include the effect of ageing on economic growth as well as on higher demand for social welfare services and benefits.

Even if cost curbing measures are introduced, expenditures are expected to rise to a level of about 30% of GDP in 30 years time (excluding education and housing). Japan would then reach a level of

public expenditures on social security comparable with the one of France today. Nevertheless, Japan's population is already as old as the French one is today, such that the Japanese system can still be described as cheaper than the French one.⁴²

Ageing will also affect social security systems of the other East Asian countries. On top of automatic cost increase due to higher demand put on existing welfare schemes, systemic reforms are likely to take place to cope with the changing demography. It is therefore much more difficult to predict the level of social security expenditures that those countries will incur in 30 years, when the share of 65 year-olds and over will reach the current Western levels.



Source: Council on Welfare Vision for an Ageing Society (1994).

III.3 Aggregate Private Expenditures on Social Welfare

Now that it has been confirmed that East Asian governments currently spend less on social welfare, it is interesting to know to what extent this is compensated by the private sector. In other words, do East Asian

⁴² Although part of the difference can be explained by a cohort effect because Japanese old age pension schemes are not completely mature yet: the current working population may expect higher benefits per capita than the current retired population (although not higher net benefits because contributions have been raised a lot as well).

countries spend less on social welfare altogether or do they simply have a different financing mix? This question will remain unanswered for many sectors, for much of the private provision of welfare is either extremely hard to measure or not monetised at all. In other sectors, however, it is possible to add up private expenditures. This is the case with health care and education. OECD has made some effort at standardising data. Education expenditures include really everything: direct public consumption, subsidies to private schools, as well as subsidies to individuals (e.g., scholarships).

Table 18 shows that private expenditures on education are especially high in Korea, Japan and the United States. As a percentage of GDP, private expenditures do compensate for lower public expenditures, bringing total expenditures of Japan and Korea just below those of France and the United Kingdom. Spending per child is about the same in Japan, France and the United Kingdom. It is significantly lower in Korea and in higher in the United States, which reflects the big differences of GDP.

Table 18: Private and Public Expenditures on Education (% GDP, 1993)

	Public expenditures	Private expenditures	Total	per student (US\$ PPP)
Japan ^a	3.7	1.2	4.9	4,727
Korea ^b	3.8	1.9	5.7	2,132
France	5.6	0.5	6.1	4,548
United Kingdom ^c	5.2	0.9	6.1	4,339
United States ^d	5.2	1.6	6.8	7,341

Source: OECD (1996a).

Notes: United Kingdom: 1994. a. Excluding expenditures for students' living, family allowances contingent to student status and transport reductions. b. Excluding private purchases of books etc. c. 1994. d. Excluding tax rebate.

A similar exercise can be done for health care (data for Korea are unfortunately not available). Japanese private expenditures do not really compensate for the low public expenditures, except if compared with the United Kingdom. Nevertheless, total per capita expenditures in Japan are in the same range as those in Europe, on a purchasing power parity basis.

Table 19: Private and Public Expenditures on Health Care (% GDP, 1991)

	Public expenditures	Private expenditures	Total	per inhabitant (US\$ PPP)
Japan	4.7	1.8	6.5	1,175
France	6.7	2.4	9.1	1,528
United Kingdom	5.5	1.1	6.6	985
United States	5.6	7.1	12.7	2,600

Source: OECD (1993).

As to income replacement schemes, the private alternatives to social security are private savings and insurance. Table 20 shows that Japan and especially Korea have indeed a slightly higher household saving rate than the three Western countries.⁴³ The same holds for life insurance, albeit to a lesser extent.

Table 20: Households Savings and Private Insurance

	Households' net savings rate	Life insurance (%GDP)
Japan	13.3	6.4
Korea	17.9	8.8
France	9.5	5.2
United Kingdom	5.6	6.6
United States	5.7	3.8

Source: OECD (1996b and 1997b).

III.4 Summary

This chapter has presented data confirming the existence of a hierarchy in terms of aggregate public expenditures on social welfare: Hong Kong and Singapore are the lowest spenders, followed by Korea and Taiwan, then Japan and finally Western countries.

⁴³ Tachibanaki (1996b) suggests several hypothesis to explain the high saving rate in Japan (compared to Western countries): (i) the low level of social security benefits requiring more precautionary savings, (ii) the demographic structure and life-cycle theory, (iii) the large share of bonuses in take-home pay, that are more easily saved than wages, (iv) the high proportion of self-employed who tend to save more, (v) the high prices of real estate which require high savings, (vi) generous tax incentives for savings and (vii) the rationing of personal borrowing due to imperfect capital markets.

A hierarchy across sectors has also been identified, corresponding to the historical development of social welfare policies. The five East Asian countries put an early priority on education, for which their public expenditures are not much lower than in the West. Moreover, private expenditures on education are relatively high, such that total spending on education is really in the same range as that of Western countries. This readiness of East Asian people to spend public funds as well as their own money on education is probably the best example of the influence of “Confucian values” in welfare. The next priority social sector was health care, a sector in which Korea and Taiwan have only recently achieved universal insurance coverage and for which the gap in terms of public spending is wider than for education. The priority has more recently shifted towards old age pensions in those two countries, a sector in which current public expenditures are even lower compared to Western countries. Although Japan’s social security was developed much earlier, the emphasis was also put on health care prior to pensions. All other sectors represent very low amounts of public money, which reflects a lack of interest for things like unemployment benefits or personal social services for the elderly and families... at least until recently! Korea is now struggling with her new unemployment problem and Japan with the prospect of an ageing society. Those areas will be examined in more details in chapters V and VI, with an emphasis on the input of the private sector.

Comparing expenditures alone does not make a lot of sense if they are not measured against some yardstick of “quality”. In the case of education and health care, measures of quality abound and converge to demonstrate that East Asian students are quite good in mathematics and science, and that people are expected to live long and healthy lives. The link between the level of expenditures and those indicators is however very uncertain and the East Asian good records in those fields must be traced to a series of factors that go far beyond the scope of this paper, such that I will not dwell on that topic. As to old age pensions and the other income replacement or complement schemes, a relevant aggregate measure of “quality” could be the extent to which they reduce income inequality and poverty. That is the subject of the next chapter.

IV. Income Distribution Analysis

Kwon (1998) notes that income redistribution has hardly been an issue in East Asia, for the fast economic growth has been Pareto improving. Inequality matters less, the argument goes, when incomes are rising.⁴⁴ After all, whether social security systems should have a redistributive function at all remains an ideological debate in Western countries too. Without entering into this debate, this chapter analyses the extent of income inequality in East Asian countries and the redistributive impact of their welfare states. The first section takes the conventional approach of comparing distributions of household income, before and after taxes and transfers. In the second section, another aspect of income distribution is examined, namely transfers across occupational groups, because it is particularly salient in East Asia. The third section is a summary.

IV.1 Interpersonal Redistributive Effects of State Welfare

Table 21 presents Gini coefficients of income distribution for the five selected East Asian countries, compared to a number of Western countries. Two different data sources are used. The World Bank publishes results from national sources, with no guarantee of uniform methodology. They are all based on Family Income and Expenditures surveys at the national level, and the unit of analysis is always income at household level. There is no equivalence scale to account for different household sizes. By contrast, Gottschalk and Smeeding (1997) use data from the Luxembourg Income Survey, which are more standardised, and a common methodology to compute Gini coefficients. They also use an equivalence scale to take into account the effect of household size on income distribution: household income is divided by the square root of household size. Unfortunately, their study does not include Korea, Hong Kong and Singapore.

Among the 24 countries studied by Gottschalk and Smeeding (1997) (only seven are shown here) Japan and Taiwan are ranked among countries with relatively unequal income distribution, although they are not at the extreme. If the World Bank's data are of any reliability, Korea would be ranked at about the same place, while Hong Kong and Singapore would be at the extreme side of inequality, perhaps even

⁴⁴ The legitimacy of wealth accumulation (i.e., corruption) is much more salient a political issue in East Asia than wealth inequality itself.

beyond the United Kingdom and the United States. A puzzling result of table 21 is the very different ranking of Japan in the two studies. The main reason to account for that discrepancy is probably the different surveys used. The World Bank results are based on the Family Income and Expenditures Survey, which excludes farmers, owners of family businesses and one-person households. Gottschalk and Smeeding (1997) use the Income Redistribution Survey that includes all households and is therefore more reliable.⁴⁵

Table 21: Income Inequality, East and West

	World Bank		Gottschalk and Smeeding		
	Year	Gini coef.	year	Gini coef.	D9/D1 ^a
Japan	1979	0.28	1992	0.315 ^b	4.17
Taiwan	1991	0.308 ^c	1991	0.300	3.90
Korea	1988	0.33	..	..	..
Hong Kong	1980	0.39	..	..	..
Singapore	1982-83	0.42	..	..	..
Sweden	1981	0.28	1992	0.229	2.78
Germany	1988	0.32	1989	0.261	3.21
France	1989	0.35	1984	0.294	3.48
United States	1985	0.36	1991	0.343	5.78
United Kingdom	1988	0.39	1991	0.335	4.67

Sources: World Bank (1997) and Gottschalk and Smeeding (1997).

Notes: a. Income ratio of the ninth to the first deciles (upper boundaries). b. Gottschalk and Smeeding (1997) have used unpublished national data for Japan instead of LIS, using the same methodology. c. Source: Directorate General for Budget, Accounting and Statistics (1996).

Kwon (1997) has analysed the redistributive effects of the welfare states of Japan and Korea compared to the United Kingdom (see table 22, note that inequality measures for Japan are underestimated because data include working households only). He used income data before and after taxes and social security transfers, from national surveys on family income and expenditures. His conclusions are the following:

- The distribution of market income is much more equal in Japan and Korea than in the United Kingdom.
- The redistributive effects of taxes and social security transfers (i.e., benefits net of contributions) are much smaller in Korea, where they are almost negligible, and Japan than in the United Kingdom.

⁴⁵ See Tachibanaki and Yagi (1997).

- In Korea, the lowest and highest quintile get a higher share of benefits than the middle quintiles. For the highest quintile, it is due to the fact that most social security transfers take the form of actuarially fair insurance (i.e., both benefits and contributions are proportional to income). For the lowest quintile, the higher proportion of benefits can be explained by the strictly means-tested assistance programmes. In Japan, this phenomenon is even more pronounced, with the share of social benefits increasing steadily with income, except in the third quintile (but again, this could change if workless households were added). This finding stands in sharp contrast with the United Kingdom, where the two poorest quintiles get much more benefits than the three upper ones.
- Despite the lack of redistribution in Japan and Korea, their distribution of disposable income is still much more equal than in the United Kingdom.

The comparison with the United Kingdom might be misleading because it has a particularly unequal income distribution at the time being. If Japan and Korea were compared to many other Western countries, the last conclusion would not hold: disposable income would be less equally distributed in the two East Asian countries (see table 21), especially if we question the reliability of the Japanese family income and expenditures survey. Nevertheless, this study makes an important point: in the case of Japan and Korea, the state intervention does not influence income distribution much, such that whatever equality there is, is caused entirely by market forces.

This compelling empirical evidence illustrates the inadequacy of limiting the analysis of welfare to the state. Shinkawa and Pembel (1996) underscore three important elements affecting the distribution of market income in Japan:

1. Full employment.
2. State subsidies to farms and small and medium enterprises (the traditional clients of the Liberal Democratic Party in Japan).
3. Transfers within families: Shinkawa and Pembel (1996) assert that income inequality in Japan is more pronounced across age and sex compared to Western countries. Since in Japan there is a middle-aged man in almost every family, these inequalities disappear as soon as income comparisons are made on a household rather than individual basis.

The last two chapters will therefore analyse the social welfare roles played by non-state actors. In particular, the first and third points above will be addressed in the enterprise and family welfare chapters respectively.

Table 22: Income Distribution Before and After Taxes and Transfers in Japan, Korea and the United Kingdom

	% gross income	Average income of quintile groups (% of general average)				
		I	II	III	IV	V
Japan (1990, monthly income, workers' households only)						
Market income	99.62	58	78	96	115	154
Public transfers	1.38	92	100	90	101	117
Gross income	100.00	59	78	96	114	153
Direct taxes	4.90	26	48	78	118	230
Social security contributions	3.86	57	79	98	118	148
Disposable income	91.24	61	80	97	114	149
Korea (1991, monthly income, all households)						
Earnings	95.38	31	69	92	119	189
Private transfers	4.28	173	76	51	67	132
Market income	99.66	37	69	90	117	187
Public transfers	0.34	158	79	32	74	147
Gross income	100.00	38	69	90	117	187
Direct taxes	1.61	22	33	73	89	282
Social security contributions	2.07	40	77	94	117	172
Disposable income	96.32	38	69	90	117	185
United Kingdom (1990, yearly income, all households)						
Market income	87.52	6	30	80	128	255
Direct transfers	12.48	148	161	87	61	43
Gross income	100.00	24	46	81	120	229
Direct taxes & social security contr.	20.27	20	37	76	121	246
Disposable income	79.73	25	49	82	120	225

Source: Kwon (1997).

IV.2 Redistributive Effects of State Welfare across Occupational Groups

Many authors studying social welfare in Confucian societies stress the importance of status differences among workers. As Gould (1993) puts it, Japanese regard themselves as a classless society in the Marxist sense of the word, but they are very well aware of rank differences. Ranks are

defined in terms of age and sex, but also education or size of one's enterprise.

This social stratification translates itself into a segregation of the labour force along three dimensions:

- Labour force status: Private sector employers, employees and civil servants versus self-employed, farmers, day-labourers, family helpers and the unemployed.
- Employees' status: Regular versus temporary and/or part-time.
- Size of enterprise: Large versus medium or small.

Those three dimensions define so-called "core workers" (e.g., regular employees of large firms) versus "contingent workers" (e.g., day labourers). This distinction should of course be understood as a continuum rather than a clear-cut division into two groups (e.g., a temporary employee of a large firm may enjoy more benefits than a regular employee of a small firm or vice-versa).

Table 23: Breakdown of the Labour Force by Status (1996)

% labour force	Japan^a	Korea	Taiwan	Hong Kong	Singapore
Civil Servants	8.1	3.0	11.0	5.7	3.5
Employees ^b	68.6	50.1	56.5	78.6	79.3
Self-employed	11.8	27.4	21.7	10.4	13.1
Day labourers	1.8	8.5	.. ^d	.. ^d	.. ^d
Family helpers	6.0	9.1	8.1	0.9	1.2
Unemployed	3.2	2.0	2.6	4.4	3.0
Farmers ^c	5.1	11.4	9.9	0.0	0.2
Employees by firm size (% employees)	Japan	Korea^e	Taiwan^{ef}	Hong Kong	Singapore
Over 1,000 employees	20.2	9.1	4.2	14.76	..
30 to 1,000 employees	42.9	27.2	20.0	26.49	..
Below 30 employees	36.9	63.7	75.8	58.75	..

Sources: See annex 3 and Statistics Bureau (1996), Directorate General of Budget, Accounting and Statistics (1997b).

Notes: a. 1995. b. Private sector employees. c. Farmers are double counted in employment status categories (hence sum is over 100%). d. Included in employees. e. Unit of measurement is establishments instead of firms (i.e., branch offices and factories counted separately from headquarters). f. 1997.

Tables 23 and 24 show that contingent workers represent a large proportion of the labour force. Farmers, the self-employed and family helpers are particularly large groups in Korea and Taiwan. Korea has also an impressive 8.5% of day-labourers. As a result, public and private employees represent barely half of the labour force in Korea and only two thirds in Taiwan. The proportion is much higher in the city-states of Hong Kong and Singapore. As to the breakdown of employees, regular employees of large firms represent only 22% of all employees of firms with more than five employees, compared to 20% for all temporary and part-time workers (see table 24). In Korea, 35% of employees work in establishments of less than 5 employees.⁴⁶ Most of them may be considered as contingent workers, as they are not even covered by statutory social security.

Table 24: Distribution of Private Sector Employees by Size of Firm and Status in Japan (1995)

% employees^a	Over 1,000 employees	30 to 999 employees	5 to 29 employees
Regular	22	39	21
Temporary	3	8	5
Part-time	1	2	1

Sources: Statistics Bureau (1996).

Note: a. 8.4% of all private sector employees work in firms with less than 5 employees and are excluded here

A person's status in the labour force will affect his or her access to virtually all state welfare benefits:

- People who do not participate in the labour force have literally no access to social security in their own right (except for some allowances in some countries). The unemployed, family helpers and some categories of temporary and part-time workers are likewise excluded from almost all social security programmes. For example, Furugori (1993) examines the holes in Japan's social security net for contingent workers in the unemployment and old age insurance sectors.
- Almost all statutory insurance schemes in Japan, Taiwan and Korea are organised along occupational lines. The programmes for civil servants and private employees are systematically more

⁴⁶ See footnote 15.

generous than those for the self-employed and farmers (see for instance table 13 in chapter II).

- On the other hand, the state often subsidises the premiums of the latter groups. In fact, this mechanism of solidarity across occupational groups is sometimes the only explicit source of vertical redistribution in the social security systems. In Taiwan's National Health Insurance, the share of contributions taken in charge by the government varies from zero to 100% across 11 occupational groups, which implies huge cross-subsidies. Moreover, those occupational groups who are more subsidised also tend to be the ones that consume more health care services (see table 25). In Korea and Japan, the government has also decided to subsidise 50% of the health insurance costs of several occupational groups in order to make universal coverage possible. Those groups include farmers, the self-employed and family helpers, retired workers and employees of firms with less than five employees (plus their dependants). Similar subsidies also exist in the old age pension sector in Japan and Taiwan, although they are proportionately lower. Again, state subsidies benefit mainly to farmers and the self-employed, but also to civil servants and the military (see tables 2, 3 and 4 in chapter I). Ku (1995) has calculated that as much as 75% of the Taiwanese central government's total welfare expenditures benefited to civil servants and the military in 1991, reflecting their key importance to support the state's goals. Old age pensions and housing benefits are especially favouring those two occupational groups.

Table 25: Subsidies across Occupational Groups of Taiwan's National Health Insurance (1996)

	Premium shares (%)			Premium	Expenses
	Gov't	Employer	Insured	per capita (US\$)	per capita (US\$)
Government employees ^a	60	0	40		
Private school employees ^a	30	30	40	497	366
Private sector employees ^a	10	60	30		
Farmers, fishermen ^a	70	0	30	409	517
Military's dependants	60	0	40	527	455
Employers, self-employed ^a	0	0	100	367	421
Low-income families ^a	100	0	0	400	869
Contingent workers ^{ab}	40	0	60		
Veterans	100	0	0	400	601
Veterans' dependants	70	0	30		

Source: Bureau of National Health Insurance, <http://www.nhi.gov.tw> (December 1997).

Notes: a. Plus dependants. b. “Workers without a regular employer”.

IV.3 Summary

Japan, Korea and Taiwan’s income distributions are relatively unequal compared to OECD countries, although not as much as those of the United Kingdom and the United States. Hong Kong and Singapore are even more unequal. On the other hand, market income inequality in Japan and Korea is relatively less pronounced, while taxes and public transfers do not have much redistributive power at all, especially when compared to the United Kingdom. In other words, the key to the performance of Japan and Korea in terms of income equality is to be searched outside of the realm of the welfare state. Labour market mechanisms and income pooling inside families seem to be essential factors to explain this phenomenon.

When studying income redistribution in East Asian countries, focusing on transfers between income groups may prove to be insufficient. In chapter II, it has been emphasised that few social security programmes had built-in vertical redistribution mechanisms, with the exception of health care. However, they involve important redistribution mechanisms between occupational groups. To the extent that those groups have different average earnings, it implies some vertical redistribution. However, it is not always in favour of the poor. The primary beneficiaries of state subsidies are indeed (i) farmers and employees of firms with less than five employees whose average incomes are relatively low, (ii) the self-employed, which is a category encompassing both low-income and wealthy households and (iii) civil servants and the military whose average earnings are high compared to other occupational groups but are privileged to secure loyalty to their government.⁴⁷

⁴⁷ For instance in Taiwan, the average insured wage of the Government Employees Insurance was 23% higher than that of the Labour Insurance in 1996 (Bureau of Labour Insurance, 1997 and Central Trust of China, 1997).

V. Enterprise Welfare

This chapter examines to what extent East Asian enterprises play a social welfare role in East Asian welfare systems. Three potential sources of “enterprise welfare” are identified:

- The provision of welfare benefits on top of legal requirements (i.e., voluntary non-wage labour costs).
- The commitment to security of employment (i.e., lifetime employment).
- The levelling of the income distribution “at source” (i.e., before redistribution through tax and social security), thanks notably to the seniority system for wage determination.

Enterprise welfare is particularly important in Japan and Korea, for their industrial basis consists of large enterprises famous for nurturing their employees. In Japan, firm loyalty is a key concept to understand labour relations as it implies responsibilities for both employees and employers. It is at the source of the lifetime employment commitment and the seniority system. Taiwan and Hong Kong’s economic structures are very different. They are based on small, family-oriented companies. Hence the labour market is much more flexible and competitive in the neo-classical sense of the term, especially in Hong Kong, with however a strong element of family loyalty (as opposed to firm loyalty).⁴⁸ In Singapore, some enterprises are applying the seniority system while others are more competitive. This chapter focuses on enterprise welfare in the Japanese way, with some comments on Korea as well.

Even in Japan and Korea however, enterprise welfare is not distributed evenly across the population. What people get depends of course upon whether they are employees at all, but also upon whom their employers are. Besides large enterprises, there is indeed a big fringe of smaller companies that have a more flexible labour management system (see the discussion on contingent and core workers in the previous chapter). In a nutshell:

- Core workers benefit more from firms’ voluntary non-wage labour costs.
- They enjoy maximum employment security.

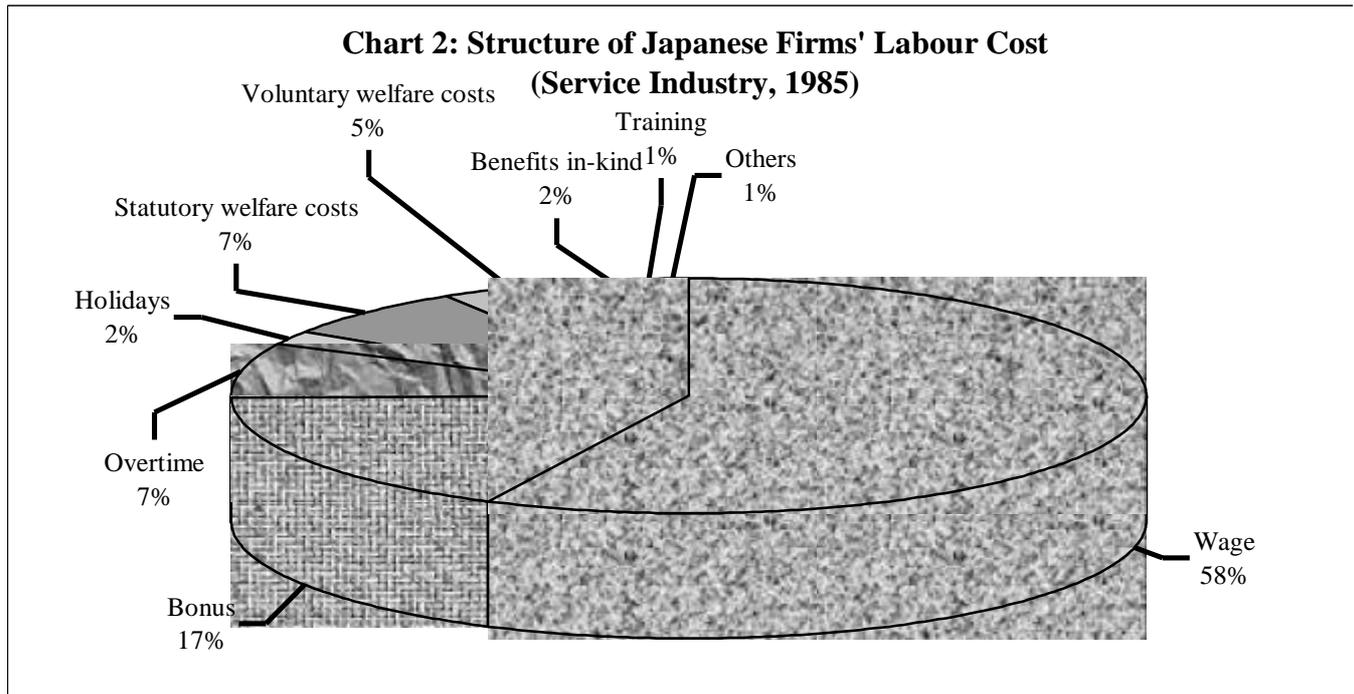
⁴⁸ By this, I mean for instance that many Taiwanese factory owners recruit their relatives or people from their own village rather than looking for the cheapest workers (see for instance Hsiung, 1996).

- They receive significantly higher wages.

V.1 Non-Wage Labour Costs

Enterprises play a significant role as providers of social welfare benefits. This can be analysed with evidence from non-wage labour costs studies. Non-wage labour costs are generally reported as statutory or voluntary. I will not dwell on the former, as they were the topic of the first chapter. Still, it must be emphasised that the state in East Asia relies more on enterprises even for statutory welfare benefits. First, social security through the instrument of employers' liability is proportionately more prevalent than in Western countries, especially in Hong Kong and Singapore. For instance, minimum legal severance payments disbursed directly by firms would not appear in the statistics presented in chapter III, since they do not involve any financial flow through public institutions. Yet those expenses should count as "legal welfare". Second, the state sometimes allows enterprises to manage their own insurance schemes (e.g., firm-managed health insurance schemes in Japan and Korea).

As to voluntary non-wage labour costs, they must be considered as a part of the worker's total incentive. Although they also exist in Western countries, especially in the United States, they are known to be particularly important in East Asia. This section will therefore examine the real importance of this kind of enterprise welfare.



Source: Commission of the European Communities (1988).

Aggregate data on non-wage labour costs are not easily available for all countries. Hence this section will focus on Japan, using a comparative study carried out by the European Commission (see chart 2 and table 26).⁴⁹ Non-wage labour costs consist of (i) cash payments other than wages such as bonuses and premiums, overtime or holiday pay; (ii) statutory social security costs; (iii) voluntary social security benefits (extra pension, family allowance and the like); (iv) in-kind benefits (housing allowance or housing provision, meals and others); (v) training and hiring costs and (vi) others (including commuting allowance).

Table 26: Non-Wage Labour Costs (Manufacturing Industry, 1981)

	Holidays	Statutory welfare	Voluntary welfare	Total
Japan	2.2	7.2	6.7	16.1
France	8.3	18.9	6.8	34.0
United Kingdom	10.9	9.4	8.9	29.2
United States	8.7	7.8	8.9	25.4

Source: Commission of the European Communities (1988).

Note: United States: all industries.

⁴⁹ Commission of the European Communities (1988). See also Hall (1988), Tachibanaki (1987) and Hart (1994).

Compared to some Western countries, it turns out that enterprises' non-wage labour costs are in fact quite low in Japan. Yet this can entirely be explained by the low level of statutory social security schemes in Japan (see chapter III). Nevertheless, even if one compares voluntary welfare costs only, Japanese firms were spending about the same amount as their French and British competitors but less than the Americans⁵⁰. In other words, compared to other countries, enterprise welfare is more important in Japan relative to statutory welfare, but not in absolute terms.

What table 26 does not show is the importance of in-kind benefits, which are definitely larger in Japan.⁵¹ They include a wide variety of incentives, like cheap housing, cheap credit, organised vacation and recreation activities, sports facilities, nurseries, company cars, medical check-ups and even discount supermarkets at the work place. As shown in chart 2, they represent only a small fraction of total labour costs. Yet they contribute to the common perception of paternalistic Japanese firms taking care of their employees from cradle to grave. Housing benefits in particular are reckoned to be instruments promoting firm loyalty (see Hall, 1988). They allow socialisation of employees outside of work hours (single employees living in dormitories, families in the firm's apartment flats). They also enable easier relocation of workers in the event of a firm's restructuring. Finally, employees who accept cheap loans from their employers to buy their own house find themselves tied to their company. Yet the extent of this phenomenon is limited and particularly important in big companies.

As table 27 shows, large companies actually rely more on non-wage labour costs across the board. The largest enterprises (more than 5,000 employees) devote 19% of labour costs to non-cash benefits, compared to 15.2% for firms of 30 to 100 employees. Similarly, the share of statutory benefits decreases and the proportion of voluntary benefits over statutory ones increases with firm size. Note that table 27 underestimates the gap between large and small firms because it excludes companies of less than 30 employees.

⁵⁰ The absence of mandatory universal health insurance in the USA influences the respective share of voluntary and statutory social security costs compared to the other countries.

⁵¹ Tachibanaki (1987) presents Eurostat figures of 1981 for all European countries, with benefits in-kind ranging from 0.1% (Germany) to 0.8% (France) of total labour costs, compared to the 2.4% of Japan (see chart 2).

Table 27: Non-Wage Labour Costs by Firm Size in Japan (1995)

Number of employees (Yen per employee per month and %)	30-99	100-299	300-999	1,000-4,999	5,000 +	All Firms over 30
Total labour costs	379,209	413,607	464,120	529,748	615,838	483,009
Total cash earnings	84.78%	84.37%	83.46%	82.53%	81.01%	82.95%
Statutory benefits	9.84%	9.30%	8.99%	8.41%	8.36%	8.87%
Retirement allow.	2.84%	3.51%	3.86%	4.54%	5.58%	4.26%
In-kind benefits	0.25%	0.34%	0.54%	0.44%	0.62%	0.46%
Training costs	0.18%	0.22%	0.27%	0.33%	0.30%	0.27%
Hiring costs	0.13%	0.17%	0.23%	0.17%	0.09%	0.15%
Housing	0.35%	0.66%	1.26%	1.78%	1.90%	1.31%
Food	0.27%	0.25%	0.25%	0.31%	0.38%	0.30%
Culture & sports	0.26%	0.19%	0.19%	0.23%	0.31%	0.24%
Private insurance	0.41%	0.28%	0.23%	0.22%	0.12%	0.24%
Medical care	0.06%	0.09%	0.09%	0.15%	0.30%	0.16%
Lifetime events	0.09%	0.08%	0.08%	0.12%	0.10%	0.10%
Accident comp.	0.11%	0.08%	0.05%	0.02%	0.02%	0.05%
Asset formation	0.02%	0.05%	0.07%	0.11%	0.23%	0.11%
Others	0.40%	0.27%	0.42%	0.63%	0.72%	0.53%

Source: Statistics Bureau (1996).

Notes: The classification differs from Chart 2 and table 26. In-kind benefits include commuting allowance, goods manufactured by the company and others. Excludes firms with less than five employees. Exchange rate: 1 US\$ = 94 Yen.

The literature on non-wage labour costs has produced several hypotheses to explain to what extent employers and/or employees prefer them over wages.⁵² Few of them have been successfully tested. One factor that definitely plays a role is the tax exemption of most non-wage labour costs in most countries. Besides that, the human capital theory has focused on hiring and training costs, although they are almost insignificant compared to other non-wage labour costs. The idea is that firms are willing to pay to increase their workers productivity. Yet they must focus on firm-specific skills in order to retain their workers who might otherwise increase their market values and quit. Ohta (1996) and the European Commission (1988) argue that training is particularly firm specific in Japan, where teamwork is very important.

⁵² See Tachibanaki (1987), European Commission (1988), Hall (1988), and Hart (1994).

Along the same idea, deferred payments may be interpreted as attempts to retain workers, in order to save fixed training and hiring costs and to avoid shirking by well-paid senior employees. Training costs may here be understood as all the skills and experience acquired on the job, beyond formal training sessions of which the costs appear in table 27. This would explain why a large share of voluntary welfare benefits consists of retirement pensions, in Japan like elsewhere.⁵³ Shinkawa and Pembel (1996) also argue that non-wage labour costs are particularly important for large companies to attract the best workers in the tight Japanese labour market, as it is harder for smaller firms to offer similar fringe benefits packages (for instance, due to the lack of economies of scale). They also note that non-wage labour costs tend to rise faster than wages in the promotion scale. Yet another rationale of non-wage labour costs is that many of them take the form of an insurance, for which group purchase (e.g., firm purchase) is more efficient than individual purchase, because of the larger pool of risks, lower administrative costs and possibly lower control costs. Finally, there is some evidence that unionised firms tend to have a higher proportion of non-wage labour costs in total labour costs. This could reflect the fact that unionised workers tend to be permanent employees, thus valuing deferred pay more than mobile employees.

Whether enterprise welfare is more efficient than state welfare is an area that begs for further research. Several authors have tackled the question of the effects of non-wage labour costs on unemployment, and especially on cyclical unemployment taking into account the rigidity of non-wage labour costs compared to wages.⁵⁴ Yet unemployment is only part of the issue. To my knowledge there have been no thorough comparison of the efficiency of enterprise versus state welfare, in terms of (i) administrative costs, likely to be lower in a public system, (ii) costs flexibility, greater in an enterprise-centred system and (iii) the actual

⁵³ In Japan, enterprises usually offer lump-sum grants for their employees when their contract is terminated, usually between age 55 and 60. Many employees are re-hired by the same company or an affiliated company with a lower salary and they continue to work until 60 years old when they become entitled to the public pension, or even beyond that age. This is supposed to reflect the decline of employees' productivity after 55 years old. Another traditional justification for lump-sum grants at age 55 has been that they are particularly useful to finance children's wedding. Nevertheless, more and more companies now offer annuities rather than lump-sum grants.

⁵⁴ See Tachibanaki (1987), Hall (1988) and Hart (1994).

ability of firms to tackle the moral hazard problem better than the state, thanks to the proximity between the insurer and insured.

To sum up this discussion of non-wage labour costs, Japanese firms do not spend more on them (relative to total labour costs) than their foreign competitors. Enterprise welfare only looks more important in Japan because (i) statutory welfare expenditures are lower (see chapter III), (ii) enterprise welfare is a sign of status for Japanese employees in a highly hierarchical labour market and (iii) Japanese firms are perhaps using enterprise welfare more consciously than their foreign competitors as a means to secure loyalty from their workers.

V.2 Full Employment

The importance of full employment in East Asian economies can hardly be overstated in an overview of their social welfare systems. Full employment is first important in its own right, for unemployment is precisely one of those risks from which social security must protect workers. It is also important because of the numerous linkages with other social security sectors. On the resources side, full-employment means more social security contributions to finance all other sectors. On the expenditures side, the long-term unemployed are a group at risk for health care and are likely to fall onto either permanent disability schemes or public assistance, creating a long term financial liability. Finally, full employment is crucial because East Asian welfare states are built around it. As argued in the first part of this paper, people have access to the bulk of social security through their employment. The unemployed is eligible only to public assistance (if that) and a few other marginal schemes.

This section first briefly analyses the supply side of employment in the selected East Asian and Western countries. The purpose is to compare their dependency ratios in order to assess the proportion of people who have got no earnings and are therefore entirely dependent upon the social security system, or alternatively upon family solidarity. The lower those ratios are, the lighter the social security system may be. Second, it explores to what extent enterprises are fulfilling a social welfare function by keeping workers who are not necessarily profitable. This second section again focuses on Japan, for it has a unique labour management system.

Labour Force Participation and Low Dependency Ratios

Tables 28 and 29 compare the activity, participation and unemployment rates of the selected East Asian and Western countries.⁵⁵ Those three ratios influence the dependency ratio, which is here defined as the proportion of people not working in the total population. The activity rate is the pure demographic effect. It has already been discussed in section III.3: all East Asian countries have a higher proportion of people in working age and this proportion is going to increase further before declining. The participation rate may be called the “socio-cultural” effect. While middle-aged men are expected to work in all countries, cultural expectations as well as social and economic opportunities and constraints differ for women, youths (aged 15 to 25) and the elderly (aged over 65). A very clear pattern of East Asian countries is the high labour participation rate of the elderly (see table 29).⁵⁶ Women participate less in the labour force in East Asia than in Western countries on average, but it is not true for every country-to-country comparisons (e.g., female participation rate of all East Asian countries are higher than that of France). The same holds for youth participation. Finally, unemployment may be called the “economic effect” of the dependency ratio. Here again a clear pattern emerges: unemployment rates in East Asian countries are definitely lower than in any Western country (or were, in the case of Korea). This is the topic of the next section.

To sum up, the dependency ratios are generally lower in East Asian countries, particularly in Japan and Singapore. This is due to the combined effects of their favourable aged structures, the high propensity of elderly to work and the low unemployment level. The higher labour force participation rates of women and youths in some Western countries partially compensate those effects, particularly in the United Kingdom and the United States.

⁵⁵ The active population is here defined as the population aged between 15 and 65 years old, plus the employed over 65 years old. The labour force equals total employment plus unemployment. The unemployed are the people not working but looking for work and immediately available to work (ILO definition). The activity rate is the active population over total population. The participation rate is the labour force over the active population. The unemployment rate is the unemployed over the labour force.

⁵⁶ The elderly participation rate of Korea is biased upward for the elderly are those over 60 years old instead of 65.

Table 28: Activity, Labour Force Participation, Unemployment and Dependency Rates (1995)

% relevant population	Activity rate	Labour force part. rate	Unemployment rate	Dependency rate
Japan	72.8	72.9	3.2	48.6
Korea ^a	75.1	62.0	2.0	54.4
Taiwan ^a	69.5	62.4	1.6	57.8
Hong Kong ^a	72.3	70.7	3.2	51.0
Singapore ^a	71.2	83.2	2.7	42.6
France	65.8	68.3	11.6	60.2
Germany	67.8	72.5	12.9	55.8
United Kingdom ^b	63.8	77.4	10.3	55.7
United States ^b	65.2	76.5	6.9	53.5

Sources: See annex 3 and International Labour Organisation (1997).

Notes: a. 1996. b. 1993.

Table 29: Labour Force Participation by Age and Gender (1995)

% active population of relevant category	Women (15-65 years old)	Elderly (over 64 years old)	Youth (15-25 years old)
Japan	60.2	23.9	48.2
Korea	53.9 ^b	42.2 ^{ab}	36.5
Taiwan ^b	50.4	8.8	33.9
Hong Kong ^b	56.8	9.8	51.7
Singapore ^b	69.9	12.4	49.9
France	47.9	1.4	30.95
Germany	63.0	2.5	50.9
United Kingdom ^c	67.8	5.0	71.0
United States ^c	68.7	10.7	56.6

Sources: See annex 3 and International Labour Organisation (1997).

Notes: a. Elderly = people 60 years old and over, instead of 65. b. 1996. c. 1993.

Lifetime Employment

East Asian countries are characterised by very low and flat unemployment rates, at least until the recent economic crisis (see chart 3). For the four NICs, it can of course be explained by the rapid growth leading to labour shortages. However, even in the more mature Japanese economy, the unemployment curve does not follow a business cycle like

in the flexible American and British labour markets. It is hard to spot the major recession that has struck Japan since the early 1990s on chart 3.⁵⁷



Source: International Labour Organisation (1997).

The Japanese-style of labour management is certainly a key to understand this low level of unemployment, although macroeconomic policies and other factors are also crucially important. Firm loyalty has been at the heart of traditional post-war Japanese corporate culture and its corollary of lifetime employment has been a pillar of the human

⁵⁷ Some authors criticise the Japanese statistics for underestimating the true level of unemployment. Nevertheless, those statistics are based on surveys, not administrative reports. The way they are constructed has never been substantially altered, such that the time series are very consistent. They also respect the ILO definition of unemployment (having no job, willing to accept one and actively looking for one). There are however some sources of bias (see Hamada and Kurosaka, 1984). The main one is that the period covered by the survey is only one week, compared to one month in many other industrialised countries. In other words, if a person has not been actively looking for work during that week, he or she will not be considered as unemployed (this would be the case of a person waiting for results of previous initiatives, or of students and women seeking temporary jobs irregularly).

resources management, at least for core employees.⁵⁸ Dore et al. (1989) quote one of the managers they have interviewed: “A factory owner who shows his employees the door because he can’t find them work is as deserving of blame as an officer who loses his men in a battle”. This statement stands in sharp contrast with the American corporate culture, where announcements of massive layoffs immediately trigger a jump in the company’s shares value and improve the career prospects of its CEO.

Dore et al. (1989) describe how large Japanese firms have managed to hold to their lifetime employment commitment, at least until recently. The main strategy is diversification. Japanese companies pro-actively anticipate the growth and decline of their industry and plan restructuring with a long-term horizon. They may choose to diversify towards businesses that match the skill endowment of their current work force, or towards completely unrelated industries. If they have not planned restructuring enough in advance and face a temporary or permanent demand crunch, they will fire workers as a last resort, after having exhausted the following steps:

- Decreasing overtime: Overtime is the main lead indicator of business cycle of the Economic Planning Agency. Legal overtime premiums are indeed quite low (25% and 50% at night), such that firms can afford to build a buffer of hours worked during recovery and deplete it during recession. Tachibanaki (1996a) shows that Japan has a low variability in employment but a high variability in hours worked, compared to other major industrial countries.
- Stop hiring additional temporary or part time workers.
- Manpower redeployment within the firm: Both geographical and occupational redeployments are common in Japan.⁵⁹ Employees usually comply with their managers’ offers. They face both positive and negative incentives, depending upon the situation (e.g., pro-active diversification compared to sudden cost-saving restructuring).
- Manpower redeployment within the firm’s group: Many large Japanese firms belong to a group of “preferred trading partners” (usual customers, suppliers or enterprises financed by the same

⁵⁸ Lifetime employment should not be understood too literally however. Taira and Levine (1996) estimate that only about a third of regular employees never change employer in Japan.

⁵⁹ See some evidence of geographic labour mobility in Tachibanaki (1996b).

bank) and rely on a vast network of small subsidiary firms. In periods of need, a firm may dispatch some workers to another one, keeping them on its own payroll and charging a flat fee to the firm employing them.

- Creation of subsidiaries to exploit the profitable segments of closing plants.
- Bearing the cost of idle workers and waiting for a recovery of demand.
- Stopping hiring regular employees and letting the manpower decrease naturally (with the negative effect of an ageing employee structure).
- Laying-off temporary and part time workers: Dore et al. (1989) assert that those workers are not as contingent as often claimed. Not renewing them comes only after other options have been exhausted.
- Cutting bonuses: As chart 2 in section V.1 indicates, the two annual bonuses represent a large part of employees' take-home pay. They can be more easily cut back than regular wages, although Dore et al. (1989) as well as Tachibanaki (1996a) write that they are in fact pretty rigid.
- Laying-off regular employees: Finally, the last-resort decision *par excellence* is to fire regular employees. Usually, older employees are encouraged to take an early retirement, compensated by generous pension benefits. When there are not enough volunteers, some employees are discretely asked to "volunteer" to save face.
- Public subsidies: Moreover, the government's budget for active labour market policies is focused on retaining employees who are about to be dismissed rather than on the unemployed.

This sequence of measures reflects very well the labour force hierarchy. Large firms are more likely to find alternative positions for their redundant workers, either within their diversified branches or in their vast network of subsidiaries and preferred partners. Regular employees are explicitly preferred over temporary ones. As to the self-employed, family helpers and some categories of part time and temporary employees, not only their jobs are the most vulnerable, but their access to unemployment benefits is not always guaranteed.

Lifetime employment represents a costly rigidity for Japanese firms. It means that they retain a certain percentage of idle workers⁶⁰ and do not substitute their least productive workers for better ones when they can. Yet it is compensated by a very flexible manpower management within the firm, as demonstrated by the above restructuring strategies.⁶¹ Hence the positive aspect of lifetime employment for employers is that they get a high level of effort from their workers in return, as well as their full co-operation with the enterprise's aims (e.g., even for tough decisions like relocation, increased overtime and the like). Whether or not this system is profitable is a difficult question to answer. Anyway, market share growth and firm loyalty are perceived as more important than profits (boards of directors of Japanese firms typically consist of people who spent their whole life in the company, plus a few co-opted bankers).⁶²

Some authors question the sustainability of the Japanese labour management system.⁶³ They argue that several factors are putting it under pressure. First, technological progress will steadily increase the pace at which firms will have to adapt themselves to market conditions. This will make it ever harder for firms to restructure swiftly without major layoffs. Second, the international liberalisation of the economy will force firms to pay more attention to their profits, as opposed to their market share. Third, increased wealth will lead the Japanese to value leisure and quality of life. Alternatively, the new generation would prefer more competition as opposed to the egalitarianism of the seniority system.

⁶⁰ Taira and Levine (1996) estimate the number of redundant workers at about 3 to 5 millions in the early 1990s, twice the unemployment rate.

⁶¹ In addition, Tachibanaki (1996a) presents some evidence of wage flexibility compared to Western countries. Yet it appears that it does not explain well the low level of unemployment. Dore et al. (1989) also discusses "functional flexibility" (i.e., the capacity of workers to take in charge each other's tasks from week to week or even hour to hour).

⁶² Some authors have tried to explain the phenomenon of firm loyalty with economic arguments, such as the existence of "firm-specific human investment" due to "intensive horizontal co-operation" between workers (see European Commission, 1988 and Ohta, 1996). Others see it either as a sign of Confucian ethos. Still others prefer political economy explanations, such as a necessary political concession to pre-empt the rise of unions (Shinkawa and Pembel, 1996).

⁶³ See for instance Taira and Levine (1996) and Whittaker (1990).

Nevertheless, any conclusion as to the future of the Japanese labour management system would be highly speculative. A safe approach is simply to monitor recent trends. Since the beginning of the 1990s, Japan has gone through her severest and especially longest recession since World War II, such that predictions of dramatic change have appeared again. Yet enterprises have continued to rely on the same tricks to retain their work force and unemployment has remained low by international standards (4.1% at the time of writing), although it has been rising steadily. Several insights help to assess the situation:

- Yahata (1997) and Kaneko (1997) point out that the crisis is compounded by a demographic aspect: post-war baby-boomers reach 45-55 years old and climb in the seniority ladder, but the proportion of management positions does not necessarily increase. Employees of this cohort are the hardest hit by layoffs.
- Dore (1988) notes that the proportion of regular jobs versus part-time and/or temporary ones was still increasing in the age groups other than the 20s at the end of the 1980s. Young workers are the second group suffering from a decrease in job security, but it is certainly partly due to personal choices.
- Kaneko (1997) asserts that what Japan corporate culture really needs is a third category of workers. Besides regular workers (i.e., generalists paid by seniority) and temporary and/or part-time workers, a real external market should be developed for specialists, who should be paid according to performance and change jobs according to needs.

Although the Korean corporate culture differs from the Japanese in many ways⁶⁴, job security is also firmly entrenched in Korea, particularly in large firms. A strict labour law made it very difficult to fire workers short of bankruptcy (if that) until the government railroaded a bill through the National Assembly at Christmas 1996, sparking massive strikes and demonstrations in the following month. The former law was sustainable in a period of high growth and authoritarian government keeping labour demands in check. It was also part of Korea's general strategy of industrial development based on the *chaebol* (conglomerates). Since firing workers was hardly an option, firms were bound to grow and diversify their activities in order to cross-subsidise unprofitable industries and progressively move their labour force to more profitable markets. With the financial crisis of 1997, this

⁶⁴ See Chang and Chang (1994).

period is now over. Further legislation is expected to let more flexibility in the labour market. Unemployment is rising fast as a result of serial bankruptcies. Large firms are preparing restructuring plans that will produce some massive layoffs. Still, although the Korean industry goes through a period of hard restructuring due to the financial crisis as well as overcapacity in key sectors (e.g., car manufacturing and semiconductors), the corporate culture is still strongly emphasising retaining workers.

V.3 Wage Determination

Besides avoiding shedding unproductive workers, another way in which Japanese and Korean firms may play a welfare role compared to their Western competitors is by levelling the wage structure. Chapter IV has shown that Korean and Japanese tax and benefit systems do not play a very significant redistributive role, unlike those of Western countries. This suggests that their distributions of market income must be more equal than those of countries with similar Gini coefficients of disposable income. Since earnings are the major component of market income, this section will focus on the extent of wage inequality and on mechanisms of wage determination that tend to reduce it.

Focusing on the case of Japan again, Tachibanaki (1996b) emphasises the fact that there is high wage equality among workers sharing the same status, but a high inequality between workers of different status. The seniority system is a typical example. In many firms, employees are promoted by age cohorts until their mid-30s when a differentiation begins to take place. On the other hand, many employees are expected to retire at 55 and are sometimes re-hired by the same company at a lower wage, reflecting decreased productivity. Note that this system of automatic promotions is not necessarily a disincentive to work. Indeed, the system of lifetime employment means that the firm has a monopsony power once a worker is hired. Hence workers will compete for a limited number of executive positions within their company to gain higher status and in-kind advantages rather than higher wages.

Besides tenure, Tachibanaki (1996a) has analysed six other variables of “status” explaining wage differentials: sex, age, firm size, education and industry. Unfortunately, he has not studied the variable regular/ temporary/ part-time worker. His conclusions are the following. First, sex is the most important wage determinant. Since other variables are controlled for, this represents a pure discrimination. Second, job tenure is more important than in other countries, reflecting

the seniority system. Third, age has a significant independent effect, albeit not very important. Fourth, the factors “industry” and “white-collar/ blue-collar” are not important when controlled for firm size. Fifth, firm size is robust as an independent effect. The author explains that result and concludes that it is due to a greater ability to pay, as measured by profits, productivity and capital-labour ratio. Finally, education is an important factor only for the sub-category of white-collar males. Education plays a role as a necessary, but not sufficient, condition to access higher positions, which in turn yield higher wages.

Table 30: Wage Inequality and its Incidence and Concentration across Age and Gender

	Japan	France	Germany	Sweden	United Kingdom	United States
D9/D1 ^a	3.02	3.28	2.32	2.13	3.38	4.39
Low earnings incidence ^b						
All employees	15.7	15.9	13.3	5.2	19.6	25
Men	5.9	10.6	7.6	3.0	12.8	19.6
Women	37.2	17.4	25.4	8.4	31.2	32.5
< 25 years old	36.4	49.5	50.4	18.7	45.8	63.0
25-54 years old	9.6	10.6	6.7	4.3	15.0	21.2
> 55 years old	19.8	10.5	5.4	2.9	22.9	23.7
Low earnings concentration ^c						
Men	0.4	0.8	0.6	0.6	0.7	0.8
Women	2.4	1.3	1.9	1.6	1.6	1.3
< 25 years old	2.3	3.7	3.8	3.6	2.3	2.5
25-54 years old	0.6	0.8	0.5	0.8	0.8	0.8
> 55 years old	1.3	0.8	0.4	0.6	1.2	0.9

Source: OECD (1996d).

Notes: a. Earnings of the upper boundary of the ninth decile divided by wage of the upper boundary of the first decile (full time employees only). b. Proportion of full-time employees with earnings inferior to 2/3 of the median earnings, among all employees of the specified categories. c. Incidence of low earnings of each category divided by incidence of low earnings of all employees.

Those conclusions are supported by OECD data presented in table 30. They show that wages in Japan are relatively unequally distributed. The decile ratio ranking of Japan is the same as the one for disposable income presented in table 21 except for France. This case of France confirms the fact that Japanese income inequality appears less severe if measured on the basis of market income or earnings rather than on the

basis of disposable income, due to the weak redistributive power of the tax and benefit system. However, comparisons with the other countries are inconclusive on this respect. Table 30 also confirms the fact that wage inequality is more concentrated against women and aged workers than in any other country. Japan's high proportion of youths among low paid workers is by contrast not unusual by international standards.

Those findings support a hypothesis proposed by Shinkawa and Pembel (1996). In Japan, there is an interaction between "enterprise welfare" and "family welfare" that makes state welfare less necessary as far as income distribution is concerned. Enterprises strongly discriminate female, young and aged workers in favour of middle-aged men who benefit from secure and high earnings. By pooling resources, families compensate for that discrimination. Since almost any household includes one middle-aged man, this income inequality at the individual level vanishes at the household level.

IV.4 Summary

The most apparent form of enterprise welfare are the benefits that firms voluntarily pay to their employees on top of legal requirements, as a part of their total pay package. Those voluntary non-wage labour costs represent a lot of money in Japan, particularly in large enterprises. However, it is wrong to believe that enterprise welfare is a substitute to state welfare in Japan, because firms of other major industrialised countries spend as much on voluntary fringe benefits on top of higher statutory ones.

A more subtle way in which enterprises do play an important welfare role is by retaining workers who are not necessarily profitable. Japanese enterprises rely upon a variety of long term and short-term strategies to redeploy their work force in response to business cycle and structural shocks. This contributes to maintaining a low level of unemployment, which is essential to the equilibrium of the welfare state. The third welfare role of enterprises that has been explored is the levelling of income at "source", i.e., before taxes and transfers. It turns out that earnings inequality in Japan is relatively high, but more concentrated among women, youths and the aged. In other words, enterprises here play a welfare role in a "conservative" way, by ensuring that middle-aged men, the "breadwinners", go home with decent pay, while discriminating against other workers.

Besides low unemployment, I have also shown that high labour force participation rates of the elderly contribute to low overall

dependency rates. More than earnings dispersion, the key to understand the structure of income distribution in East Asian countries is probably the distribution of work itself, with fewer workless people, and especially the distribution of work between households, which is explored in the next chapter.

VI. Family and Community Welfare

The family is a crucial vector of intergenerational solidarity. In Western countries as elsewhere in the world, the family is central in welfare provision for children and young people. In East Asia like in many other regions of the world, it is also central for the welfare of the aged. The family plays a social welfare role in two ways. First, by pooling resources of individuals within households, it provides income security for people temporarily or permanently unable to earn a wage because of their young or old age, disability or any other reason. Second, family members provide a large range of services to each other. This is particularly important for child care, provided by grandparents, and care of the elderly, provided by their adult children. In East Asia, families are thus still doing a lot of the work that is done by professional social workers and public and private care institutions in the West. This will be discussed in the first section. The second section briefly discusses “community welfare”, i.e. the role of the non-profit sector and volunteers. The third section is a summary.

VI.1 Family Welfare

It is difficult to measure the importance of family welfare systematically. Tables 31 and 32 offer partial evidence on intergenerational family solidarity. The former table is about financial support for the elderly in Korea and Taiwan. The latter is about the provision of services for the elderly in Japan.

Table 31: Major Income Sources of Elderly Koreans (1991)

% over 59 years old (Korea) % over 64 years old (Taiwan)	Primary Income Source		
	Korea (1991)	Taiwan (1986)	Taiwan (1993)
Earnings from work	32.0	29.8	42.8
Savings	1.9		
Public pension	2.5	1.2	1.6
Public or private assistance	2.2		
Private pension	0.3	..	..

Property	4.6	-	1.9
Children's support	54.0	67.8 ^a	53.2 ^a
Others	1.6	1.2	0.5
Total	100.0	100.0	100.0

Source: Sung-Jae Choi (1996) and Directorate General of Budget, Accounting and Statistics (1997b).

Note: a. Includes friends' and relatives' support.

According to table 31, children's support was the main source of income for just over half of Korean and Taiwanese aged people in the beginning of the 1990s. The second main source of income was earnings from employment. It is indeed not unusual at all for people to continue working beyond retirement age in Korea and Taiwan, as well as in the other East Asian countries (see table 29 in section V.2). By contrast, public pensions, public assistance as well as private insurance were the main source of income for a negligible proportion of the elderly.⁶⁵ This reflects the weak pension systems in Korea and Taiwan. In Korea, the National Pension Programme (NPP) does not offer sufficient benefits for retired workers to live on, as they have not had the opportunity to contribute for enough years (see annex 1). Only a small proportion of the total population receives substantial lump-sum retirement grants, namely civil servants and, on a voluntary basis, employees of large companies. In Taiwan too, the old age benefits of the various occupational schemes cannot secure financial independence, except for civil servants. The situation is completely different in Japan, where pensions are substantial. As the NPP matures, the data of table 31 will change dramatically. The same would hold for Taiwan if she strengthened her old age pension system as planned. Meanwhile, the data of table 31 put the discussion over the welfare states in perspective: as of today, old age pension programmes in Korea and Taiwan are insignificant, which explains much of the gap in public spending on welfare between them and Western countries.

⁶⁵ The table does not say that public pensions represented only 2.5% of total income of Korean elderly households, but that only 2.5% of respondents to a survey identified public pension as their main source of income, among others. Moreover, since most Koreans and Taiwanese people receive lump-sum pensions instead of annuities, they may either consume them fast or use them to purchase a house or other financial assets, in which case they may appear in the savings or property lines.

Table 32: Main Carer of the Bed-Ridden Elderly Living at Home in Japan (1992)

	%	Main Care-Taker	
		Female	Male
Care-taker living with the aged		73.9	12.6
Spouse		22.2	5.7
Child		14.5	6.1
Child's spouse		33.0	0.3
Other relative or non-relative		3.6	0.4
Care-taker living apart from the aged		12.5	1.5
Relative		5.3	0.4
Non-relative		7.3	1.0
Total		85.9	14.1

Source: Sumitaka (1996).

As to services, Sumitaka (1996) quotes figures from a 1990-92 survey carried out by the Ministry of Health and Welfare in Japan. Almost two-third of the elderly in need of care lived at home, the remaining third living in various kinds of welfare institutions.⁶⁶ Table 33 shows that the primary carer for the bed-ridden elderly living at home are daughters in-law, followed by wives and own daughters. Family welfare is thus clearly the business of women. Also, about 85% of carers were living in the same house as the aged person they were taking care of.

A more comprehensive way to account for family welfare is thus to look at the structure of households. The pooling of resources and the mutual provision of services are automatic within households. Family welfare must therefore be more prevalent in countries where the extended family remains a dominant form of living arrangement. The reverse is not necessarily true, however. Strong family solidarity might be preserved even when family members no longer live under the same roof, through private cash transfers as well as with services if they live close to each other.

The composition of households is given for the five selected East Asian countries in annex 3. Three-generation households now represent

⁶⁶ According to the survey, there were 840,000 aged people in need of care living at home and about 480,000 living in welfare institutions. The latter number is broken down into: 300,000 in hospitals for more than 6 months, 20,000 in health care institutions for the aged and 160,000 in special nursing homes for the aged. A further 390,000 people over 65 years old who were hospitalised for less than 6 months and 80,000 people living in residential homes other than special nursing homes were not included in the category of aged people in need of care.

only about 10% of households in Japan and Hong Kong and 12.5% in Korea. Quoting Goode, Kumagai (1986) notes that industrialisation and family nuclearisation go hand in hand, because the former entails many social changes that are detrimental to the traditional extended family, such as geographic mobility, upward social mobility, emergence of a welfare state, achievement orientation and the increased cost of raising children. Kumagai (1986) argues that the extended family has ceased to be the norm of living arrangement in contemporary Japan. However, she argues that very strong intergenerational ties remain, especially between mothers and children. She also proposes the concept of “modified stem family”. The idea is that a typical Japanese person experiences the modern nuclear and the traditional stem family alternatively throughout his or her life, according to the working and marital status of each generation. Let’s take the example of a girl born in a nuclear family. When her grandparents retire (she is very young), they come to live with their first son (her father) and the household becomes an extended family until their death. When she marries, a new nuclear family is formed. She has her own children. When her parents-in-law retire, they come to live with her and her husband, forming a new extended family. Her family will become nuclear again between the death of her parents-in-law and the retirement of her husband, at which point she will move with him to their married eldest son. She will remain in that new extended family until her death. This type of life history, together with the low proportion of elderly in the total population, explains the fact that most elderly people do still live with their children even though the proportion of three-generation households is low.

Table 33 confirms this point. In East Asian countries, 60 to 80% of the elderly are living in households with at least one adult of lower generation, compared to 8 to 15% in the selected Western countries. On the other hand, only 10 to 18% are living alone in East Asia, compared to 30 to 40% in the West. There is also a quite low proportion of old people living in nursing homes or in residences in the five selected East Asian countries.

Family responsibility for welfare provision raises several important questions. The first one is whether it is desired by the people themselves. As Gould (1993) and Goodman, White and Kwon (1998) put it, do people in East Asia work until old age and live with their children because they like it or because they don’t have any alternative? Kojima (1992) tries to identify the factors explaining co-residence of Japanese married couples with one of their mothers, from the point of view of the

couple. His conclusion is that “kin availability” variables (e.g., eldest son or daughter status, number of siblings and migrant status) and “need” variables (e.g., mothers’ widowhood or poor health) are particularly important, although economic variables (e.g., income and home ownership) and cultural variables (e.g., rural/ urban, farmer, other self-employed and education) also play a role. Education turns out to be insignificant. Income of the married couple has a negative effect on co-residence with the husband’s mother, while full-employment of the wife has a positive effect on co-residence with her own mother. In a similar study, Hiroshima (1993) finds that income does play a role from the elderly’s point of view: wealthier aged people tend to co-reside less with their children, especially lone men who have more financial independence than lone women. This last result as well as the strength of the needs variables seem to indicate that the “lack of alternatives” explanation prevails in Japan. The relative weakness of the cultural variables may also support that conclusion, in that one would expect people with different values to have different attitudes towards co-residence. Yet, finer proxies for cultural differences would be welcome.

Table 33: Living Arrangements of the Elderly (over 65)

	Living in institutions	Lone elderly		Elderly couple		With children, relatives or others	
	% of all elderly	% of elderly people living in domestic households					
	1996	1980	1995	1980	1995	1980	1995
Japan	1.68	8.5	11.7 ^a	19.6	27.6 ^a	72.0	60.8 ^a
Korea	0.29	..	9.6 ^b	..	13.3 ^b	..	77.1 ^b
Taiwan	0.55	11.7 ^c	10.6 ^d	14.2 ^c	18.6 ^d	74.1 ^c	70.5 ^d
Hong Kong ^e	2.13 ^f	12.7 ^c	11.7 ^g	5.2 ^c	7.4 ^g	82.2 ^c	80.8 ^g
Singapore	2.28	..	..	..	..	..	..
France	5 ^l	30.3 ^h	32.2 ⁱ	47.8 ^h	54.3 ⁱ	16.1 ^{hj}	13.4 ^{ij}
United Kingdom	6 ^l	..	41.7 ^g	..	49.3 ^g	..	8.4 ^g
United States	5 ^l	..	31.1 ^b	..	54.0 ^b	..	14.8 ^{bk}

Sources: Statistics Bureau (1997), National Statistical Office (1997), Directorate General of Budget, Accounting and Statistics (1997a and 1997b), Department of Census and Statistics (1997a and 1997c), Department of Statistics (1997), Sumitaka (1996), Sung-Jae Choi (1996), INSEE, Central Statistical Office, Schick and Schick (1994), Hayman (1994) and Rivlin and Wiener (1988).

Notes: a. 1992. b. 1989. c. 1986. d. 1993. e. Elderly = people over 60; excludes elderly living exclusively with other elderly (except elderly couples). f. 1995. g. 1996. h. 1982.

i. 1990. j. 87% of which live with non-relatives only. k. 16% of which live with non-relative only. l. Late 1980s.

Kojima (1989) and Hirosima (1993) also explore co-residence patterns of the youth with their parents. As much as 75% of never-married youth of both sexes continue to live with their parents in adulthood, with little differences by age cohorts up to the age of 40. Here also, kin availability variables are the most important. As to newly wed couples, about 30% of them reside with one of their parents upon marriage. Hirosima (1993) finds that this percentage is the same regardless of sibling size. His tentative interpretation is that the main motivation of co-residence has become convenience rather than the tradition according to which at least one child, normally the eldest, must reside with the parents. Indeed, young couples co-residing with their working parents benefit from free housing and child care.

The second issue is whether the family is strong enough to carry the welfare burden that is taken in charge by the state in other industrialised countries. Many voices express a negative answer. For instance, Sung-jae Choi (1996) stresses that in Korea, about a third of households headed by a person aged over 60 have an income below the minimum necessary expenditures (they represent almost half of all poor households). In other words, although the family is the main source of income for about half of the elderly, old people without family often face hardship.

As far as Japan is concerned, Sumitaka (1996) reports anecdotal evidence on overburdened Japanese housewives neglecting their parents-in-law. The Japanese government has long recognised the challenge of family welfare. Since it is a burden mainly for women, three intertwined trends must be addressed: the sharp decline in fertility, the increase in women's employment and the nuclearisation of the family. Morgan and Hirosima (1983) found that women living in extended families were (i) having slightly more children and (ii) working significantly more. Expensive housing and high child care costs are indeed more easily borne by extended families. The trend of nuclearisation therefore exacerbates the decline in fertility and the hardships of working women with children. The government has thus launched a series of policies to strengthen the family, aiming at making the Japanese society friendlier for those women. This initiative includes the "Angel Plan" to increase the quantity and flexibility of public and private child care centres. However, Sumitaka (1996) emphasises that

government blueprints on social welfare still put the family at the forefront, while child care facilities remain too few and too expensive. Moreover, she stresses that a comprehensive family policy should encompass wider societal reforms than just the provision of more child care centres and higher family allowances, in particular in the areas of education, housing and employment.

The third issue, directly resulting from the two first ones, is whether family welfare will be sustainable in the future. If measured by intergenerational co-residence, the current trend is downward (see table 33). Hiroshima (1995) has carried out a series of simulations for Japan that suggest that this trend is likely to continue at about the same pace in the coming 20 years. In other words, the percentage of people over 65 years old co-residing with their children will probably continue to drop slowly by one percentage point a year, from 58.3% in 1990 to about 48.8% in 2000 and 39.9% in 2010.

Similar trends may be expected for the other countries. In Korea for instance, a 1992 national survey on non-elderly persons insured with the National Pension Programme highlighted a progressive change in values. Only 4% of respondents thought of their children as a source of income, while just 44% thought of their children as the first persons to ask for economic help if needed in old age. Moreover, 13.8% preferred to employ paid carers and 32.3% preferred to enter nursing homes if they were widowed.⁶⁷

VI.2 Community Welfare

It is often claimed that “communities” also play a crucial social welfare role in East Asian countries, as an alternative to the welfare state. It is difficult to assess the relative importance of this phenomenon. After all, there are numerous NGOs and many of grass-roots volunteer social workers in the West as well. The main difference is that, in Western countries, those private initiatives come on top of tax-financed social workers and welfare institutions. In East Asian countries, the state itself provides very few personal services.⁶⁸ However, it plays an active role in organising, co-ordinating and regulating private organisations and individual volunteers.

The most salient example of this state-led community welfare is the Japanese *minseijin* system. *Minseijin* are an institutionalised pool of

⁶⁷ See Sung-jae Choi (1996).

⁶⁸ See Maruo (1986).

volunteers providing personal services to weak households in their neighbourhood. They are appointed by the Ministry of Health and Welfare but they are not paid and receive no social training. They are mostly aged men or middle-aged women who have spent a long time in their neighbourhood. This comes to no surprise since the task requires about 90 full days of work a year, such that full-time employees would not be able to participate. They complement the work of local government officials in charge of welfare. The latter sometimes don't have a proper training as social workers either, but get the job as part of the rotation in the civil service. *Minseiiin* take in charge the bulk of fieldwork, because civil servants are overloaded. Indeed, there are around 190,000 *minseiiin* against only 15,000 civil servants. The role of *minseiiin* is mainly to advise people at risk (the elderly, the poor, the disabled, lone parents and children). They may recommend some of them for welfare benefits but only civil servants may actually grant them. The function of *minseiiin* is well respected by the community and local governments and is a source of status, which explains the ability to find enough volunteers.⁶⁹

The advantage of such a community welfare is that *minseiiin* know the neighbourhood of the people they must care for very well. There is a real proximity between social workers and the population at risk and they can easily have informal meetings and foster deep relationships. On the negative side, Goodman (1998) reports suspicion that *minseiiin* can be “enforcers of nationalistic moral codes of conduct rather than advocates for the weakest members of society”. Quoting Peng, he also points to the awkward relationships that could develop between lone mothers in search for independence and those untrained, conservative, aged men. In this perspective, low take-up rates of welfare benefits may be a sign of weakness of the *minseiiin* system, instead of a positive achievement. However, as Goodman (1998) puts it, “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.”

There is also a network of volunteers providing services to people at risk in Taiwan. In 1995, about 37,000 volunteers were working an average of 1.9 hours per week.⁷⁰

⁶⁹ See Goodman (1998).

⁷⁰ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>.

The governments of Korea, Hong Kong and Singapore also foster community welfare initiatives, such as befriender clubs. It is interesting, by the way, that Singapore has no "Ministry of Social Affairs" but a "Ministry of Community Development".

VI.4 Summary

In East Asia, the family is the key welfare provider for the elderly. This is true both for care services as for income security, with the exception of Japan for the latter. As Korea and probably Taiwan embark upon ambitious old age pension schemes, the elderly will progressively gain financial independence. This will certainly reinforce the trend of family nuclearisation that is already taking place. On the other hand, the elderly will need more care as their life expectancy and the incidence of chronic diseases increase. Although family welfare is not completely incompatible with nuclearisation, it certainly represents a source of concern. The challenge to family welfare also comes from the younger generations, and especially women who are the main providers of care. Young people also increasingly prefer to live on their own, once they have themselves achieved financial independence. Women increasingly want to be and stay employed. Meanwhile, fertility is declining, notably as a result of nuclearisation and women employment combined with the lack of child care. The Japanese government has recognised those challenges and is addressing them by increasing the provision of both child care services and care for the elderly.

Free personal care is also provided by people unrelated by blood or marriage. In all five East Asian countries, governments foster community networks of volunteers who often substitute for the work done by social workers in Western countries.

Conclusion

Japan, Korea and Taiwan have very different social welfare systems from Singapore and Hong Kong. The former three countries share some Bismarkian characteristics: their social welfare system is based on insurance and is organised along occupational groups, implying an institutional segmentation that "reinforces differentials in power and status in society"⁷¹. Singapore's system is much more integrated with the

⁷¹ Goodman, White and Kwon (1998a).

Central Provident Fund centralising social security. Hong Kong also has an integrated welfare state, albeit very different. It is the only country relying on non-means-tested and non-contributory benefits, as well as on public provision and financing of health care. As city-states confronted with important immigration inflows in the 1950s and 1960s, Singapore and Hong Kong have also both developed comprehensive and ambitious housing policies.

Several official documents of Singapore and Hong Kong make it plain that their governments do not intend to build anything like a Western-style welfare state. Those statements are backed by the lack of major reforms in the last ten years despite the modernisation of their economies. Indeed, Hong Kong and Singapore's existing institutional frameworks are mature, in the sense that a further growth of their welfare states would require major institutional shifts which they have failed to initiate thus far.⁷² Nevertheless, Hong Kong and Singapore do not share anything else to constitute a "model" (except their housing policy). Singapore sticks to the provident fund system, barring any interpersonal redistribution. Hong Kong, on the other hand, continues to rely on income support schemes, albeit at very low levels.

By contrast, Japan has already developed comprehensive universal insurance schemes comparable to those existing in the West. Korea and Taiwan also have strong "welfare infrastructures", although they are not fully developed yet. Korea passed ambitious welfare laws a long time ago, contrasting with the minimalist statements in Hong Kong and Singapore. Yet they were not implemented immediately. A lot of progress has been achieved in the last ten years however, with universal health care coverage and a progressively phased-in universal old age pension scheme. Taiwan has also virtually achieved universal health care coverage but is lagging in terms of retirement benefits. Current political debates indicate that the universalisation of old age insurance is a very hot issue in Taiwan and might be introduced in the coming years.

In the remainder of this conclusion, I synthesise my findings by proposing hypotheses to answer three questions: What are the sources of low public spending on social welfare in East Asia and what is their relative importance? How can we explain the relatively low level of income inequality given the low public expenditures on social welfare? And what challenges do East Asian welfare systems face?

⁷² With the exception of private health insurance in Singapore and a old age provident fund in Hong Kong, both under study.

Low Public Spending on Social Welfare in East Asia ...

The key factors explaining the low public spending on social welfare in East Asia compared to Western countries are the following:

1. *Choice of social security instruments:* Singapore and Hong Kong's different attitude towards welfare is reflected in their choice of those social security instruments that are privately financed. In Singapore, the entire social security system is privately financed, either through the Central Provident Fund or through employers' liability schemes. Hong Kong's public spending is more important for health care and social security, but it also heavily relies on employers' liability schemes. This low public spending is compensated by mandatory private spending (only partially however, for the reasons explained in the next paragraphs). By contrast, social security contributions and taxes represent the main funding sources of social security in Japan, Korea and Taiwan.
2. *Young demographic structures:* A young population means low spending on old age pensions and health care. The four NICs have younger populations than Japan and Western countries, but they are ageing fast. Without any policy change, the gap in total public welfare spending will therefore narrow. Japan's proportion of elderly is already higher than that of the United States and about the same as that of France, so that its current low spending on welfare cannot be explained by demography. Yet demography represents a serious challenge for Japan as well, since her population is still ageing fast and is expected to become the world's oldest in a few decades.
3. *Lack of maturity of old age pension programmes:* Without any policy change and even without considering the population ageing, some old age pensions programme will incur rapidly growing expenditures because benefits received by current retired populations reflect past contributions, which were lower than those paid by current working populations. This is particularly the case of Korea but also of Singapore. It will also be the case of Taiwan and Hong Kong if they launch the National Pension Insurance (NPI) and provident funds, respectively.
4. *Lack of universal coverage:* Several occupational groups representing large proportions of the population have no access yet to any social insurance scheme for some social risks. This is particularly

the case of Korea and to a lesser extent Taiwan.⁷³ Any change in this respect would require ambitious policy reforms, which are nevertheless to be expected as they lie in the logic of those two countries' welfare systems. This also hold for the self-employed in Singapore and Hong Kong. By contrast, Japan has achieved universal coverage in all branches of social security.

5. *Low generosity*: Within an overall welfare structure similar to that of Western countries, Japan, Korea and Taiwan have adopted features that limit the generosity of the welfare state, and hence check public spending. First, they have avoided non-contributory and non-means-tested benefits, which is important in a dynamic or political economy perspective because those benefits are more vulnerable to upwards pressure by popular demand.⁷⁴ Even means-tested non-contributory benefits are relatively limited because the test of means rests upon the extended family. The equivalence between benefits and contributions is further reinforced by an effort to make contributory schemes actuarially fair, although a number of important exceptions have been pointed out. Second, some schemes offer fairly low benefits, in terms of duration and/or replacement rate (e.g., low replacement rates of old age pensions in Taiwan). Third, although social security schemes are mostly publicly funded in Japan, Korea and Taiwan, high user fees are charged for health care in the latter two countries. Similarly, the cost of primary and secondary education born by households is not trivial even in Japan, as opposed to many Western countries. The two latter points also hold for Hong Kong and Singapore. The first one is even truer for Singapore, but not for Hong Kong.

⁷³ Although most Taiwanese workers (except the urban self-employed who do not voluntarily join the Labour Insurance) are entitled to some old age benefits under the various occupational insurance and allowance schemes, they represent only a small amount of money. NPI is supposed to lead to a truly universal coverage.

⁷⁴ This is exactly the situation of Taiwan's old age allowances, which have become the object of competition between political parties to "buy" votes. Their replacement by NPI should ease that competition because it will be contributory.

6. *Low spending on “marginal” social welfare sectors:* All countries have put the priority on education first, health care and health-related income replacement schemes next, and finally old age pensions. Public expenditures on the other sectors are marginal, even in Japan. Those sectors include: unemployment and family benefits, personal social services and housing. The state does play an important role in the latter two sectors, but through regulation rather than spending (or through public provision financed mainly by user fees in the case of housing in Hong Kong and Singapore).

As suggested, all those factors do not play to the same extent in every country. In figure 1 presents a stylised hierarchy among countries in terms of public spending on social welfare. I define four groups of countries. In the first group, Hong Kong and Singapore’s governments both spend just above 5% of their respective GDP on social welfare. In the second group, Korea and Taiwan spend about 10%. Japan is alone in the third group, with spending of about 16%. The last group includes Western countries, with spending ranging from roughly 20% to 45% of GDP.

It is possible to identify the main factor(s) explaining the gap between each group. Beginning from the bottom, Hong Kong and Singapore differ from Korea and Taiwan mainly by the choice of social security instruments. Indeed, they are roughly in the same situation along the other dimensions, except perhaps for the overall generosity of benefits.⁷⁵ Many factors explain the gap between the second and third groups: the younger populations, the lack of universal coverage, the lack of maturity of pension schemes and an overall less generous welfare system as defined in point 5 above. The high user fees for health care, the low replacement rates of Taiwan’s pension schemes and the lack of maturity of Korea’s National Pension Programme are three key factors because they are important spending items. Finally, the main difference between Japan and Western countries is low spending on social welfare sectors other than education, health care and old age pensions. Low generosity should also be mentioned but is more difficult to assess. It

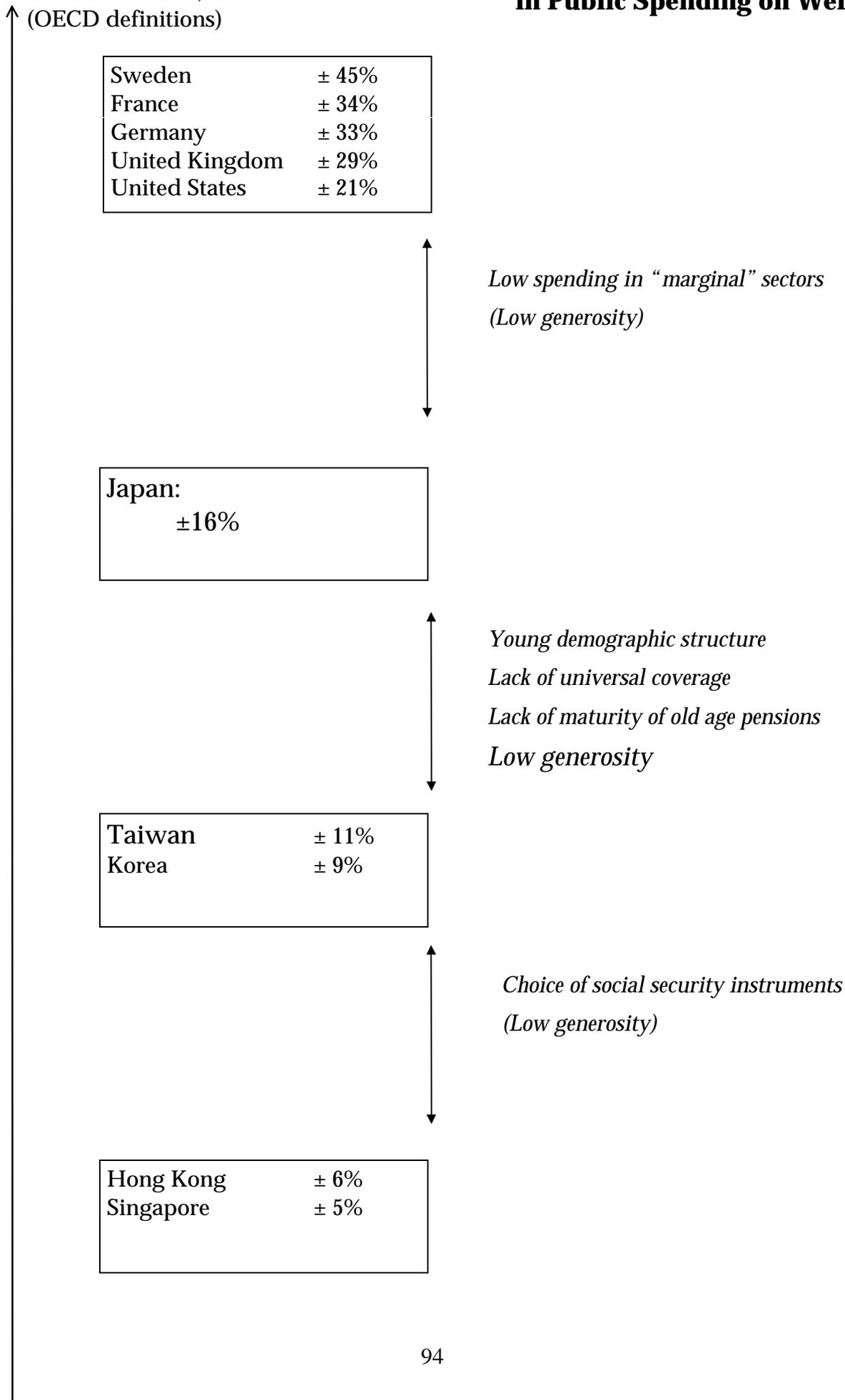
⁷⁵ For instance, if withdrawals from the Central Provident Fund were added to Singapore’s public spending, it would still lag behind Korea. Arguably, withdrawals are low because of the lack of maturity of CPF deposits, but so is the case of Korea’s NPP. Also note that spending under employers’ liability schemes should also be added, but they probably marginal because they cover low spending sectors (i.e., invalidity, maternity and occupational injury, as well as unemployment).

can partly explain Japan's low level of public spending on education. On the other hand, there is no strong evidence of a less generous coverage in the health care and pensions sectors, except if compared with really high spending countries such as France and Sweden, which do offer more generous replacement rates at retirement for instance.

Thinking in this way allows for some speculation about the future. Unless Hong Kong and Singapore embark upon drastic institutional reforms, their public expenditures on social welfare are bound to remain low, especially compared to the other groups but even in absolute terms. For example, the increase of spending expected from the ageing population will be mainly borne by the private sector. This is not the case for Korea and Taiwan. As argued above, those two countries have adopted a full-fledged social security structure, although it has not reached its maturity yet. As their populations grow older, their old age programmes mature, and their various insurance schemes are progressively extended to marginal occupational groups, it is probably only a matter of time for them to reach public spending levels comparable to those of Japan today. Hence the shallow line between them in figure 1. Most interesting is the case of Japan. Two of the social welfare sectors that have been left relatively neglected in Japan merit special attention: personal social services and unemployment benefits. For the way they are currently dealt with by enterprises and families respectively is under challenge, as will be discuss in the last part of this conclusion.

Total public expenditures on social welfare, %GDP (OECD definitions)

Figure 1: Main Sources of Differentials in Public Spending on Welfare



... Without Excessive Income Inequality ...

Besides the analysis of the costs of welfare, this paper has also focused on income distribution. Despite low spending on social welfare, there is no wide income inequality in Japan, Korea and Taiwan. In particular, it has been shown that:

1. On a scale of distribution of equivalised disposable household income, Japan, Korea and Taiwan rank among the relatively unequal industrialised countries, although not at the extremes. By contrast, Hong Kong and Singapore's income distributions are even more unequal than those of the United States and the United Kingdom.
2. Taxes and transfers are quite ineffective at redistributing income towards low-income households in Japan and Korea, especially when compared with the United Kingdom. In other words the distribution of household disposable income is very similar to that of market income in Japan and Korea. As argued above, this is not surprising because their social security systems rely heavily upon actuarially fair insurance schemes that do not involve any vertical redistribution mechanisms (with some important exceptions).⁷⁶ Moreover, the unit of risk pooling of many insurance schemes is the occupational group or the region, not the nation. Hence social security does not correct for the wide dispersion of income across occupational groups and between "core" and "contingent" workers, except for some government subsidies and some explicit financial transfers between schemes.
3. Japan's distribution of individual earnings has about the same international ranking as her distribution of household disposable income (i.e., it is relatively unequal). In other words, the notion that the labour market is levelling the income distribution at source seems not to be supported by the facts. However, low earnings are more concentrated among women and aged workers in Japan than in Western countries. Hence inequality among middle-aged men is relatively lower, which must have some

⁷⁶ For instance, Korea's NPP includes an explicit mechanism of vertical redistribution. All health insurance schemes are also redistributive because they offer uniform benefits against earnings-related contributions. However, none of those vertical transfers would appear in the current income distribution statistics, because NPP does not offer full benefits yet and health care is a service, not a cash benefit.

influence on household income inequality because most households include one middle-aged man (more so in Japan than in Western countries).

4. The key to understand Japan's performance in terms of income distribution must therefore be the very equal distribution of work between households, especially compared to the United Kingdom. Several factors suggest that there are very few workless households in Japan, as well as few households with two core workers: (i) the low unemployment rate, (ii) the high labour force participation rate of the elderly, (iii) the average participation rates of women and the youth, who tend to take part-time or temporary jobs and (iv) the co-residence patterns of both the elderly and youths, who tend to stay with their children after retirement or with their parents until they get a job and marry.

Confirming this story and examining whether it also holds for Korea and Taiwan would require some more research with better data. Anyway, it seems clear that limiting the analysis to the redistributive role of the welfare state is insufficient to explain the different patterns of income distribution between East Asian and Western countries.

... But Is It Sustainable?

The importance of non-state actors has appeared in the discussion of both public spending and income distribution. Figure 2 summarises the roles played by private actors, the enterprise and the family, along those two dimensions. It has been argued that welfare benefits voluntarily paid by Japanese enterprises do not in fact compensate low public spending, because voluntary non-wage labour costs are as high in other countries. However further research would be welcome on that topic, especially because the data used here are quite old. On the other hand, female labour in the family does contribute to limiting spending on personal social services and health care compared to other countries. On the income distribution side, enterprises do contribute to keeping low levels of unemployment by retaining workers even if they are not profitable, especially large firms in Japan and Korea, which reduces income inequality. The importance of work distribution across households has also just been explained in the previous paragraph, as well as the effect of income pooling in the family compensating for wage discrimination against women, youths and the aged. There is of course a relationship between the two dimensions: by limiting income inequality,

enterprises and families allow the state to spend less money on income replacement schemes.

The challenge of East Asian social welfare systems is that the burden carried by families and enterprises may be too heavy. The labour management styles of Japan and Korea are currently put under stress by the financial crisis. As the profitability constraint becomes binding, it will be more difficult even for large firms to resort to the various tricks thanks to which they could avoid firing workers. Whether workers and employers will be able to preserve or adapt the solidarity mechanisms that exist between and among them will determine the viability of the Japanese way of tackling unemployment. At the time of writing, the Japanese unemployment rate was widely expected to increase substantially. In Korea, where unemployment has already reached a level comparable to that of many Western countries, the population is expressing a strong intention of thrift and solidarity to go through the “IMF era”, although the National Assembly and some labour unions are impeding reforms. Exploring how the Korean welfare state will tackle the unemployment crisis and the role played by enterprises is certainly a field that begs for more research.

Figure 2: The Welfare Roles of Non-State Actors

	Costs	Income distribution
Enterprise	(voluntary non-wage labour costs)	low unemployment (low earnings dispersion)
Family	personal social services	pooling of core & contingent workers with workless people

Besides unemployment, the hot issue for East Asian welfare systems is the ageing of their populations. Beyond the unavoidable growth of the social security’s financial burden, it raises the more qualitative issue of personal care. As a society in which personal care for the elderly as well as for children rests entirely on women’s shoulders in the family nest, Japan is now facing the vicious cycle of three intertwined trends: the nuclearisation of the family, the increased employment of women and decreased fertility. The two former imply a lower readiness for women to care for dependant family members, the latter means that the pace of ageing does not decline and exacerbates the need for more carers. Coping with this vicious cycle will not only require more public services, but also the rethinking of women’s place in

society and reforms in sectors like housing, labour relations and education.

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Japan

Health care⁷⁷

The private sector dominates the provision of health care in Japan (81% of hospitals and 94% of outpatient clinics). Although the free establishment rule still prevails, regional planning of facilities and heavy equipment and control of medical schools' admissions have been introduced in the mid-1980s in order to curb costs.

Since 1961, all Japanese are covered by a health insurance scheme. There are a large number of public and quasi-public insurance carriers. They are usually divided into two groups. The Employee Health Insurance (EHI) system consists of 1,900 insurers. It includes government-managed institutions, such as the Social Insurance Agency (the biggest health insurer), that mainly covers employees of small and middle-size enterprises (of at least five employees, otherwise participation is voluntary). Large companies have their own society-managed plans. Also part of the EHI system are the Seamen Insurance and the Mutual Aid Associations covering government officers and private school teachers.

The second group is the National Health Insurance (NHI) system. It consists of 3,400 institutions covering the self-employed, retired employees and other groups. It can be divided into municipality-managed and association-managed schemes (the latter including the liberal professions). All health insurance plans cover the insured as well as their dependants.

The NHI's premiums are function of the individual or household's income and may vary across insurers. The government subsidises 50% of health care expenditures and takes in charge the administrative costs.⁷⁸ Local authorities participate in the financing too. In the EHI system, employees and employers contribute 4.3% of basic wage each,

⁷⁷ This section is based on Watanabe (1993), who draws a good overview of the challenges faced by the Japanese health care system in the 1980s and the policies that the government set up to meet them.

⁷⁸ For association-managed schemes, the state's subsidy varies from 32 to 52% of health care costs.

with some government subsidies.⁷⁹ The National Federation of Health Insurance Societies (EHI system) also plays a financial regulatory role, by managing cross-subsidies among its member institutions.

All insurance schemes provide a wide coverage of health care services and drugs. Patients must pay for a higher standard of service by themselves (single-bed rooms, improved meals), as well as some uncovered care. In the NHI system, co-payments amount to a maximum of Y63,600 a month for the same illness and Y760 per hospital day (resp. £334 and £4).⁸⁰ The same applies for the EHI system, except that the basic co-payment rate is only 10%.⁸¹

Private insurance schemes are marginal, as a result of the mandatory participation in a public or quasi-public plan. They are also closely regulated by the government in order not to hinder the co-payment system.

Medical facilities are paid according to a fee-for-service system, with a schedule of prices set up by the Ministry of Health and Welfare. This price list is designed such as to cover the whole operation costs of an “ordinary” medical facility. The government has been continuously working on this schedule to limit costs (by discouraging excessively long hospitalisation, encouraging a division of labour between hospitals and clinics, promoting home care and so on).

Last but not least, the elderly have benefited from free health care since 1972. The current system was established in 1983 and is called Health Services System for the Aged (HSSA). The elderly are defined here as people either over 70 years old or between 65 and 70 years old and bed-ridden. All public and quasi-public insurers must contribute to the HSSA. This fund reimburses municipalities that must pay the whole

⁷⁹ See Social Security Administration (1997), figures of the beginning of 1997. This includes the sick and maternity pay: see next section. For plans managed by large companies having their own insurance society, the average premiums was 3.631% for employees and 4.7% for employers. Bonuses are also subject to contributions of 0.3% for government-managed plans and 0.5% for society-managed plans. Basic wages for the calculation of premiums are subject to a floor of Y92,000 and a ceiling of Y980,000 (resp. £541 and 5,669).

⁸⁰ See Social Security Administration (1997), figures of the beginning of 1997. Poor families may pay less: maximum Y35,400 for outpatient (£208) and Y650 per hospital day up to 90 days and Y500 thereafter (resp. £4 and 3). In the Retiree Health Insurance and associations-managed plans, the co-payment is only 20% for the insured and 20 % (inpatient) and 30% (outpatient) for the dependants.

⁸¹ For the dependants, it is 20% for inpatient and 30% for outpatient care.

cost of health care services for the elderly. The government also participates through direct subsidies to the municipalities corresponding to 50% of the total costs.⁸² The insurers' contributions to this fund are computed on the assumption that they have an average share of elderly people among their insured population. In other words, there is a transfer mechanism from insurers with low numbers of elderly (typically EMI schemes) to insurers with a high proportion of elderly (generally NHI schemes). The HSSA includes a very small cost-sharing component: the elderly had to pay a fixed and statutory amount of Y900 per month for outpatient visits and Y600 per day for inpatient care up to a maximum of two months in 1991 (resp. £5 and £4). Finally, the HSSA also covers preventive health services for all people over 40 years old who are not followed closely by a doctor in their company (check-up books, health education and so on).

In 1986, another programme was introduced for the elderly: the Health Services Facilities for the Aged (HSFA). Those facilities provide residential and in-home care for the aged chronically ill who do not need to remain in a hospital. They are financed through HSSA by user fees on the basis of a fixed price per inpatient per month instead of the fee-for-service system.

Invalidity, Maternity and Occupational Injuries⁸³

The Employee Health Insurance system described in the previous section also provides sickness and maternity pay. It is not mandatory in the National Health Insurance system, but some insurers do provide it as well. The EPI sickness benefit is equal to 60% of basic wage and is paid for up to 18 months or determination of a disability. The maternity benefit is also 60% of basic earnings for up to 42 days before and 56 days after birth. EPI-covered mothers also receive a lump sum of Y300,000 upon birth (£1,766).

The Workmen's Accident Compensation Insurance is mandatory for all employers except agricultural, forestry and fishery establishments of less than five employees. Seamen and public employees are covered by their own schemes (Mutual Aid Association or special occupational injury funds). The premium varies from 0.6% to 14.4% according to the

⁸² The central government takes in charge two thirds of the subsidy, the prefectures one sixth and the municipality itself one sixth as well.

⁸³ This section is based on Social Security Administration (1997), figures of the beginning of 1997.

proportion of accidents in the past three years. It is borne entirely by the employer. The benefit is equal to 60% of basic wage (minimum Y4,240 a day, £25). After 19 months, it is raised to 100%, based on a year of 245 to 313 days according to the degree of disability. Permanently disabled workers receive a lump sum of between Y1,590,000 to 3,420,000 plus special supplements based on the employee's annual bonus (resp. £9,359 and £20,131). There is also a constant attendance allowance of Y105,080, or Y57,050 if the care is provided by the family (resp. £619 and £336). The less severely disabled receive a lump sum of 56 to 503 days of salary plus Y80,000 to Y650,000 according to the degree of disability (resp. £471 and £3,826). If a person dies at work, his survivor is entitled to the average daily wage multiplied by 153 to 245 days annually, according to the number of dependants, plus a lump-sum of Y3,000,000 (£17,659), plus another supplement based on the employee's bonus. They also receive a funeral grant of two months salary.

Old Age and Survivor⁸⁴

Just like health insurance, old age insurance is fragmented into several occupational-based systems. The Employees Pension Insurance (EPI) covers private sector employees and the Mutual Aid Associations (MAA) cover government officers⁸⁵. The National Pension (NP) offers an Old Age Basic Pension Benefit to everyone. This pension is not related to income but only to the length of contribution. By contrast, EPI and MAA pensions are proportional to lifetime earnings.

People who are not member of either an EPI or a MAA plan must contribute a fixed amount to the National Pension from age 20 to 60 and begin to receive benefits from the age of 65 (they may voluntarily contribute between 60 and 65 years old). This category of people includes self-employed, farmers, students and so on. Their wives must contribute to NP as well, whether they are working or not. Poor households are exempt of NP contributions but receive lower benefits. Employees who are covered by either an EPI or a MAA plan receive the Old Age Basic Pension Benefit on top of it, without paying any additional contribution (but the National Pension scheme receives some

⁸⁴ This section is based on Oguchi, Kimura and Hatta (1996) and Social Security Administration (1997), figures of the beginning of 1997.

⁸⁵ There are separate Mutual Aid Associations and/or pension funds for private school teachers and members of agricultural, forestry and fishing associations. Seamen are covered by the normal Employees' Pension Insurance.

transfers from EPI and MAA insurers). Their wives are entitled to it too, without any contribution provided that they are not working (or earning less than Y1.3m per year).⁸⁶ (EPI and MAA contributions rate do not vary according to marital status.)

The National Pension amounts to Y785,000 (£4,620) a year for a fully insured person (i.e., 480 months of contribution), plus Y200 (£2) a month for each voluntary contribution month. EPI benefits are equal to 0.75% of monthly earnings times the number of contribution years, plus a supplement for dependants.⁸⁷ The NP has also an original feature: although benefits are meant to be taken at the retirement age of 65, they may be taken earlier (from 60) or later, in which case their amount is adjusted respectively down or up on an actuarial basis. EPI may be taken from 60 year old, with possible adjustments as well.⁸⁸

The contribution rate for EPI is 17.35% of basic wage (e.g., before bonuses), half paid by the employer, half by the employee, and has been scheduled to increase by 2.5 points every five years since 1990. EPI contributions are computed on monthly earnings higher than Y92,000 and lower than Y590,000 (resp. £542 and £3,473). The NP contribution was Y12,800 (£75) per month in 1997 and has been raising by Y400 every year. The government pays a third of NP contributions, plus the administrative costs of all three systems. People must contribute for at least 20 years to be eligible for NP and 25 years for EPI.

All those public pension schemes are pay-as-you-go. However, the Japanese social security system as a whole is running a positive balance every year, amounting to about 3% of GDP in 1994. It has been increasing steadily though slowly in the last 15 years. The system has thus accumulated a large reserve. As a result, capital income represented as much as 8.9% of total social security revenues in 1994. This conservative policy is designed to cope with the rapid ageing of the Japanese population.⁸⁹

The market of private pensions is more developed than that of private health insurance, just as in most Western countries. Employers

⁸⁶ Thus, an unemployed woman will cease to contribute to NP once she marries a man covered by either EPI or MAA, although she will still be entitled to the same NP benefit!

⁸⁷ The supplements are Y226,000 a year for the wife and first two children and Y75,300 for the next children under 18, or 20 if disabled (resp. £1,330 and £443).

⁸⁸ 56 years old for miners and seamen.

⁸⁹ See Miyajima (1997) and Social Development Research Institute (1996).

may choose to contract out of the EPI, provided that their private insurance provides equal or higher benefits.

As to survivor benefits, spouses keep the Old Age Basic Pension Benefit which they already received in their own name, even if they have not contributed (in this case, their husband's length of contribution applies). They may cumulate this pension with the EPI survivor benefits if their husband was covered, which is equal to 75% of the old-age pension he received. Orphans receive the dependants supplement (see footnote 75), plus their mother's survivor benefit, divided equally between them, if she dies too. Survivors also receive a funeral grant equal to a month salary (minimum Y100,000, £589).

Besides income security, the elderly benefit from a wide range of services. First, they are entitled to almost free medical care (see section on health care). Second, the government set up an ambitious ten-year plan in 1989 to develop alternatives to hospitalisation for chronic diseases. This Gold Plan was revised upwards in 1994 and its budget is set at about nine trillion Yen for the 1995-1999 period (£53bn). Third, to finance those expanded services, the government has recently introduced a Chronic Care Insurance, which will be implemented from 2000 onwards. It will be mandatory for all people over 40 years old. Eligible beneficiaries will be people in need of long term care who are over 65 years old or between 40 and 64 and disabled. The premium will be added to that of the insured persons' health insurance or deducted from their pension. It will cover 90% of the costs of home-help, residential welfare institutions or special home renovation or equipment. Claimants will be screened individually and ranked according to their degree of disability.⁹⁰

Welfare Services for the Aged in Japan (Gold Plan)

	1990 (actual)	1999 (revised goal)
In-Home Services		
Home-helpers (persons)	35,905	170,000
Home-helper stations (stations)	..	10,000
Short stay services (beds)	7,674	60,000
Day service/ day care (centres)	1,780	17,000
In-home care support centres (centres)	300	10,000
Home-visit nursing care stations (stations)	..	5,000

⁹⁰ Information about the Chronic Care Insurance is from Peng (1998).

Institutional services		
Special Nursing Homes for the Elderly (beds)	172,019	290,000
Multi-purpose senior centres (centres)	..	400
Care houses/ service flats (persons)	1,700	100,000
Health Services Facilities for the Aged ^a (beds)	47,811	280,000

Sources: Watanabe (1993) and Ministry of Health and Welfare (1997).

Notes: a. Hospitals for the elderly (see section on health care).

Finally, the poor elderly are entitled to cash and services from the Public Assistance programme. Cash benefits vary regionally according to the costs of living. The amount is computed for each household as a function of the age of each family member. Benefits include household expenses, housing aid, educational aid, medical aid, maternity aid, occupational aid, funeral aid and work earnings. The standard cash benefit for a lone elderly household living in a region with a medium cost of living was Y68,136 per month in 1996 (£401).⁹¹ It is important to note, however, that Japanese civil law extends the responsibility to support financially one's family members vertically to three generations and horizontally to the spouse and siblings. This means that the public assistance test of means includes parents, children, spouse and siblings of the person in need.

Disability⁹²

Permanent disability is covered by the same institutions as the old age pensions, which are explained above. There are two classes of disability: Class I are the totally disabled requiring constant attendance. Class II are the severely disabled with restricted ability in daily living. Under the National Pension, class I disabled are entitled to Y981,000 per year and Class II 785,000 (resp. £5,774 and £4,621), plus dependants supplements⁹³, provided they have contributed for at least two third of the period between age 20 and their accident. People whose disability originated in childhood or before birth are entitled to NP benefits without having ever contributed. As to EPI, Class I disabled get 125% of their old-age pension plus dependants supplements. Class II receive 100% and there is an additional category for less severe disability, Class

⁹¹ Health and Welfare Statistics Association (1997). Additional benefits such as a housing allowance increase total benefits to Y97,586.

⁹² This section is based on Social Security Administration (1997), figures of the beginning of 1997.

⁹³ See footnote 87, but only for the children.

III, who gets 100% as well but nothing for their dependants. There is a floor for EPI disability benefits set at Y589,000 (£3,467). Moreover, the EPI-insured disabled are entitled to a lump-sum grant of 200% of his old-age pension (minimum Y1,170,000, £6,887).

Poor disabled people are also entitled to the Public Assistance Programme (see section on the elderly). The cash benefit is topped up for the person who cares for the disabled.

Family⁹⁴

The government runs a child allowance programme for children under age 3. Families were eligible if they earned less than Y3,772,000 a year for a family of four (£22,204). Employers must pay 70% of the benefits under that programme, the central government 20%, prefectures and municipalities sharing the remaining 10%. For the self-employed and unemployed, the central government takes 66.6% in charge and local governments share the rest. The benefit amounted to Y5,000 (£29) per month for the first two children in 1994, and Y10,000 for each subsequent child.

An additional programme, the Child Support Allowance, targets children of lone mothers, up to age 18 (or 20 if the child is disabled). The benefit's amount also varies with the child's rank: Y38,860 (£228) per month for the first child, Y5,000 for the second and Y2,000 for subsequent ones. It is subject to a two-stage means-test: lone mothers whose income is under Y1,929,000 (£11,355) receive the full amount and those earning more than Y3,820,000 receive nothing, those in between getting Y12,850 for the first child. 86% of recipients were divorced and 5% never married.

Lone mothers may ask a loan from the government for a variety of expenses, such as training, children's education, establishing a business, moving or even daily living costs. The maximum loan amount depends upon its purpose (the biggest is establishing a business: Y3,630,000), as well as the interest (no interest for children's education, 3% for others). They must be repaid in 3 to 10 years.

There is also a programme for households with disabled children, the Special Child Dependant Allowance. The means test was Y7,121,000 for a family of four (£41,917) and the benefit is Y47,160 per month for a severely disabled child and Y31,440 for a moderately disabled one (resp. £278 and £185).

⁹⁴ This section is based on Ozawa and Kono (1995). Figures of 1993 unless otherwise stated.

Retired, survivors and disabled people with children receive dependants' allowance presented in the two previous sections. As to services, the government launched the Angel Plan in 1994 to increase the supply of care facilities for children. The state also takes in charge health care costs not reimbursed by insurance for young children up to elementary school and their mothers. Regular check-ups are mandatory.

Welfare Services for Children in Japan (Angel Plan)

	1995 (actual)	1999 (goal)
Total number of places in day-care centres	470,000	600,000
Multi-function day-care	200	1,500
Extended hour day-care	2,530	7,000
Short hour/ temporary care centres	600	3,000
Local child support centres	354	3,000
After school programmes	5,220	9,000
Child rearing support centres for 0-2 years old	40	500

Sources: Peng (1998).

Unemployment⁹⁵

Employment Insurance is mandatory for all employers except agricultural, forestry and fishery establishments of less than five employees. Seamen have their own scheme. Government officers are not covered by any insurance as they are assumed to be employed for life and receive fairly generous severance payments. Employees over the age of 65 are not allowed to participate in Employment Insurance, nor are seasonal workers working less than four months a year (but daily labourers do have a special protection scheme). Six months of contribution in the last year are necessary to qualify for the benefits. The premium is 0.4% of earnings for the employee and 0.75% for employers. The government subsidises 25% of benefits and takes administrative costs in charge. The benefit is equal to 60% of the wage (80% for low wages) for a period varying between 90 days and 300 days according to length of insurance, age group and employment prospects. The minimum benefit is Y3,390 a day and the maximum Y10,660 (£20 and £63).

The Japanese government also relies on active labour market measures, subsidising enterprises in restructuring industries or regions to let them keep their redundant labour force. Those subsidies mainly benefit to middle-aged and aged employees.

Education

The state provides free education. Attendance at elementary and middle school (6+3 years) is mandatory and almost all children are indeed

⁹⁵ This section is based on Social Security Administration (1997), figures of the beginning of 1997

enrolled. 97% of those students attend public schools. The curriculum is uniform and largely decided by the Ministry of Education.

In 1992, 94.8% of children attended high-school, 12.4% two-year colleges and 26.4% university. Numerous students also attend afternoon schools (*gakushu juku*) in order to prepare for entrance examinations for high-school and university. Those schools are private, for-profit institutions. In 1993, about 23.6% of children of grades 1 to 6 attended such a school, and 59.5% of children of grades 7 to 9.⁹⁶

Housing⁹⁷

There are three major public housing programmes in Japan. The first one is the Government Housing Loan Corporation (GHLC), which provides long term loans at low interest rates for the purchase of private housing. There is no test of means to benefit from this programme and the size of loans and interest rates vary according to region and size of the housing unit. The government pays for about 1 percentage point of interest on average. The government uses this programme to promote some forms of housing, such as those consuming less energy or adapted to 3-generation households.

Secondly, local governments must provide some cheap public housing under the Housing Law. They receive a grant from the central government to cover part of the construction costs and allocate the available units through a lottery. Applications are subject to a means test and the lone elderly or handicapped have priority.

The third programme is the Housing and Urban Development Corporation (HUDC) that provides public housing in densely populated areas, for rent or for sale. Housing units are also allocated through a lottery, and applicants must have an income of at least for times the rent of the flat for which they apply.

Among all housing units built between 1945 and 1990, 60% have been financed entirely by the private sector, 24% have received some aid from the GHLC, 6% had been built under the Housing Law, another 3% had been build by the HUDC and the remaining 7% had received another form of public aid.

⁹⁶ See Ozawa and Kono (1995) for a good discussion of these schools.

⁹⁷ This section is based on Building Centre of Japan (1992).

Korea⁹⁸

Health care

Korea achieved universal coverage under the National Health Insurance system in 1989. Previously, health insurance was reserved for people belonging to two occupational groups (and their dependants): civil servants and private school teachers on the one hand⁹⁹, and employees of middle-sized and large private firms on the other hand. The universalisation was made possible by the creation of the Regional Medical Insurance system, run by local governments, in order to catch the self-employed, farmers, the retired and employees of small firms (less than five employees).

The Civil Servants and Private School Teachers Insurance scheme is managed by the Korea Medical Insurance Corporation, a quasi-governmental body. In the Industrial Employee Health Insurance system, each firm must create its own insurance society or share one with other firms (there were 420 of them in 1992). Those societies are managed by representatives of both employers and employees. There are similar societies for the Regional Medical Insurance scheme. The National Federation of Medical Insurers has created a Co-Financing Programme, a financial transfer mechanism to help poorer insurance carriers. All insurers contribute to this fund according to their financial resources and the money is redistributed to cover actual costs of specific services, such as special care for the elderly or high technology equipment.

The Industrial Employee Health Insurance scheme is financed by premiums equally shared by employees and employers: from 2% to 3.8% of basic wage (i.e., without bonus), according to the level of earnings (with a floor wage of W75,000 per month, £61). Civil servants and private school teachers pay a premium of 4.6% of their wage, half of it paid by their employer, the state¹⁰⁰. In the Regional Medical Insurance system, the government is subsidising 50% of health care expenditures,

⁹⁸ Unless otherwise stated, the whole section on Korea is based on Soon-Won Kwon (1993). The book also includes a good chronology of the social security system in Korea. See also Pae (1992) for an alternative overview of the Korean welfare state.

⁹⁹ The military receive free health care in their barracks but their dependants are covered by the Civil Servants and Private School Teachers Health Insurance.

¹⁰⁰ 0.92% from the state and 1.38% from the schools for private school teachers.

as well as administrative costs. The insured must pay a premium that is a function of his or her earnings and assets (on a thirty-grade scale), as well as the number of dependants to be covered. The average premium was W166,333 in 1993 (£138).¹⁰¹

Patients are charged high co-insurance fees: 20% of inpatient care costs and 30% of outpatient care costs when they exceed W10,000 (£7), or a flat fee of W2,600 for clinics and W3,000 for hospitals for low-cost visits.¹⁰²

The three insurance schemes cover a wide range of health care services, with the usual exceptions (e.g., cosmetic surgery). The exact benefit package varies slightly across insurance carriers. Many clinical tests are often excluded. Dental care is limited to simple restorations and extractions. Maternity care is covered only for the two first children. Patients must pay for their hospital meals as well as for private rooms. Civil servants and private school teachers are entitled to a free complete check-up every two years. More importantly, there is a time limit of six months for the coverage of health care services related to the same disease (in principle).

Private health insurance is marginal, as a direct consequence of the mandatory National Health Insurance.

Health care services are provided by a mix of private and public facilities (in 1990, 20% of hospital beds and 21% of General Practitioners belonged to the public sector). Both types of facilities are financed by insurance societies and patients' co-payments on a fee-for-service basis, according to a price schedule drawn by the Ministry of Health and Social Affairs. There is also a referral system for specialised health care, which is not working properly according to Soon-Won Kwon (1993).

Besides the three health insurance schemes, the Korean government has also set up a Medical Aid System (Medicaid) for low-income families and the indigent. Although people taken in charge by Medicaid do not pay insurance premiums, most of them (76%) must pay the high co-payments and uncovered expenses. There is no co-payment for those earning less than W80,000 (£58) per month and inmates of

¹⁰¹ Figures of 1995 from the International Social Security Association, <http://www.aiss.org/> (February 1998), except for government officers: Soon-Won Kwon (1993).

¹⁰² All figures are as of 1992 (from Kwon, 1993). Larger hospitals such as teaching hospitals charge higher co-payments (up to 65%) to discourage concentration (people believing that health care is better in larger facilities).

social welfare institutions (Category 1). The co-payment is zero for outpatient care and 20% for inpatient care for those earning between W80,000 and W100,000 (Category 2), and those figures rise respectively to 44% and 20% for people earning between W100,000 and W120,000 (Category 3).¹⁰³

Soon-Won Kwon (1993) identifies and discusses a number of problems facing the Korean health care system, the most acute of which are:

- The financial weakness of regional medical insurance schemes, that cover the most vulnerable groups of the population.
- The lack of health care facilities in rural areas.
- The surge in health care demand and expenditures since 1989.

Invalidity, Maternity and Occupational Injuries

The health insurance schemes presented above include a maternity grant (except the one of civil servants and private school teachers).

There is no invalidity insurance or mandatory sick pay in Korea, although it is customary for enterprises to pay their sick or injured employees for some time.

The Industrial Accident Compensation Insurance has covered occupational injuries since 1964. It is now mandatory for all workers of firms with more than five employees. Smaller firms are bound by the Labour Standards Law to finance by themselves some benefits to injured workers. A central public fund gathers the contributions of employers only (ranging from 0.24% to 35.1% of payroll, according to the risk of the industry, with an average of 1.5% in 1995). The government finances the administrative costs. Benefits include both health care and invalidity pay. The latter is equal to 70% of wage for the period of treatment (subject to a seven-day waiting period and for a maximum of 24 months). Permanently disabled workers may choose either an annuity equals to between 138 and 329 days of earning or a lump-sum grant equal to 55 to 1,474 days of earning, according to the degree of disability (less severe disabled must receive the grant). Finally, in case of death at work, the worker's family is entitled to a lump sum of 1,300 days of wage, plus a pension equal to 47% of earnings for a single person, 52%

¹⁰³ There is also an asset means test of W10,000,000 per household (£7,960). People on Medicaid are entitled to interest-free loans to cover expenses above W100,000 (£80).

for two persons, 57% for three, and 62% for four or more persons. There is also a funeral grant of 120 days of earnings.¹⁰⁴

Old Age and Survivor¹⁰⁵

The National Pension Programme (NPP) was created in 1988 and has progressively been extended to all workers of private firms with more than five employees, as well as farmers, fishermen and the rural self-employed, all aged 18 to 60 years old¹⁰⁶. Civil servants, private school teachers and the military each have their own pension programme. The government is planning to extend the NPP to the urban self-employed this year. Meanwhile, they may voluntarily join the scheme, like employees of firms with fewer than five employees and workers under 18.¹⁰⁷ In 1996, however, only about a third of the working population had an old-age insurance.

The NPP is financed by a premium of 9% of the wage, or 3% from the employee, 3% from the employer and the rest from retirement funds previously built up by companies (which are therefore being phased out by the introduction of the NPP). Farmers, fishermen and the rural self-employed pay 3% of their earnings, but this rate is scheduled to rise to 9% as well by 2005. Voluntarily insured workers pay 9% of the average earnings of all other NPP contributors. The government only pays for the administrative costs and subsidises the premium of low-income farmers and fishermen. Civil servants, military personnel and private school teachers pay 5.5% of their wage to their own scheme, complemented equally by the government.¹⁰⁸

The NPP is a funded scheme with defined benefits. The full pension described below will be paid only to those having contributed for at least 20 years (i.e., not before 2007).¹⁰⁹ Meanwhile, people who

¹⁰⁴ Figures of 1995 from the International Social Security Association, <http://www.aiss.org/> (February 1998).

¹⁰⁵ This section is based on Soon-Won Kwon (1993), Huck-Ju Kwon (1998b) and International Social Security Association, <http://www.aiss.org/> (February 1998).

¹⁰⁶ 55 years old for miners and seamen.

¹⁰⁷ Voluntary insured workers pay a contribution based on the average earnings of all other NPP contributors. The state does not foot their bill.

¹⁰⁸ 2% by the government and 3.5% by the schools for private school teachers.

¹⁰⁹ In a transitory period, however, people will be entitled to a “reduced pension” after 15 years of contribution, equal to 72.5 to 92.5% of the full pension. Similarly, employees will have the choice to continue to work between age 60 and 65 in order to get enough years of contribution, in which case they will get from 50 to 90% of the full pension (this is the “extended pension”). Those who continue

have contributed to the fund and retire before 2007 receive a lump-sum refund of their contributions, at an interest rate fixed by the National Pension Corporation, the quasi-governmental institution that manages the programme. For those retirees, the NPP is thus equivalent to a provident fund. By 2007, the National Pension Fund will have progressively accumulated a reserve, which already amounted to 5.4% of GDP in 1994¹¹⁰. Indeed, all age cohorts between 20 and 60 are now contributing to the fund every year, but only one cohort per year is retiring, taking no more out of the fund than what it put in. From 2007 onwards, however, insured workers will be entitled to an annuity. This full pension will not depend upon the financial performance of the fund. It is an entitlement. Hence there is no guarantee that the scheme will be actuarially fair and will not involve large intergenerational transfers. In fact, the Korean Development Institute predicts the fund to run deficits by 2031 and to collapse by 2050¹¹¹, if contribution rates are left unchanged. Kwon (1998a) makes a similar projection, based on a simulation of the contributions and benefits of two representative workers. Thus he does not even take into account the ageing of the population. The entitlement just appears to be too generous.

The full pension is computed by the following formula:

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

where M: mean monthly wage of all insured.

A: average monthly wage over the working life of the insured.

N: number of years of contribution minus 20.

The variables A and N are the “actuarially fair” components of the formula: they imply that benefits are a function of lifetime contributions.

working until the age of 65 receive the full pension regardless of their number of years of contribution. Inversely, those who have already contributed for twenty years will be able to retire before the age of 60 and get the “early retirement pension”, which is 75 to 95% of the full pension. Finally, people aged 45 to 60 at the introduction of the scheme (1988) who are unable to get 15 years of contribution before retirement may get the “special pension” if they contribute for at least 5 years, which is between 25 and 75% of the full pension.

¹¹⁰ See Huck-Ju Kwon (1998b). Over half of it has been invested in government bonds. Since the budget deficit was low or even negative, it was really used to finance public investments rather than current public expenditures.

¹¹¹ In other words, the fund constituted in the initial transitory period will cease to increase by 2031 and will become a debt by 2050. Quoted in Soon-Won Kwon (1993).

On the other hand, the variable M is a built-in mechanism of vertical redistribution. It is easy to calculate that for a worker who earns the average wage ($A=M$), the replacement rate is 61.25% of average lifetime earnings (A).¹¹² Thanks to the vertical redistribution mechanism, this rate increases for workers who earn less than the average wage (for example, it becomes 96.25% if $A=0.5*M$) and decreases for those who earn more (43.75% if $A=2M$). Note that the full pension is topped up for dependants.

Until 2007, mandatory severance pay will continue to play a relevant role. The Labour Standards Law requires all employers with more than four employees to offer a lump-sum retirement payment equivalent to at least one month of salary for every year spent in the company. This can be substituted by a private insurance.

Survivors are entitled to 40 to 60% of the basic pension, depending upon the number of years of contribution, plus dependants' supplements.

The three pension schemes for government officers and related professions offer different benefits. Their pensions are calculated on the basis of the last salary and the number of contribution years only. Therefore, it does not include any vertical redistribution mechanism.

The three health insurance schemes presented in the health care section also include a funeral grant of W300,000 for the insured person or W200,000 for his or her dependants in 1995 (£246 and £164).

Finally, the state aids the poor elderly who do not have any family support with a range of in-kind and cash benefits. First, they are entitled to Medicaid (see the health care section). Second, men over 65 and women over 55 may be eligible to the Livelihood Protection Programme (the Korean public assistance). The test of means holds for the household in need but also for the person legally responsible to take care of them (i.e., spouse, children or siblings). The income support for one person was W78,000 per month in 1995 (£64). Besides the cash allowance, benefits include subsidised fuel and rent, food, free tuition for kids up to middle school, free medical care¹¹³ and free funerals. Third, they may join a residential home for the elderly subsidised by the state.

¹¹² Replacement rates are usually calculated in terms of the last wage prior to retirement, which is typically higher than average lifetime earnings, which yields a lower replacement rate.

¹¹³ The poor elderly (as well as the poor disabled) do not need to pay the usual user fees under Medicaid.

Disability

The old-age pension schemes presented in the previous section include disability benefits. As to the NPP, one year of contribution prior disability is required. The benefit is equal to 60 to 100% of the basic pension, according to the level of disability, plus the dependants' supplements.

The poor disabled who do not enjoy family support are entitled to the same range of benefits as the poor elderly (see the previous section).

Family

There is no family or child allowance in Korea. Orphans under 18 without family support are entitled to the Livelihood Protection Programme (see the Old Age and Survivor section). They may also join a welfare institution for children. Lone mothers are also a typical group targeted by the Livelihood Protection Programme.

Unemployment

The Korean government introduced an Employment Insurance Programme in 1995. Originally, it was mandatory only for private firms with more than thirty employees, then 10 employees from January 1998. The contribution rate is 1.5% of earnings (paid by the employer). The benefit is equal to 50% of earnings for a period of 30 to 210 days, increasing with age and the length of contribution. As a response to the current economic crisis, the government has recently extended the programme to employees of firms of more than five employees, raised the minimum benefits to W8,316 per day (£4) and temporarily reduced the minimum period of contribution to be eligible from one year to six months. Part-time workers will be covered from July 1999.

Poor households may also be eligible to the Livelihood Protection Programme (see the Old Age and Survivor section). Most households with able-bodied, middle-aged adults don't receive the full range of benefits of the Livelihood Protection Programme. Typically, they will not get the cash allowance and will receive food only in the winter when seasonal work is more difficult to get. They will generally be required to join public works (in farms or infrastructure building). They will also need to take loans for medical care (see the Medicaid programme under the Health Care section). On the other hand, they will be entitled to interest-free loans to create or expand a business. Public works, loans for livelihood, loans for starting a business and training programmes have

all been expanded as a response to the current economic crisis. A total of W8 trillion has been appropriated for active and passive labour market measures in 1998 (£3.9bn or about 1.9% of GDP), although it is unclear whether this sum is actually going to be disbursed.¹¹⁴

Education

The state provides free education. Attendance at elementary and middle school (6+3 years) is mandatory and almost all children are indeed enrolled. Both private and public schools are financed by the state, but private schools may charge fees for extra-curricular activities. The curriculum is uniform and largely decided by the Ministry of Education. However, a large number of private institutions organise afternoon classes for the preparation of college entrance examination. In 1992, 84% of students attended high-school, and 50.8% higher education

There is a small budget for public scholarship for indigent people (including the elderly and the disabled), amounting to W79.4bn in 1992 (£58m). The benefits of the Livelihood Protection Programme include tuition subsidies for children up to middle school (see the Old Age and Survivor section).

Housing

The Korean housing policy emphasises housing construction for sale and is thus primarily directed to the middle class rather than the poor. The Korea National Housing Corporation (KNHC) built about half a million dwellings between 1962 and 1989. Most of them were sold either immediately or after short term renting contracts, with only 6.5% being rented under permanent or long term contracts. Housing finance is the responsibility of the Korea Housing Bank (KHB). Applicants for purchase of KNHC housing must make a deposit to the KHB for a certain period of time, the balance of which is used as a full or partial payment of the dwelling once the sale is agreed upon. The KHB may cover the difference with a loan.¹¹⁵

The KHB is also a mandatory channel to purchase a large proportion of privately built housing, particularly in large cities. Most newly built houses and flats must be sold through the KHB lotteries and

¹¹⁴ The information on the recent developments of the Employment Insurance Programme and the labour market policies are from International Labour Organisation (1998).

¹¹⁵ See Ha (1994).

waiting lists. Purchasers may not sold them on the secondary market before a certain number of years. This secondary market (i.e., dwellings built some years ago) is governed by the law of supply and demand and prices are much higher. In other words, the government plays a major role in allocating housing and keeping down the price of new housing through a system of waiting list. The KHB is also a way for the government to mobilise private savings, which are in fact blocked for many years.

The 1988-92 five-year plan put more importance on housing for low-income groups. 250,000 housing units were planned to be built for rental to low-income people, with a direct subsidy from the government amounting to W500.5bn in 1992 (£363m).¹¹⁶ They targeted households in the lowest 10% income bracket, who were estimated to be about one million. Yet only 190,000 housing units had been built by 1992.¹¹⁷

Taiwan

Health care

The National Health Insurance (NHI) is Taiwan's main social security programme. It is aiming at universal coverage, the military being the only remaining occupational group that has its own health care scheme. The NHI is run by a single government agency, the Bureau of National Health Insurance.¹¹⁸ However, the government has been seriously considering to privatise it, which, if enacted, would completely change Taiwan's health care system. Workers and their dependants join the NHI through employment, while about 10% of the insured are brought into it by local governments (so-called community-based insured persons). As to health care providers, there are both public and private facilities, the former accounting for about a third of hospital beds.

The NHI is financed by a direct government subsidy and by premiums paid by the government, employers and employees. The premium is now set at 4.25% of the wage. The share taken by the government varies across occupational groups, from zero for the self-

¹¹⁶ Budget figure from Soon-Won Kwon (1993).

¹¹⁷ See Ha (1994).

¹¹⁸ This administration maintains an outstanding web-site including all the information of this section and much more: Bureau of National Health Insurance, <http://www.nhi.gov.tw> (December 1997). Figures of 1997.

employed other than farmers to 100% for low-income families and veterans. It is 10% for normal private sector employees. The share taken by the employer is usually 30%.

The contribution formula is the following:

$$\text{Contribution} = \text{Wage} \times 4.25\% \times \text{Occupation's contribution share} \times (\text{the insured} + \text{number of dependants up to five})$$

There is also a floor and ceiling wage to compute the contribution: the minimum wage and 3.6 times the minimum wage (£380 per month in 1994). The contributions of community-based insured people are computed with a flat, notional wage equal to the average of the insured from the occupational groups.

The NHI covers virtually all health care services and supplies, with the usual exceptions such as eyeglasses or non-medically required cosmetic surgery. Co-payments apply to most patients and treatments, subject to ceilings for hospitalisations. They account for 6% of health facilities' revenues. There are also other user fees for meals, not-covered services etc.

Health facilities bill the BNHI on a fees-for-service basis, except for a very few standard treatments for which flat rates apply.

As elsewhere, health care expenditures in Taiwan are growing faster than its GDP, although the gap has been contained in recent years. The government is committed to keep the NHI's budget balanced by:

- Increasing user fees for outpatient care;
- Increasing the basic premium rate;
- Extending the scope of the case payment system;
- Progressively shifting from the fee-for-service to the global budget system to finance health facilities according to their population mix, treatment mix, heavy equipment and so on.

Invalidity, Maternity and Occupational Injuries¹¹⁹

Labour Insurance, Government Employees Insurance and Farmers Insurance protect eligible workers against loss of income due to health-related work interruption.

As far as Labour Insurance is concerned, the contribution is set at 6.5% of earnings (with a wage ceiling of NT\$36,300 per month, or £845). It is taken in charge by the employee (70%), the employer (20%) and the

¹¹⁹ See Social Security Administration (1997), Bureau of Labour Insurance (1998), Central Trust of China (1997) and information provided by the courtesy of the Farmers Insurance Bureau. Figures of 1997.

state (10%).¹²⁰ This, however, covers not only invalidity and maternity, but also the retirement and disability grants (see next two sections). The invalidity pay is equal to 50% of earnings for a period of up to one year (6 months if less than a year of contribution). The maternity benefit is a lump sum equal to one month of earnings.

The occupational injury component of the Labour Insurance is as follows. Injured workers receive 70% of their monthly pay for the first year after the accident, and 50% for the second year. In case of permanent disability, they receive a lump sum equal to 60 months of earnings, or between 1.5 and 50 months if the disability is partial. The survivors of workers dying at work are entitled to 45 months of earnings plus 5 months as a funeral grant. The Labour Insurance also covers the entire medical cost of occupational injuries. The contribution is paid entirely by the employer and depends upon the type of business (there are 52 categories), ranging from 0.09 to 3% of the wage and averaging 0.37% in 1997. This contribution comes on top of the 6.5% for the other benefits (see above).

Government employees pay a premium of 4.75%. The government pays 65% as an employer, the employee paying the remaining 35%. However, this premium is entirely devoted to old age and disability benefits (see next two sections). In case of maternity, invalidity and occupational injuries, government employees just continue to receive their normal wage.

The Farmers Insurance's premium is 2.55% of a notional salary, which was NT\$10,200 per month in 1997 (£237). The government pays 30% of it, farmers pay the rest. Farmers get only maternity benefits, as well as disability and death grants (see next section).

Old Age and Survivor¹²¹

The government has announced the creation of a universal old age pension programme by the year 2000. According to the government's plan, all employees will have to join the scheme, which will also be mandatory for the self-employed above 25 years old. The age of

¹²⁰ Fishermen, seamen and temporary craft workers have special arrangements, with a higher state contribution (see Bureau of Labour Insurance, 1998). For the self-employed who may also opt for the Labour Insurance, the contribution rate is 3.9%, topped up by the government by 2.6%.

¹²¹ This section is based on Bureau of Labour Insurance (1998) and Social Security Administration (1997).

retirement is set at 65 years old. The benefits will consist of flat old age, survivor and disability annuities. A minimum of ten years of contribution will be required to claim a pension, but the full pension will be paid to workers who have contributed at least 40 years. The full pension will be equal to about 50 to 70% of average per capita expenditures in the two previous years. Retiring people who have contributed less than 40 years will be entitled to that full pension minus 2.5% per year of non-contribution. Transitory benefits will be available too.¹²² Contributions will be shared by employers and employees, the self-employed paying them entirely on their own. Some subsidies for low-income households will be available. The state will manage the system at its inception but it might be privatised later. It will be partially funded, without state guarantee.¹²³

As of today, only workers who are insured by the Labour Insurance or the Government Employees Insurance benefit from a retirement insurance at age 60.¹²⁴ The former receive a lump-sum grant at the time they retire. It is equal to one month of earnings by year of contribution (and 2 months of earnings for each year over the 15th, with a maximum of 45 months). The basis is the average monthly wage in the six months prior to retirement. Workers wishing to continue to work until 65 years old can claim a supplement equal to one month salary for each additional year. Government employees may choose either a lump-sum payment or an annuity. The Labour Insurance's survivor benefit is equal to 15 to 35 months of earnings¹²⁵. There is also a funeral grant amounting to five months of earnings.

¹²² The necessary length of contribution to be entitled to benefits will be decreased to 25 for workers who are over the age of 25 at the programme's inception. People over the age of 65 will be entitled to a monthly allowance of NT\$2,000 (£47). However, if they have already received a lump-sum pension, this entitlement will be postponed until their lump-sum grant has been spent out on the basis of a consumption worth NT\$2,000 per month. See Ku (forthcoming).

¹²³ See Council for Economic Planning and Development (1995).

¹²⁴ See Social Security Administration (1997). Figures of 1997. Same source for the rest of this paragraph. The civil servants' premium is 9% of earnings and the farmers' one ranges from 6 to 8% (subsidised by the state at 70%), based on flat earnings of NT\$10,200.

¹²⁵ 20 months if less than two years of contribution and 10 months if less than a year. The insured is also entitled to a grant in the event of the death of one of his family members, which is equal to 1.5 to 3 months' salary.

Government employees receive an old age pension, a death grant, as well as a death grant for their dependants. The old age lump sum is equal to one month of earnings for each year of contribution. The 11th to 15th years of contribution count double and the 15th to 20th years triple (with a maximum of 36 months of earnings). The survivor benefit is equal to 30 months of earnings (or 36 months if the employee dies at work).

Farmers' families receive substantial death grants under the Farmers Insurance. The government has also recently introduced an old-age allowance for farmers over 65 years old, amounting to NT\$3,000 per month (£70).

Both the Labour Insurance and the Government Employees Insurance have built up funds to meet their obligations under their old age component. Yet the latter fund has been progressively depleted and the GEI is now running important deficits every year. The Labour Insurance has been managed more conservatively such that its reserve is almost sufficient to meet its actuarially due benefits.

Since 1993, the government has began providing a monthly allowance to elderly people belonging to low-income families¹²⁶. All citizens over the age of 65 whose average family income is less than or equal to 1.5 times the minimum monthly expenses are entitled to receive a monthly subsidy of £142. If it is between 1.5 and 2.5 times the minimum expenses, they receive £71.¹²⁷

Under the Elderly Welfare Law, the government provides or subsidises a variety of services to the elderly, including elderly care institutions, apartments designed for old people, cultural and recreational activities and organisations, free transportation and tax breaks or subsidised housing to assist households with senior citizens.

¹²⁶ Those are families whose income is inferior to the minimum vital expenses computed by the government on the basis of the consumer price indexes of each locality or region. That minimum was, for instance, US\$249 for one person in Taipei City in 1997. Several authors agree that this is an extremely low level (see *inter alia* MacPherson, 1992 and Hill and Lee, 1992). About 114,700 people or 48,500 households were considered members of low-income families in 1995. (See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, December 1997).

¹²⁷ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

Still, the government itself recognises that there is a shortage of elderly homes to welcome needy elderly.¹²⁸

Disability

The Labour Insurance, Government Employees Insurance and Farmers Insurance all include disability benefits. As to the former, if a worker becomes permanently disabled, he receives a lump-sum amount equal to a maximum of 40 times his monthly wage (or one to 33.3 months if the disability is partial).¹²⁹

The government also subsidises private care institutions for the disabled.

Taiwan has a law that stipulates that private enterprises with more than 100 employees must hire disabled persons such that their proportion in their labour force reaches at least one percent. Government offices, public schools and public enterprises with 50 or more employees are held to a doubly stringent standard. If each employer were to meet the quota exactly, nearly 29,000 disabled people would be employed. Such is not the case, however. Only about 22,000 disabled people had been hired as of March 1996.¹³⁰

People with severe disabilities pay no premium and receive free treatment for serious injuries under the National Health Insurance. People whose disabilities are not so severe pay discounted premium and user-fees.¹³¹

Family

There is no family allowance in Taiwan, except for the low-income families (see definition in the section on old age and survivor). Children of families whose average monthly income does not exceed the minimum expenses are entitled to a monthly allowance that varies according to location (it was £38 per child in Taipei County in 1997), for

¹²⁸ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

¹²⁹ See Social Security Administration (1997).

¹³⁰ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

¹³¹ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

a maximum of two children per household. Two-third of this allowance is borne by local governments that are allowed to top it up.¹³²

Cities and counties must also provide child care centres.

Unemployment

There is no unemployment insurance in Taiwan yet, but the government is going to introduce one by the end of 1998 under the Labour Insurance. For the time being, there is an Unemployment Assistance Programme that was set up in 1994 and entitles fired workers to £362 per month for up to four months. There is also a small fund to pay workers' wage arrears when companies fail. It is financed by employers' contributions of 0.05% of wages.¹³³

Low-income families are entitled to the public assistance to increase their income up to the government-defined minimum vital expenditures (see definition and number in the old age and survivor section). The test of means for this allowance rests upon the extended family and that the main wage-earner must be unable to work due to permanent illness, accidental injury or because of death. The benefit averaged NT\$3,863 per month household in 1996 (£90).¹³⁴

MacPherson (1992) also emphasises that the government distributes gifts to indigent families on holidays and special occasion (a Chinese tradition). This budget is not insignificant compared to the public assistance programme: 36,000 donations at an average of £97 were made in 1989.

Education

The state provides free education. Attendance to elementary and middle school (6+3 years) is mandatory and 98% of children are indeed enrolled. Almost all primary schools are public, as well as a third of middle schools. The curriculum is uniform and largely decided by the Ministry of Education.

About 90% of students finishing middle schools go to either high-school to prepare for college, vocational schools or "junior colleges". Again, about a third of schools are public but they are all financed at

¹³² See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

¹³³ See Government Information Office, <http://www.gio.gov.tw/info/yearbook/content.htm>, (December 1997).

¹³⁴ See Directorate General of Budget, Accounting and Statistics (1997).

least partially by the government. A variety of higher education institutions receive public subsidies as well, attended by 29% of the 18-21 year-old population.

***Housing*¹³⁵**

The government's intervention in the housing market has never been very important in Taiwan, where about 80% of the population live in their own house or flat.

The most ambitious programme was initiated in the late 1970s and early 1980s, when the government planned to build about 25,000 units every year. The world-wide recession of the early 1980s led to a sharp decline of the demand and numerous dwellings were left unoccupied, such that the eligibility standards were assigned to middle or even high income households. As a result, the housing stock built by the government accounts for about only 5% of the total.

Since then, the housing policy has focused on loans to help individuals to build or purchase their own housing. It is thus targeted at the middle class rather than the very poor who cannot save or borrow enough money. Yet, the government has set up a number of small programmes to help the poor as well (see a summary in Chen, 1994).

Hong-Kong

***Health care*¹³⁶**

Hong Kong's health care system is very heterogeneous. On the one hand, anyone may go to public facilities run by the Hospital Authority, a quasi-public body, or the General Outpatient Department's clinics. They provide most kinds of health care at very low cost. For instance, a day in a public hospital was charged at HK\$29 in 1989 (£2), about 5% of its cost. However, the service quality is poor and some kinds of medical services are lacking. More importantly, the waiting lists are huge and queuing is so time-consuming and exhausting that about 65% of patients use private doctors, bearing the whole cost themselves. The proportion of admissions in hospitals was 54% at government hospitals, 28% at

135 This section is based on Chen (1994).

136 This section is based on Hay (1992).

subvented hospitals and 18% at private hospitals in 1988.¹³⁷ “Rather than allocating scarce medical manpower on the basis of medical need, the Hong Kong government system allocates it to consumers with the greatest tolerance for waiting” (Hay, 1992, p.xxiv). Another serious systemic problem is the lack of co-ordination between outpatient and inpatient care providers. Tackling that issue, improving the system’s overall management and increasing user charges are the major points on the government’s health care agenda.

Hay (1992) notes that little is known about Hong Kong’s private health care sector. He reckons that service quality and fees vary widely. It is possible to find the very best (and also most expensive) health care by any international standard. On the other hand, some doctors charge excessive fees, discriminate their bills according to their patients’ wealth and provide unnecessary services, sometimes outside of their area of competency. Hay (1992) deplores the lack of regulation of the private health care sector, the government being too much focused on the Hospital Authority.

As to private health insurance, only about 14% of the population would be covered, many of whom through insurance packages proposed by their employers. The characteristics of the insured (mostly young, male and wealthy people) suggest a strong adverse selection effect. According to Hay (1992), the modal reported monthly premium was HK\$200-500 (£20-36). The coverage available at this price was limited however, any catastrophic medical event putting the insured back on the public hospital’s waiting lists.

Invalidity, Maternity and Occupational Injuries¹³⁸

Employers must pay their employees who are temporarily unable to work because of invalidity for up to 120 days, depending upon seniority. The sick pay is 80% of normal wage.

In case of maternity, employers must also pay 80% of the wage for a total of 10 weeks (for the first three children only).

Employers must also compensate workers for occupational injuries. If the employee is temporarily unable to work, her employer will give her 80% of the difference between her earnings before and after the occupational accident, for a period up to 36 months. If she becomes

¹³⁷ The Ministry of Health used to subsidise privately run hospitals. They were merged with the Hospital Authority in 1992.

¹³⁸ This section is based on Social Security Administration (1997).

permanently unable to work, she is entitled to a lump sum of 48 to 96 times her monthly wage, depending upon her age and subject to a floor and ceiling (HK\$262,000-1,512,000 or £21,692-125184). A supplement applies if she needs permanent attendance. If the disability is partial, only a fraction of that amount will be paid. The employer must also pay her medical care fees, subject to a daily maximum of HK\$160 (£13). Finally, if an employee dies at work, her employer will have to pay her survivor a lump sum of 36 to 84 months of earnings, according to the age of the diseased, subject to a ceiling and floor, as well as a funeral grant of HK\$14,000 (£1,160). Unlike for the other legal benefits, employers must purchase a private insurance for the risk of occupational injury.

Employees unable to work for a longer period and who don't have any other means of support fall into the CSSA programme. Finally, the Department of Social Welfare runs two small programmes compensating victims of traffic accidents and criminal injuries.

Old Age and Survivor

Every elderly person over 70 is entitled to the Higher Old Age Allowance (part of the SSA scheme), amounting to HK\$635 per month (£52). People between 65 and 70 years old may apply for the Normal Old Age Allowance, which is HK\$560 (£46). Unlike the other allowances, the latter is means-tested. The income ceiling is HK\$1,500 per month for a single person and HK\$2,500 for a couple (resp. £124 and £207).¹³⁹

The poor elderly are taken in charge by the CSSA instead of the SSA and receive their Old Age Allowance on top of the normal CSSA flat benefit. As to survivor benefits, recipients of CSSA are entitled to a funeral grant of HK\$10,700 (£886).¹⁴⁰

Firms must pay mandatory severance pay for their retiring workers who have worked for them at least five years (called Long Service Payment). It is equal to two third of basic monthly salary times the number of years of service. Each additional year of service beyond 31 counts for half only. The maximum severance pay is HK\$270,000 (£22,354). If employees are enlisted in a retirement plan by their employers, their pension may be deducted from the legal severance pay.¹⁴¹

¹³⁹ See MacPherson (1992).

¹⁴⁰ See Social Security Administration (1997).

¹⁴¹ See <http://www.info.gov.hk>.

In 1995, the government agreed to introduce a provident fund to protect the fast ageing population against old age poverty. This scheme will substantially change Hong Kong' social security system, although it will take a long time to mature before delivering its full benefits.¹⁴²

The Government also sponsors a number of homes for the elderly.

Disability

Every registered disabled person is entitled to the Disability Allowance (part of the SSA programme), amounting to HK\$1,125 per month in 1995 (£93). Severely disabled people requiring constant attendance and who are not residing in public institutions receive the Higher Disability Allowance, which is twice as high. Doctors and social workers assess eligibility, respectively.

Disabled people who are also poor are taken in charge by the CSSA instead. They receive the Disability Allowance on top of the normal assistance benefits.

Both the government and charities manage institutions for the disabled.

Family

There is no family allowance in Hong Kong. However, the Social Welfare Department runs a programme to reimburse part of the fees of child care centres for poor parents.¹⁴³

Lone parents in need are also entitled to the CSSA (see table 5 in section I.4).

The Department of Social Welfare and charities are running child care centres and "family services centres".¹⁴⁴

Unemployment

There is no unemployment insurance in Hong Kong. However, firms must give one month notice to dismissed employees who are also entitled to a severance payment if they have worked for that employer for at least two years. The amount is the same as the Long Service Payment (see Old Age and Survivor section).

Indigent unemployed are eligible to CSSA aid (see table 5 in section I.4). Small amounts of earned income are even disregarded to encourage them to work, especially for aged workers.¹⁴⁵

¹⁴² See Chow (1998).

¹⁴³ See Department of Census and Statistics (1997c).

¹⁴⁴ For more information, see <http://www.info.gov.hk>.

Education

The state provides very cheap education at the primary and secondary level (12 years). Attendance to elementary and middle school (9 years) is mandatory and 99% of children are indeed enrolled. 84% of schools are public or subvented by the government, the rest being private and charging fees. The curriculum is uniform and largely decided by the Ministry of Education.

About 83.8% of students finishing middle schools go to high-school, financed by the government. 19.6% of the relevant population is enrolled in higher education institutions, most of which are private but subvented as well.

Housing¹⁴⁶

Hong Kong, as a crowded city-state facing large immigration flows, has run an ambitious housing policy since the 1950s. 35% of households live in a flat rented from the Housing Authority (HA) and another 11% have purchased their flats under the Home Purchase Loan Scheme.¹⁴⁷ This programme is opened to applicants to rental HA housing, as well as to HA tenants, to encourage them to move to the private sector. It consists of an interest-free loan of up to HK\$400,000 or HK\$600,000 for private tenants (resp. £33,117 and £49,676), recoverable in 20 years. There is also a mechanism that induces wealthier HA tenants to move out of public housing. HA flats are small, standard and cheap accommodations rented at fairly cheap rates (the norm being 15% of tenants' median income, 18.5% for those selecting larger flats). According to data published by the government, the rents per square meter are significantly lower than the average of the private sector, although it is hard to make a rigorous comparison as they differ in quality and location.¹⁴⁸ Flats are allocated on an administrative basis to applicants whose incomes do not exceed a certain limit. HA provides limited assistance for some households who cannot pay their rent. The HA is currently running a large surplus. Its expenditures, including interests and dividends, amounted to only

¹⁴⁵ See MacPherson (1992).

¹⁴⁶ This section is based on Chan (1996).

¹⁴⁷ See Department of Census and Statistics (1997b).

¹⁴⁸ See Department of Census and Statistics (1997c and 1997d).

about half of the rental fees and loan reimbursements paid by tenants and purchasers.¹⁴⁹

Singapore

Health care¹⁵⁰

Health care is provided by a mix of public and private facilities in Singapore. They all charge user fees but some of them are subsidised by the Ministry of Health.

The government has set up three programmes to help patients meet the user charges: (i) Medisave, the CPF's health care branch, (ii) MediShield, a catastrophic insurance scheme covering very large medical bills and (iii) Medifund, a health endowment fund which provides a safety net for the poor.

From the 40% of workers' wages put into CPF, 6 percentage points are channelled to their Medisave Accounts.¹⁵¹ Self-employed must also contribute 6% of their earnings. Workers may use their Medisave savings to pay for hospitalisation expenses, a few outpatient treatments incurred by themselves or their dependants, as well as a limited number of private insurance premium. By the end of 1995, the average balance in Medisave accounts was S\$5,400 (£2,452).

MediShield and MediShield Plus are voluntary insurance schemes opened to all CPF members to complement Medisave. They provide extra coverage for "major and prolonged" illness for those under 75 years old. They are distinct in their level of deductible, co-payment and cap, as well as contribution rate. MediShield Plus is more expensive but covers better quality treatment (e.g., private hospitals or single rooms in public hospitals). 85% of eligible members have chosen to join the scheme.

Started in 1993, Medifund is an endowment fund set up especially to help the poor pay for their health care. The Government has injected S\$500 million in it by 1997 (£227m). Only the interest income from the fund is used to pay hospital bills of the poor. That income is distributed

¹⁴⁹ See Department of Census and Statistics (1996).

¹⁵⁰ All this section is based on the Ministry of Health, <http://www.gov.sg/moh/mohiss/hlthfin.htm> (December 1997), the Central Provident Fund, <http://www.cpf.gov.sg> (December 1997), and information provided by the courtesy of the Ministry of Health.

¹⁵¹ This percentage increases to 7% after 35 years of age, and to 8% after 45.

to public sector hospitals, a committee of which consider applications from needy patients and allocate the funds.

Like in other countries, health care expenditures in Singapore tend to rise as a proportion of GDP. The government's strategy to cope with this evolution is based on the following points:

- Progressively increase the Medisave contribution rate up to 10%.
- Encourage employers to top-up their employees' Medisave accounts as part of the total compensation package.
- Diversify MediShield and allow people to buy approved private insurance with their Medisave account.

Invalidity, Maternity and Occupational Injuries¹⁵²

Employees are entitled to 14 days of paid sick leave per year, or up to 60 days if he has been hospitalised.

In case of maternity, employers must pay 100% of the wage for a total of 8 weeks (for the first two children only).

For occupational injuries, employers must also bear the whole cost and are encouraged to buy a private insurance, which is mandatory for some industries. Employees are entitled to their entire wage for 14 days (60 if hospitalised) and two third of it thereafter, for a period of maximum one year. This amount is subject to a floor of S\$49,000 and a ceiling of S\$147,000 (£22,252 and £66,757). If the incapacity to work is permanent, he receives a lump-sum corresponding to 6 to 12 years of earnings (depending upon age). If the incapacity is partial, he will receive only a fraction of that amount. If the injured employee needs constant attendance, the lump-sum is topped up by 25%. Finally, if an employee dies at work, his employer owes his survivor a lump sum of four to nine years of earnings according to the age of the diseased, with a maximum of S\$111,000 and a minimum of S\$37,000 (£50,408 and 16,802).

Old Age and Survivor¹⁵³

From the 40% of workers' wages put into CPF, 4 percentage points are channelled to their Special Account that earns more interest than the Ordinary account. CPF members may withdraw the balance of both accounts plus interests when they reach the age of 55. The median

¹⁵² This section is based on Social Security Administration (1997). Figures of 1997.

¹⁵³ See Central Provident Fund Board (1997) and Central Provident Fund, <http://www.cpf.gov.sg> (December 1997). Figures of 1997.

balance was S\$98,296 in 1996 (£44639). They must however keep a Minimum Sum of S\$50,000 (£22,706) in the Retirement Account until age 60. Alternatively, they may pledge to keep their property, or use this amount to buy an approved life annuity or leave it in a bank. This minimum sum will be raised progressively by S\$5,000 a year to reach S\$80,000 by 2003. They must also leave a minimum amount in their Medisave Account, currently set at S\$15,000 (£6,811). Only about half of retiring employees have a sufficient balance to meet that requirement however. Any CPF member may also top up his parents' Retirement Account, using either cash or their own Ordinary Account.

Government employees have a pension scheme of their own.

When CPF members die, the balances of their accounts are paid as a lump sum to their nominated survivors or to her legal heirs.

As additional survivor benefit, the CPF offers a life insurance, the Dependants Protection Scheme. It is administered by for-profit private companies and provides a fixed amount of S\$30,000 (£13,624) to families whose main wage-earner has died or becomes permanently incapacitated. The annual premium ranges from S\$36 to S\$360 (£16 to £163) and may be paid out of a CPF account. 80% of eligible members were effectively covered.

Needy Singapore citizens who are unable to work, have no savings and no one to depend upon may seek financial aid under the Public Assistance Scheme. The monthly allowance ranges from S\$200 a month for a single-person household, to a maximum of S\$570 for four-person household (resp. £90 and £570). It corresponds to 69% of the minimum household expenditure calculated by the government.¹⁵⁴ They are also entitled to free medical care in government facilities, waived school fees and scholarships.

As to services, the Ministry of Community Development sponsors elderly homes and co-ordinates a network of community-based support services and programmes to enable the elderly to remain physically, mentally and socially active and to assist families in caring for their elderly members. These include Senior Citizens' Clubs, the Befriender Service, meal services, hotlines and counselling, mutual schemes and day care facilities.

¹⁵⁴ See Ramesh (1995).

Disability

People becoming permanently incapacitated may withdraw their savings from the CPF. They may also benefit from the Dependents Protection Scheme (see above).

Poor disabled people may also be helped by the Public Assistance programme (see previous section).

The Ministry of Community Development and other departments sponsor disabled residences and provide a certain number of services to the disabled, including special education, vocational training, day care, residential care and employment services.

Family

The closest programme Singapore has to a family allowance is the Small Families Improvement Scheme is a means-tested bursary and housing support for small “intact” families whose budget does not exceed S\$1 million.

Widows, orphans and lone mothers with dependant children are entitled to the Public Assistance Scheme, although there were only 78 recipient households in 1997.

The government also subsidises some child care centres.

Unemployment

There is no unemployment insurance or allowance in Singapore. Enterprises must compensate laid-off employees but the law does not specify the amount of the severance payment, which is subject to negotiations between employers and employees.

Categories of recipients of the Public Assistance Scheme do not even include the unemployed.

Education

Attendance to primary and secondary school (6+4 years) is mandatory. Primary school is free but secondary school is only partially subsidised. 87.4% of children are enrolled in secondary schools, of which 75% attend public schools, 25% private subvented schools, a small minority choosing independent schools, providing elite education for a fee. The curriculum is set up by the Ministry of Education for government-subvented schools, the independent schools having some freedom. Every school and the Ministry of Education offer a certain number of bursaries, scholarships and loans.

Housing¹⁵⁵

The government of Singapore has an ambitious aim for its housing policy: all Singaporeans should become home owners. This policy has two dimensions. First, the Housing and Development Board (HDB) has been building and renting flats to hundred of thousands of families since the 1950s. This was a response to the serious housing shortages and appalling living conditions in many areas of Singapore. Second, the government is using the CPF to promote home ownership, as members can withdraw the bulk of their mandatory savings to purchase either HDB or private accommodation.¹⁵⁶ As a result, about 87% of the population live in housing built by the HDB and 81% of Singaporeans now own their flat.

The HDB offers a range of financing plans. Some discounted flats are available for purchase by low-income families.¹⁵⁷

The HDB is financed by loans from the government (most of which indirectly comes from CPF members' savings), but it also receives an annual grant.

¹⁵⁵ This section is based on Housing & Development Board, <http://www.hdb.gov.sg> (December 1997).

¹⁵⁶ There also exists a small Home Protection Scheme, a compulsory mortgage-reducing insurance scheme.

¹⁵⁷ See Housing & Development Board, <http://www.hdb.gov.sg> for more details.

Annex 2: Macroeconomic Data

Japan

	bio.Y	1990	1991	1992	1993	1994	1995	1996
GDP		430,040	458,299	471,064	475,381	479,260	482,930	500,356
Government Expenditures		136,166	144,695	155,419	163,872	168,043	177,356	..
Consumer Prices		100.00	103.30	105.10	106.40	<i>107.10</i>	107.00	107.20
Exchange Rate (=1 US\$)		144.79	134.71	126.65	111.20	102.21	94.06	108.78

Source: IMF (1997), except for government expenditures: OECD (1997).

Note: Figures in italic indicate a break in the time series

Korea

	bio.W	1990	1991	1992	1993	1994	1995	1996
GDP		179,539	215,734	240,392	267,146	305,970	<i>351,295</i>	389,979
Government Expenditures		32,689	41,783	50,485	55,762	63,758	72,426	..
Consumer Prices		100.00	109.30	116.10	121.70	<i>129.30</i>	135.10	141.80
Exchange Rate (=1 US\$)		707.76	733.35	780.65	802.67	803.45	771.27	804.45

Source: IMF (1997), except for government expenditures: OECD (1997).

Note: Figures in italic indicate a break in the time series.

Taiwan

	bio.NT\$	1990	1991	1992	1993	1994	1995	1996
GDP		4,307.043	4,810.705	5,337.693	5,874.513	6,376.498	6,892.046	7,477.540
Government Expenditures		1,166.747	1,416.625	1,696.117	1,859.294	1,913.742	2,074.929	2,005.897
Consumer Prices		100.00	103.63	108.26	111.44	<i>116.00</i>	120.27	123.96
Exchange Rate (=1 US\$)		27.108	25.748	25.403	26.626	26.240	27.265	27.491

Source: Directorate General of Budget, Accounting and Statistics (1997).

Hong Kong

bio.HK\$	1990	1991	1992	1993	1994	1995	1996
GDP	582.500	668.500	779.300	897.500	1,010.900	1,084.200	1,199.000
Government Expenditures	..	92.191	113.332	147.438	164.155	183.158	..
Consumer Prices	100	112	122.53	132.95	143.72	156.22	165.59
Exchange Rate (=1 US\$)	7.789	7.771	7.741	7.736	7.728	7.736	7.734

Sources: Monetary Authority of Hong Kong (1997). Except government expenditures: Department of Census and Statistics (1996).

Note: Government expenditures include the General Account only.

Singapore

bio.S\$	1990	1991	1992	1993	1994	1995	1996
GDP	67.879	75.266	80.940	94.223	108.505	121.081	132.629
Government Expenditures	14.223	15.966	15.858	16.354	15.059	19.233	..
Consumer Prices	100	103.4	105.8	108.2	111.5	113.5	115
Exchange Rate (=1 US\$)	1.813	1.728	1.629	1.616	1.527	1.417	1.410

Source: International Monetary Fund (1997).

Note: The government expenditures include the central government only.

Annex 3: Demographic Data

Japan

1995 ('000 and % active population)	Men	Women	Total	Men	Women	Total
Population	61,341	64,227	125,568	100.0	100.0	100.0
Population under 15 ('000, % pop.)	10,261	10,207	19,957	16.7	15.9	15.9
Population over 64 ('000, % pop.)	7,749	10,848	18,597	12.6	16.9	14.8
Active elderly	2,780	1,670	4,450	6.0	3.7	4.9
Active population	46,111	44,842	91,464	75.2	69.8	72.8
Students	4,890	4,240	9,130	10.6	9.5	10.0
House keepers	220	16,370	16,590	0.5	36.5	18.1
Inmates of social institutions			599			0.7
Inmates of prisons			46			0.1
Labour force	39,660	27,010	66,660	86.0	60.2	72.9
Unemployed	1,230	870	2,100	2.7	1.9	2.3
ILO unemployment rate	-	-	-	3.1	3.2	3.2
Agricultural workers	1,780	1,620	3,400	3.9	3.6	3.7
Informal sector	1,220	3,950	5,170	2.6	8.8	5.7
Active in formal urban sector	35,430	20,570	55,990	76.8	45.9	61.2
Civil servants	3,420	1,960	5,380	7.4	4.4	5.9
Self-employed	5,500	2,340	7,840	11.9	5.2	8.6
Private sector employees	28,210	17,840	46,050	61.2	39.8	50.3

Source: Statistics Bureau (1997)

Notes: Informal sector = family workers + daily labourers. Agricultural workers are double-counted in occupational

	1980	1995
Population ('000)	117,060	125,569
People living in institutions (%pop)	1.31%	1.64%
Number of households ('000)	35,824	43,447
Average household size	3.27	2.89
Household Composition		
Non-family households	0.17%	0.31%
One-person households	19.83%	24.78%
couple only	12.45%	17.53%
couple + children	42.10%	34.36%
lone parents	5.73%	7.23%
couple w/ parents	1.70%	1.97%
couple w/ parents & children	12.20%	9.42%
others	5.82%	4.40%

Source: Statistics Bureau (1997).

Korea

1996 ('000 and % active population)	Men	Women	Total	Men	Women	Total
Population	22,939	22,606	45,545	100.0	100.0	100.0
Population under 15 ('000, %pop.)	5,484	4,927	10,411	23.9	21.8	22.9
Population over 64 ('000, %pop.)	1,034	1,743	2,777	4.5	7.7	6.1
Active elderly (over 59)	1,032	804	1,836	4.5	3.6	4.0
Active population	16,734	15,887	34,193	72.9	70.3	75.1
Students	2,343	1,981	4,324	14.0	12.5	12.6
House keepers	516	6,148	6,664	3.1	38.7	19.5
Labour force	12,620	8,568	21,188	75.4	53.9	62.0
Unemployed	290	134	424	1.7	0.8	1.2
ILO unemployment rate	-	-	-	2.3	1.7	2.0
Agricultural workers	1,264	1,141	2,405	7.6	7.2	7.0
Informal sector	1,182	2,538	3,720	7.1	16.0	10.9
Active in formal urban sector	9,884	4,755	14,639	59.1	29.9	42.8
Civil servants	495	143	638	3.0	0.9	1.9
Self-employed	4,122	1,677	5,799	24.6	10.6	17.0
Private sector employees	6,532	4,076	10,608	39.0	25.7	31.0

Source: National Statistics Office (1997).

Notes: Active population = people aged 15-59 plus active aged 60 and over. Informal sector = family workers and daily workers. Agricultural workers are double-counted in informal sector, self-employed and private sector employees categories.

	1995
Population ('000)	44,609
People living in institutions (%pop)	1.18%
Number of households ('000)	12,958
Average household size	3.44
Household Composition	
Non-family households	1.41%
One-person households	12.67%
couple only	12.66%
couple + children	50.38%
lone parents	7.41%
couple w/ parents	0.93%
other 2-generation households	4.56%
3 and more-generation households	9.97%
Earners per household	1.45

Source: National Statistics Office (1997).

Taiwan

1996 ('000 and % active population)	Men	Women	Total	Men	Women	Total
Population	11,037	10,434	21,471	100.0	100.0	100.0
Population under 15 ('000, %pop.)	2,581	2,436	5,017	23.4	23.3	23.4
Population over 64 ('000, %pop.)	920	765	1,686	8.3	7.3	7.9
Active elderly			149			1.0
Active population	7,536	7,233	14,918	68.3	69.3	69.5
Students			2,003			13.4
House keepers			2,595			17.4
Labour force	5,662	3,648	9,310	75.1	50.4	62.4
Unemployed	154	88	242	2.0	1.2	1.6
ILO unemployment rate	-	-	-	..	..	..
Agricultural workers			918			6.2
Informal sector			758			5.1
Active in formal urban sector			7,392			49.6
Civil servants			1,027			6.9
Self-employed			2,023			13.6
Private sector employees			5,259			35.3

Source: Directorate General of Budget, Accounting and Statistics (1997).

Notes: Informal sector = family workers. Agricultural workers are double-counted in the self-employed, employees and family workers categories.

Hong Kong

1996 ('000 and % active population)	Men	Women	Total	Men	Women	Total
Population	3,108	3,109	6,218	100.0	100.0	100.0
Population under 15 ('000, %pop.)	596	555	1,151	19.2	17.8	18.5
Population over 64 ('000, %pop.)	283	347	630	9.1	11.2	10.1
Active elderly	48	13	61	2.1	0.6	1.4
Active population	2,277	2,221	4,498	73.3	71.4	72.3
Students	693	659	1,352	30.4	29.7	30.0
House keepers	8	709	717	0.3	31.9	15.9
Labour force	1,925	1,257	3,182	84.5	56.6	70.7
Unemployed	92	47	139	4.0	2.1	3.1
ILO unemployment rate	-	-	-	..	..	..
Agricultural workers	0	0	0			0.0
Informal sector			27			0.6
Active in formal urban sector	1,833	1,210	3,016	80.5	54.5	67.1
Civil servants			182			4.0
Self-employed			332			7.4
Private sector employees			2,503			55.6

Source: Department of Census and Statistics (1996, 1997a and 1997b).

	1981	1996
Population ('000)	4,987	6,218
People living in institutions (%pop)	..	..
Number of households ('000)	1,245	1,856
Average household size	4.01	3.35
Household Composition		
Non-family households	2.22%	2.19%
One-person households	15.19%	14.92%
Unextended nuclear families	54.40%	63.57%
Horizontally extended nuclear families	14.64%	9.41%
Vertically extended nuclear families	13.55%	9.91%

Source: Department of Census and Statistics (1997a).

Note: Horizontally extended families include “related persons who do not form a nuclear family” and “two or more nuclear families”.

Singapore

1996 ('000 and % active population)	Men	Women	Total	Men	Women	Total
Population	1,531	1,513	3,044	100.0	100.0	100.0
Population under 15 ('000, %pop.)	359	335	695	23.5	22.1	22.8
Population over 64 ('000, %pop.)	95	115	210	6.2	7.6	6.9
Active elderly	20	6	26	1.8	0.5	1.2
Active population	1,097	1,069	2,166	71.7	70.6	71.2
Students	124	109	232	11.3	10.2	10.7
House keepers	2	454	456	0.2	42.5	21.1
Labour force	1,055	747	1,802	96.1	69.9	83.2
Unemployed	31	23	54	2.8	2.1	2.5
ILO unemployment rate	-	-	-	2.7	2.8	2.7
Agricultural workers			4			0.2
Informal sector			21			1.0
Active in formal urban sector			1,724	0.0	0.0	79.6
Civil servants			62			2.9
Self-employed			236			10.9
Private sector employees			1,429			66.0

Source: Department of Statistics Singapore (1997 and 1996).

Notes: Informal sector = family workers. Agricultural workers are double-counted in the self-employed, employees and family workers categories. House keepers and students: data of 1995.