SOCIAL PROTECTION AND WELFARE STATE BUILDING: FAST AND SLOW LESSONS

Veerayooth Kanchoochat
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Abstract

This paper examines the history of welfare state building in Europe and the Asia-Pacific region, with a view to drawing lessons on inclusive development relevant to developing countries today. It traces the convoluted paths that have led to the different systems of social protection and welfare models in Europe. The European cases are then contrasted with the East Asian ones. Contrary to the perception that East Asia achieved rapid industrialisation without social policies, this paper illustrates how social problems have been purposively addressed as part of national development strategies in this region. The East Asian experience thus offers “fast” lessons that welfare policies can be designed as an integral part of economic development, where each country pays attention to its distinctive Gordian knot, and a financial crisis can provide an opportunity for healthy reforms leading towards universal coverage. Meanwhile, we learn “slow” lessons from Europe that a solid combination of idea (social citizenship), interest (power balance) and institution (compatible design) is key to the building of dynamic and resilient welfare states. While social protection has always been part and parcel of inclusive growth, it is more pressing than ever today to focus on well-designed social protection to meet the world’s agenda of Sustainable Development Goals.

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Introduction

History is the only laboratory available for social science, even if its limitations in such a role are fully recognised.

James Buchanan (1993: 67)

This paper sets out to explore the comparative history of welfare state building in Europe and the Asia-Pacific region. It illustrates the different forms of welfare states and discusses the substantial variations in their evolutions and orientations. The paper places particular emphasis on the gradual process of state building, with a view to drawing lessons for today’s developing countries. Although Europe and East Asia have an impressive record of inclusive development and social protection, the two regions have taken different paths to such a locus. While welfare states in Europe rose from strenuous experiences of war and class compromise, their East Asian counterparts were “by-products” of rapid industrialisation. Hence, we can draw two arrays of evidence-based insights and applicable implications.

The paper is organised into four sections. A better understanding of welfare state building requires, first and foremost, a rethinking of social and economic development. Section I therefore begins by illustrating why we should refrain from considering social and economic policies as a zero-sum game and adopt a more integrative approach. The next two sections turn to historical grounds to examine the real world’s laboratory of social protection. Section II traces the lengthy process of welfare state building in Europe which has resulted in the embeddedness of social citizenship, cross-class collaboration and different institutional designs. Section III delves into how high-speed economic growth in East Asia went hand-in-hand with equitable development, unmasking the puzzle of productive welfare capitalism. Finally, Section IV elucidates the “fast” lessons we can learn from East Asia, as well as the “slow” lessons we can learn from Europe.
Box 1: What is Social Protection?

According to the United Nations ESCAP:

"Social protection is anchored in the universal right of everyone to social security and to a standard of living adequate for the health and well-being of themselves and their families. It derives from the principle that no one should live below a certain income level and everyone should have access to basic social services.

Social protection is a powerful tool for reducing inequalities and building resilience against shocks and crises over the lifecycle. It provides a solid foundation for the realization of the economic, social and environmental dimensions of the 2030 Agenda for Sustainable Development. Social protection is therefore explicitly mentioned in four Sustainable Development Goals, related to ending poverty (SDG 1); ensuring health lives (SDG 3); achieving gender equality (SDG 5); and reducing inequalities (SDG 10).

Universal social protection and the Social Protection Floors (SPF) Initiative provide the guiding frameworks for ESCAP’s work in the area of social protection. National social protection floors (ILO Social Protection Floors Recommendation, 2012 (No. 202)) should comprise at least the following four social security guarantees:

1. Access to essential health care, including maternity care;
2. Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
3. Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;
4. Basic income security for older persons.

"
I. Social Policy and Economic Development: A Tale of Two Perspectives

The conventional wisdom in policymaking circles and the general public perceives social policy as separate from economic policy. It further holds that social expenditures divert resources and incentives from economic goals. This dichotomy is, at best, unproductive and, at worst, misleading. Throughout modern human history, social protection has been an integral part of inclusive economic development.

1.1 A Catch-22 Perspective

The dichotomous view of social versus economic policy has its roots in the era of classical political economy, when Adam Smith and ARJ Turgot deemed social welfare as inimical to economic progress and should be promoted only when countries are already prosperous (Rothschild 2001: 121). This perspective had been carried forward by economic orthodoxy, with the presumption that there exists an inevitable trade-off between equity and efficiency. In this vein, “social expenditure is seen as merely paying for social consumption. As such it is considered to have a negative impact on economic development because it reduces savings and, therefore, investment” (Mkandawire 2004: 3). The economic crises which affected a host of developing countries in the 1990s moderately shifted the dominant view to acknowledge that developing countries may “need a ‘social safety net’ to catch those who fall through the cracks in the process of economic reform” (Chang 2004: 246). Despite this shift, however, the underlying presumption remains unchanged: social policy is still considered by many as a “residual category” of safety net to be introduced in response to the adverse side effects brought about by economic imperatives.

Of course, the separation of social and economic policy is useful for certain purposes, such as the performance assessment of a specific measure. Nonetheless, this Catch-22 perspective hinges on a problematic assumption. In this view, the size of the economy is attributed to market efficiency, while welfare measures assume only the task of redistribution, completely unrelated to the size of the economy. Such a perspective thus implies that the protection of those adversely affected by markets or contingencies is always achieved at the expense of achieving additional gains (Backhouse et al 2017: 6). In reality, the relationship between the two missions is more complicated. Welfare provision, when well designed, can actually enhance and sustain economic progress. Thinking about social and economic policy in a more integrative manner not only better captures historical experiences but also helps us craft a more realistic policy and institutional design.

1.2 An Integrative Approach

If we view the goal of economic development as the long-term progress of human well-being, the “social” and “economic” aspects are then inherently intertwined. Indeed, throughout modern human history, social protection has been instrumental in steering successful and resilient economic development.

Economic development is, by its very nature, a contentious process, laden with socio-political consequences along the way. Technological development that has characterised modern economic growth has inevitably led to the dislocation of productive factors (see Kuznets 1972).
As the structure of the economy transforms, major conflicts have developed between capital-labour, rural-urban, and agriculture-manufacturing sectors, to name just a few. Moreover, the growth process itself also entails cyclical volatility in growth and incomes and tends towards periodic crises, which in turn shape the sustainability of the entire process of economic transformation. This is how social policy, generally defined as “the complex web of related policies, schemes and institutions that are concerned with the social conditions of economic activity” (Ghosh 2004: 284), forms an integral part of economic development. In this light, the role of social policy extends well beyond the redistributive aspects to cover such functions as: maintaining social and industrial peace, providing employers with flexibility and creativity, enhancing labour productivity through skill formation and reskilling, and cushioning shocks and crises. For example, the cost-effective provision of public health and education will improve the quality of labour which, in turn, will promote efficiency and accelerate productivity growth (Chang 2004: 247).

It should be noted that this integrative approach has been promoted by the United Nations since the late 1960s. In 1966, the UN Economic and Social Council passed a resolution which was developed in greater detail by a group of experts on social policy. This group, chaired by Gunnar Myrdal, a Swede who received the Nobel Memorial Prize in Economic Sciences in 1974, criticised the distinguishing between economic and social phenomena and called for a more balanced view of development (Kwon 2005: 5–6).

As shown in the empirical cases which follow, social protection has been part and parcel of the dynamic process of economic development. Of course, adopting an integrative approach to social and economic development does not mean there is only one best way to craft social welfare. Inclusive development in Europe and East Asia has taken shape through different paths and contexts, providing us with abundant historical data from which we can draw significant lessons in designing policies and institutions.

II. The Longue Durée of Europe’s Welfare State Building

Those countries in Europe with the strongest welfare states weathered the crisis [in 2007–2008] better and have higher living standards.

José Ocampo and Joseph E. Stiglitz (2018: xi)

This section explores the convoluted journey of welfare state building in Europe. Although there are multiple variants, European welfare systems can generally be characterised by sizable spending on education, health, and social protection. Such high social expenditures are typically associated with high taxation rates, leading to the assumption is that these “two highs” automatically result in equitable development. As shown in Figure 1, income inequalities, measured by the Gini coefficient, are reduced significantly through taxes and transfers in most OECD countries, with an average level of redistribution of 16% of the mean income before taxes and transfers. In Ireland and Finland, pre-tax redistribution may not be impressive, but their redistribution levels are highest with the governments’ tax and transfer measures.
When viewed from the perspective of developing countries, many questions can be raised about this formula. Why would the citizens of these European welfare states pay high taxes and not emigrate instead? Is it fair that farmers and workers receive almost the same support as civil servants? Is the “two highs” formula the best way to build a welfare state of European calibre?

These are political economy rather than technical issues and, of course, deserve further elaboration. By resorting to the political economy’s troika of “idea, interest, and institution,” this paper shall illustrate how the longue durée of Europe’s welfare state building is based on a solid and dynamic amalgam of idea (social citizenship), interest (power balance) and institutions (compatible design).

Figure 1 Differences in income inequality pre- and post-tax and government transfers of OECD members (Gini coefficient)

Source: Author’s calculation based on OECD Database. Available at https://data.oecd.org/inequality/income-inequality.htm (accessed on December 20, 2019).

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1 Theoretically, interests, institutions, and ideas are debated as alternative explanations for political-economic phenomena (see Blyth 2009). However, the article’s aim is to draw policy lessons rather than offer explanations for welfare state-building. We will then discuss all three domains in an interrelated manner.
Table 1. Political-economic underpinnings of European welfare states

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2.1 Idea: Wars, Peace and Social Citizenship

The first social security program can be traced back to an initiative by Otto von Bismarck, then Chancellor of the German Empire. In a letter to the German Parliament in 1881, he stated that, “those who are disabled from work by age and invalidity have a well-grounded claim to care from the state.” Thereafter, the idea of social security as a solution to class antagonism became prominent in debates about citizens’ rights and increasingly associated with social democracy movements (Briggs 1961: 222). In the aftermath of World War I, many countries adopted social insurance schemes with extensive provisions.

World War II gave a further impetus for welfare state expansion. “Social security” became the grand international slogan, while the imperative of post-war reconstruction justified the allocation of resources towards social welfare on an unprecedented scale (Castles et al 2010: 7). The Beveridge Report (Social Insurance and Allied Services, 1942) was widely viewed as the blueprint of a universal and comprehensive welfare state. The sustained economic growth initiated by post-war stimuli, the centralisation of tax powers enacted during wartime, and the global contestation in the Cold War which followed were part of the backdrop conducive to the building of the welfare state (Castles et al 2010: 8). Electoral successes for parties of the left, either on their own or in coalition, later brought this political project into operation.

In ideological terms, the welfare state is “centrally an expression of certain ethical ideals...[and] is defended in the name of social justice” (White 2010: 19). T. H. Marshall (1964) outlines three stages of the development of citizenship (civic rights in the eighteenth century, political rights in the nineteenth century) and argues that the welfare state in the twentieth century represents a progressive stage in the development of “social rights”. The concept whereby all members of the community share a status (citizenship) and are entitled to varying degrees of support from the state has significantly changed the relationship between the state and its citizens, as was evident in the inauguration of female and universal suffrage and the receipt of public welfare ceasing to be a bar to full citizenship (Pierson 1991: 103).

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2 www.ssa.gov/history/ottob.html
Wartime experiences also created a sense of solidarity, generally defined as “common attitudes of individuals who express feelings of support for a social system” (Johnsen 1998: 264). The notion of social solidarity not only justified the expanded providing of social support regardless of class and status but also the raising threshold of “tolerable taxation” for welfare purposes (Kuhne and Sander 2010: 79). Of course, the degree to which citizenship is intrinsic to the welfare state and the level of solidarity that should be achieved have been contested and diverged across nations and through time, as will be expanded below.

2.2 Interest: Cross-Class Collaboration and the Nordic Model

Comparative studies have found that increased negotiating power of organised labour, measured by union density or left party election results, has substantially shaped the reorientation of post-war social policy (e.g. Korpi 1983; Huber and Stephens 2001). By and large, an implicit “social pact” was reached among blue-collar workers, white-collar urban middle class, and rural small scale farmers, as well as between capital and labour to extend social rights and full employment policies in exchange for the advancement of a market economy (Katzenstein 1985). Within this general trend, however, countries with centralised labour movements connected closely to social democratic political parties are the likeliest candidates for extensive redistributive social spending, as seen in the Nordic countries.

Nordic Model

The Nordic model, typical of Denmark, Finland, Norway, Sweden, places heavy emphasis on redistribution, social inclusion, and universality. These countries are renowned for having achieved both a high per capita income level and a relatively low inequality of income. Their public social spending ranges from 25–26% of GDP (Norway and Sweden) to 28% of GDP (Denmark and Finland), compared with the OECD average of about 20%.

Since the 1960s, the introduction of welfare programs in the Nordic countries has expanded quickly into universal health-care systems and a generous social insurance against loss of income and unemployment. In contrast with other countries dominated by either flat-rate basic security or occupational schemes, the Nordic model stands out with its “encompassing” feature of social protection, in which uniform basic benefits and services based on residence have been combined with earnings-related social insurance programmes (Palme 1999). Moreover, the Scandinavian welfare model, with its taxes and benefits based on individual rather than family-based rights, provides women with autonomy and results in the relatively high female participation in the labour force. Another cornerstone of the Nordic model is the active labour market policy, with measures designed to re-integrate the unemployed into the labour market or to upgrade their employment-specific skills (for details, see Jochem 2011).

As well elaborated in Kautto (2010: 588–590), the Nordic welfare model resulted from a particular landscape of power balance across entities, ranging from social groups and local

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authorities to gender. In the 1930s, social democratic parties came to power in all three Scandinavian countries (Sweden, Denmark, and Norway) in alliance with agrarian and/or social liberal parties. Important reforms in social protection (e.g. old-age pensions and unemployment insurance) were implemented immediately. After World War II, the social democratic parties in Sweden and Norway, in close cooperation with a powerful trade union movement, implemented additional welfare policies. In addition, the pattern of land ownership gave farmers a relatively strong position. Family-run small farms were the basic units of production and formed a linchpin of the Scandinavian tri-polar class structure (together with the working and upper classes) in a cross-class collaboration for the establishment of the welfare state. As a result, social policy was not just a “workers’ question”, but included concern for the rural population from the very beginning, thereby paving the way for universal solutions.

2.3 Institution: Varieties of Welfare Models and Their Complementarities

The debate over comparative welfare states has evolved in tandem with the real world changes (see Castles et al 2010; Ocampo and Stiglitz 2018). The aim here is to delineate the varieties of institutional complementarities present in each model to acknowledge the importance of compatible design.

**Continental Model**

The continental Western European welfare model is featured in Germany, France, Belgium, Austria and, to a lesser degree, the Netherlands. In this model, social insurance is the primary delivery mechanism, wherein access to benefits is based mainly on work and contribution records. The largest share of financing would come from social contributions paid by employers and employees, overseen by collective compulsory social insurance funds (Palier 2010: 601–615). Underpinning the Continental Model is the intention to be independent from both the state and markets. This intent was held initially in Catholic social doctrine and later institutionalised by European Christian Democratic parties, a main driving force for the expansion of welfare in continental Europe in the twentieth century (Huber and Stephens 2001).

The Continental Model relied on collective occupational social insurance funds, with a focus on providing job and income security for male industrial workers through separate insurance schemes across industries and firms. This model is compatible with the system of vocational training. In Germany, for example, the vocational training system has played a key role in

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4 In Denmark, the social democratic party was strong, but more dependent on a liberal coalition partner. In Finland and Iceland, the social democratic parties were weaker and less crucial in the design and implementation of welfare reforms (see Christiansen and Markkola 2006).

5 Kautto (2010: 588–590) also pointed out two other factors. First, the division of power between church and state (as a result of the Reformation and conversion to Lutheranism) laid the foundation for local public authorities to play a strong role in the management of welfare policies. Second, in all the Nordic countries, women achieved suffrage relatively early and the active role of female reformers helps explain why even early social policy legislation reflected the interests of women.
generating a manufacturing sector which requires highly skilled workers, pays high wages and adds high value, while the state has relied on industry-wide employer associations and trade unions to supervise a publicly subsidised training system (Hall and Soskice 2001). However, a side effect is a fragmented welfare system. In the late 1980s, there were at least 1,200 regional occupational or company-based health insurance funds in Germany. The Netherlands has a basic universal pension system, but it also has numerous complementary pension schemes and health insurance providers (Palier 2010).

**South European and Anglo-Saxon Models**

The literature also considers Italy, Spain, Portugal, and Greece as another variety of welfare model, characterised by dualistic social insurance and fragmented social assistance. Countries with this welfare model have a large public sector and industrial enterprises. Employees working in these core sectors of the economy benefit from a highly protective employment scheme. Social insurance thus co-evolved with this segmented labour market. Ferrara (2010: 622–627) attributes the distinctiveness of this welfare model to “the combination of extended households, high rates of (mainly traditional) self-employment, large informal economies, tax evasion, and an institutionally weak administrative apparatus”. This resulted in the family functioning as an effective “social shock absorber” for its members. However, these countries later established universal national health services in the 1980s, resulting in an upgrading of social protection. European integration also prompted reforms in pension schemes, unemployment insurance, family allowances, basic safety nets, together with attempts to promote gender equality.

Meanwhile, the English-speaking nations (Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States) constitute a model characterised by “market-based social security schemes, with smaller social transfers, and targeted and means-tested benefits” (Stetter 2018: 194). Taking a broader view, however, Howard (1997) labels the U.S. as a “hidden welfare state”, arguing that U.S. citizens have been subsidised through the use of tax breaks with social welfare aims, e.g. the Earned Income Tax Credit for the working poor, the targeted jobs tax credit, special tax treatment of employer-sponsored pensions, and the home mortgage interest deduction. The study found that, in 1995, the U.S. government could be deemed to have spent approximately $400 billion on social welfare through tax code provisions. Yet, it is debatable whether these indirect social welfare expenditures would be equivalent to (and generate the same impact as) direct-spending welfare schemes. Above all else, these indirect expenditures indicate that “governments have alternative instruments for achieving their ends… from regulation to tax breaks, to judicial empowerment, to the use of government credit and insurance” (Hacker 2005: 135).
Box 2: The Welfare State Is Dead, Long Live the Welfare State

State building is not a once-and-for-all enterprise. It is fully laden with contentious and contingent processes. The welfare state is thus always a dynamic system.

A first wave of changes took place in the 1990s, with the oil shock and an increasingly ageing population. It led to a recalibration of welfare packages to suit the changing socioeconomic conditions. A second wave occurred after the global financial crisis in 2008 and the ensuing austerity measures leading to a retrenchment of welfare, especially its volume, in some European countries.

The EU welfare system now faces the double challenge in the coverage of social protection (a change in volume) and in response to new social risks (a change in design). The underlying logic of welfare policymaking also requires a constant modification in response. To gain stronger support, it may not be justified solely as an ultimate goal, but as an effective means to accommodate global challenges as well as boost economic performance.

But, after all, it should be noted that the basic components of Nordic welfare state institutions, i.e. social rights, high benefit levels, redistribution, and a comprehensive social security system, are still in existence. Studies into the global financial crisis in the late 2010s also find that the near-universal social security benefits in countries such as Sweden and Germany effectively functioned as “automatic stabilisers.” Moreover, it is the presence of active labour policies, not the hands-off approach to the labour market, that allowed more resilience to the crisis.

Sources:
III. East Asia’s High-Speed Growth and Hidden Welfare

Japan and the newly industrialising economies of the Republic of Korea, Taiwan Province of China, Singapore, and Hong Kong (China) are renowned for their rapid growth that constituted the fastest industrialisation in human history (see Figure 2).6 Accompanying such rapid growth was low social spending, which reinforces the mistaken assumption about efficiency–equity trade-off. From the 1970s to the 2000s, expenditures for social protection ranged from 37.6% (Latin America) to 52.6% (OECD) of total government spending. But this figure was only 29.6% for East Asia (see Figure 3). However, East Asia has an alternative method of arranging social protection, one in which important aspects are not captured by traditional indicators. As social protection has been “hidden” in the national development strategies of East Asian countries, this illustrates how well social protection and economic growth can thrive *en masse.*

Figure 2. GDP per capita (current US$) of selected Asian economies

![Graph showing GDP per capita for selected Asian economies from 1960 to 2015.](https://data.worldbank.org)


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6 During the Industrial Revolution, per capita income grew in today’s developed countries by around 1–1.5% annually. In the “four tigers” of East Asia, on the other hand, per capita income grew annually by 6.7% during the period 1965–90, Hong Kong, China lowest with 5.8%, Taiwan Province of China highest with 7.4% (Hort and Kuhnle 2000: 168).
Figure 3. Average government expenditures on social security, health, and education (from the 1970s to the 2000s)

Source: Author’s modification from Kim (2015: 21).

Note: OECD and Latin America (1973 to 2000) and East Asia (the 1980s to the 2000s); Data from IMF, Government Finance Statistics; Asian Development Bank.

3.1 Productivity-oriented Welfare

As discussed previously, welfare state building in Europe has been based on the amalgam of social citizenship idea and power balance among social groups. In East Asia, a range of social welfare programmes (e.g. education, social security, health insurance, housing, and social services) were designed as integral components of post-war national development strategies to boost work incentives and productivity enhancement for long-term growth (Kim 2015: 25).

With this underlying logic, the system of social protection in East Asia has been labelled “productivist welfare capitalism” (Holliday 2000), “productivist model of social policy (Kim 2015), or “corporate welfare” (Peng 2000; Farnsworth 2013). In the context of late industrialisation, as East Asian states administered welfare programmes without providing direct finance, numerous social welfare activities are embedded in the corporate structure. This means the focus is more on the production-enhancing elements (e.g., health and education) and less on the redistributive and protective aspects of social policy (Mkandawire 2004: 25). In other words, social protection in the early phase of development was provided by “welfare through work”. The Survey on Corporate Welfare Expenditures in Japan found
that the welfare paid by Japanese employers (including retirement allowance) to their employees increased over time and, in 2001, equalled 20% of the cash earnings of an employee. This system forges a close alliance between employers and employees. For while organised labour in Europe usually defines its interests in class terms, Japanese unions are organised along enterprise lines and often see their future interests closely tied to their firms’ long-term economic success (Steinmo 2010: 97–98).

Initially, social protection focused on individuals in key public sectors, for example, the military, civil servants and teachers and subsequently was extended to employees of large firms in strategic private sectors (Kim 2010: 413–414). Under authoritarian regimes, private firms were compelled to follow the regimes’ guidelines of corporate welfare schemes and vocational training (Yi and Lee 2005). For large firms in key industrial sectors, export subsidies and preferential credits provided the wherewithal and tax exemptions incentivised various enterprise welfare programmes such as education, housing, health care, recreation and retirement for key employees. Hence, rapid industrialisation featured not only the renowned “lifetime employment” system but also such entitlements as housing, health care and educational subsidies for the employees’ children (Chang 2004: 253).

Since the 1990s, the governments of Japan, Republic of Korea, and Taiwan Province of China have initiated new schemes to assume responsibilities of social protection previously provided by families. Universal health insurance and pension schemes have been achieved over time to cover workers in other employment sectors and self-employed workers. In addition to universalising coverage, these governments have improved the redistributive capacity of social insurance by cross-subsidising occupationally organised funds (Japan) or by eliminating occupational differentiations by integrating disparate funds into a single pipe mechanism (Republic of Korea, and Taiwan Province of China) (Peng and Wong 2010: 659–660).

3.2 Covert Social Policies

In addition to productivity-oriented welfare, each country in East Asia has also implemented policies to address its specific problems.

Social protection for SMEs: As Taiwan Province of China has a smaller population and its catch-up industrialisation was based more on small and medium-sized enterprises (SMEs), its social welfare was organised differently from social welfare in Japan and the Republic of Korea. For example, in the Republic of Korea, health insurance was overseen by large firms but in Taiwan Province of China, funds for social insurance were consolidated under each of the social insurance schemes (labour, farmer, or government employee). Welfare coverage has

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7 In Japan, for example, public assistance programmes can be divided into four groups: (1) those employed in large companies and the public sector; (2) those employed in small to medium companies; (3) those who are self-employed or irregularly employed; and (4) those aged over 75. Within each programme, contribution rates (the share of income levied as premiums) are the same up to an income ceiling. The first group receives no subsidy from general tax revenue. The second and third groups receive 16.4% and 50% of benefit expenditures as subsidies respectively. The fourth group takes in 50% as subsidies plus 40% as contributions from programmes in the other three groups (for more details, see Ikekami 2014, especially Figure 1.1).
increased gradually as the economy grew. In 1958, the central government legislated the Labour Insurance and Government Employees’ Insurance Acts but coverage was limited only to work-related injuries, old age, disability, death and maternity. In 1979, coverage was extended to workers employed in smaller firms (five or more employees). The process to provide universal health care began in the late 1980s. And by 1998, when Taiwan Province of China has achieved high-income status, nearly 97% of its citizens benefited from medical insurance, including workers’ dependants, older persons and children (Wong 2005).

**Public Housing:** Hong Kong (China) and Singapore faced the major challenges of limited land and affordable housing. These two economies focused on providing affordable public housing which in turn significantly improved living standards. Public expenditures on housing in these two economies were 3.3% and 2.2% of GDP respectively, compared with an average of 0.4% in the OECD countries (Kim 2010: 415). In 1960, Singapore set up its Housing Development Board (HDB) and, by the early 1990s, more than 85% of its population resided in HDB-constructed accommodation. Home ownership also “disciplines” the workforce because monthly mortgage payments can be met only through regular employment. Especially in Singapore, quality housing has been regarded as investment in “human capital” rather than merely welfare expenditure.

**Compulsory Savings:** Social security system in Singapore is managed by the Central Provident Fund (CPF), a compulsory savings scheme designed to encourage individual responsibility for retirement and other social security needs (Kim 2015: 24). Originally envisaged as a means of providing retirement incomes, the scheme has been expanded to include provisions for house purchase, education and private investment. Although heavily state-regulated, the assets of the CPF are not owned by the government and the mandatory contributions go into private accounts, keeping social expenditure extremely low in Singapore (around 5% of GDP) (Pierson 2004: 229).
Box 3: Social Protection and Technological Development

Social protection, if well designed, can sow the seeds of innovation. For example, lifetime employment and corporate welfare adopted by Japanese firms were instrumental in the creation of “just-in-time production” (JIT), used in such industries as automotive manufacturing. JIT requires “only the necessary products, at the necessary time, in necessary quantity”, thereby minimising the cost of and space required for stock maintenance.

Toyota has successfully created and nurtured its unique production technique because it also pursued the “respect-for-human” system where workers actively participated in the running of and improving their own workshops. The workers accept more readily new technologies which require less labour.

Countries such as Japan and Sweden (which also has an active labour policy) are among the most robotised economies in the world. This contrasts starkly with Britain’s experience in the 1970s–1980s, when the absence of mechanisms to provide employment security drove the unions into defensive obstructionism, which then made it very difficult for the firms to introduce new technologies, which in turn seriously damaged Britain’s international competitiveness in manufacturing.

Source:

3.3 Social Protection amid Crisis and Constraints

The Asian financial crisis in 1997–98 was an important milestone. While the region faced a serious economic recession, the significance of social protection became clear. In the Republic of Korea, the crisis revealed that its existing social protection programmes could not cope well with the sudden rise in unemployment, because the extant productivist welfare scheme was based on the assumption of full employment. In response, the government enacted legislation to consolidate its social safety nets. When introduced in 1988, the National Pension Scheme (NPS) aimed to cover only employees in large firms and industrial workers. In the 1990s, however, coverage was extended to farmers, fishermen, and the self-employed. The Republic of Korea also implemented an unemployment insurance scheme in 1995 and has later extended benefits to all workers in formal sectors (Nam 2015). Moreover, hundreds of health insurance programmes, previously segregated by occupation, were unified in a single and nationwide health insurance program in 2000. In addition, the Minimum Living Standard Guarantee (MLSG), a new social assistance program, was enacted for those who were in need but not entitled to public assistance under the old system. All these healthy reforms were
driven by electoral politics, as it helped Kim Dae-jung to win the presidential election in 1998 (Kwon 2005: 2–7).

In Taiwan Province of China, public assistance programmes, albeit based on low means-tested criteria, were not available to those who were affected by the crisis. The Employment Insurance Programme was then introduced in 1999 to deal with the rising unemployment. This led Kwon (2005: 20) to summarise that: “Moving to the more socially inclusive welfare states helped [Republic of Korea and Taiwan Province of China] to emerge from the economic crisis without many adverse social effects such as a sharp rise of poverty or a serious worsening of income inequality.”

In a nutshell, rapid catch-up industrialisation in East Asia created employment opportunities and accelerated upward labour mobility. Meanwhile, social policies had been implemented through various means to sustain growth, stabilise employment, and improved income distribution. Despite relatively low social spending, the region has achieved equitable development. This is illustrated by the low Gini coefficients of the following countries between 1965 and 1990: Japan (0.28–0.31); Republic of Korea (0.33–0.38); Taiwan Province of China (0.30–0.36); Singapore (reduced from 0.50 to 0.41); and Hong Kong, China (reduced from 0.49 to 0.39) (Campos and Root 1996: 9).

IV. Fast and Slow Lessons

Learning from other countries does not mean exactly copying... but requires first an understanding of the principles that lie behind... and then constructing their functional equivalents

Chang (1996: xiv)

The welfare state is in more pressing need nowadays than before to accomplish such SDGs as poverty reduction (SDG-1), human well-being (SDG-3), gender equality (SDG-5) and decent work (SDG-8). This section draws short- and long-term lessons from the comparative history of welfare state building in Europe and the Asia-Pacific.

4.1 Policies without a Scaffold

Two points deserve special attention. First of all, designing an effective social protection system requires an understanding of the principles and supporting institutions that lie behind successful cases. For example, what would happen if the leadership of a developing country is motivated by the “Getting to Denmark” motto and readily adopts the apparently easy formula of high taxation and high social expenditures? It is likely that the country will end up initially with fiscal deficits, then economic recession, and possibly social conflicts between those who want the government to continue the generous welfare programme versus those who oppose it on economic (fiscal unsustainability) and political (“populism”) grounds. Even if we assume that the country may implement a well-designed welfare programme, the country may still encounter difficulties in delivering quality health services due to the lack of effective state agencies. This is why an understanding of the principles and supporting mechanisms behind successful cases does matter.
Second, we need to distinguish between forms and functions. Learning from other countries does not mean identical copying of institutions and policies, which will not be successful nevertheless. Essentially, learning from other countries demands the use of “functional equivalents”, that is, the capability (and creativity) to construct policies and institutions which serve as equivalent functions appropriate for local conditions. Dore (1986: 252), the late British sociologist, put it clearly when he stated that learning from the Japanese experience “need not mean that we have to become Japanese, absorb the Confucian ethic, or raise our sense of national identity to the Japanese levels. What it does mean is that we should ask ourselves whether there are no other ways in which some of the things which Japanese institutions and traditions achieve for the Japanese might be obtained by other methods, other institutional arrangements, more consonant with our own tradition.”

In the real world, there are multiple institutions that can serve the same function. For instance, the Swedish “active labour-market policy” and Japanese “lifetime employment” are institutional arrangements which differ in form but are functionally equivalent in creating a positive attitude among workers toward technological change by guaranteeing jobs and creating working environments conducive to technological change (Chang 1996: 88). This is the gist of drawing policy lessons.

4.2 Fast Lessons from East Asia

1. Pursuing an Integrative Development Strategy

The East Asian experience reaffirms the importance of taking an integrative approach. Economic restructuring (from agriculture-based to manufacturing; from import substitution to export orientation, etc.) has taken place in tandem with socio-political transformation. While social expenditures may not be high by Nordic state standards, social problems have been fixed along the way. This framework is within reach of many developing countries, especially those in the early stages of economic transition. They should consider adopting a development strategy which addresses productivity growth, social assistance, political stability, industrial relations and education together.

The prime challenge of social protection design lies in “unpacking the complexity of the interactions between social protection and economic growth, [which] will help improve national systems and maximise positive synergies” (Gongcheng and Scholz 2019: iv). In this regard, we can draw further lessons from the various East Asia models in the early phases of development. In countries where the state played a proactive role like Japan, Republic of Korea, and Taiwan Province of China, social protection had been supported through national social insurance plans. Risk-pooling programmes, such as social insurance and public assistance, were employed to sustain a productive socio-economic environment. However, in countries with a more market-oriented approach like Hong Kong (China) and Singapore, a social security system was based on compulsory savings schemes designed to prevent economic vulnerability from social risks (see Kim 2015 for detailed comparison). Meanwhile, countries with large agricultural and informal sectors, such as China and Thailand, use a combination of both styles. For example, pensions for rural and urban non-salaried residents in China consist of (a) a social pension entirely provided by the government and (b) an
individual savings account pension financed by individual contributions and government subsidies (see Gongcheng and Scholz 2019).

Thus, while different approaches to social protection have been used in East Asia, these approaches share a common feature, that is, providing cost-effective social protection to advance the quality of the labour force which will, in turn, raise efficiency and accelerate productivity growth. Effective social protection not only reduces socio-political tensions but also stabilises consumption patterns that soothe the business cycle and sustain long-term investment.

2. **Treading a Prudent Path to Universal Coverage**

An integrative development strategy should be steered in the well-thought-out direction. In the early phrase of development, each country needs to untie its own Gordian knot. The East Asian experience illustrates that effective social policymaking should take urgent action to address the challenges specific to place and time. For example, in post-war Taiwan Province of China and the Republic of Korea, landlessness was critical. Both governments pursued substantive land reform, which involved the redistribution of land, land ownership ceilings, and restrictions on the terms of tenancy. This resulted in both highly efficient farming and increased feasibility that facilitated rapid industrialisation (see Studwell 2013). Meanwhile, Singapore has focused on public housing and managed the issue using its Central Provident Fund. While these schemes are not reflected in social expenditure indices, the governments mentioned have resolved significant issues faced by their respective citizens and thus provided powerful momentum for further reform.

In addition to untying its Gordian knot, a developing country should equip itself with a long-term plan for extending the breadth and depth of social protection. Current data demonstrate the unevenness across countries in the provision of social protection. According to the Asian Development Bank, the *breadth of coverage* (proportion of potential beneficiaries that actually receive benefits)* and the *depth of benefits* (the average benefits of each actual beneficiary, compared with GDP per capita) varied significantly in Asia and the Pacific region (see Figure 4). For example, Thailand reached a relative breadth of social protection (87.2%), but with not much depth (3.3%). In contrast, Vanuatu spent an impressive amount per head (84.8%) for a very small percentage of potential beneficiaries (0.9%).

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8 The “breadth of coverage” in some countries exceeds 100% owing to beneficiaries of more than one social protection programme. For example, in the Republic of Korea, unemployed workers would receive benefits from labour market programmes in addition to universal health insurance.
Figure 4. Depth and breadth of social protection in selected countries (in 2012)


The above figure reflects a real-world compromise between financing generous benefits and extending coverage. In the short and medium term, a developing country should set a realistic measure that suits its citizens’ needs, as well as the country’s administrative and fiscal capacity. In the long term, history suggests that universal coverage can be achieved through either a top-down trajectory that increasingly incorporates low-income groups through non-contributory programmes or a bottom-up trajectory that starts with the poor. Each has its own problem. The top-down approach would face difficulties in incorporating larger segments of the population, while the bottom-up approach may end up in the trap of poor services.

As detailed in Franzoni and Sánchez-Ancochea (2016), to avoid the problems associated with both traditional trajectories, an alternative is a “lower-middle up and down” approach that begins with a unified system – initially covering non-poor but vulnerable people (e.g. formal workers with low wages) and later expanding upwards and downwards. This approach, which has been successfully adopted in Costa Rica, creates the incentive to provide high-quality services, while reduces the possibility of increased inequality and stratification.

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9 Also note that as the “depth of benefits” is compared with GDP per capita, high-income countries are therefore likely, albeit not necessarily, to have a lower percentage than middle- and low-income countries.
3. **Taking Crises as a Catalyst for Healthy Reform**

The fact that, in the past 100 years, austerity measures have rarely worked (see Blyth 2013) and the recent examples of countries with more comprehensive welfare programs such as Germany and Sweden proving to be more resilient and recovering faster and more healthily (see Hemerijck 2012; Stetter 2018) should give today’s developing countries more policy space to respond to future shocks. Actually, political or economic crises can be considered as moments of “critical juncture,” when there is room for human agency to be more determinative in shaping the status quo and modifying extant development strategy. Policy makers and members of civil society who support social protection should have a “welfare blueprint” in preparation.

The East Asian experience has also shed light on this issue. In the wake of the Asian financial crisis in 1997–98, the Republic of Korea enacted “Integration Reform” in 2000 to consolidate its fragmented insurance system of nearly 400 bands into a national single-payer fund that reduced horizontal and vertical inequities. It also expanded the unemployment insurance programme to cover all workers in formal sectors and introduced the Minimum Living Standard Guarantee. The reform was driven by the National Citizens’ Coalition for Health Integration (NCCHI), a partnership between a group of bureaucrats, labour unions and leading civil society organisations. Likewise, universal health coverage, guaranteed access to health benefits for a low fixed co-payment, was also introduced in Thailand through the National Health Security Act of 2002. The reform was proposed by a network of rural doctors and adopted by the winning party which had gained popularity as the mass of the electorate had been hard hit by the crisis (for more details, see Nam 2015). Crisis can indeed serve as a catalyst for healthy reform, especially when the blueprint was well prepared in advance.

4.3 **Slow Lessons from Europe**

Welfare states in Europe take longer processes and require more concerted effort to implement, as its resilient foundation has been built upon a strong combination of idea, interest and institutions.

1. **Idea: Laying the Foundation of Social Citizenship**

The acceptability of a new idea is enhanced when it is promoted top down and bottom up together. This is the case for the idea of social citizenship which was recognised, in varying degrees, all over Europe in the aftermath of the two World Wars. The notion that members in a community share a common status, as well as being entitled to assistance in various forms from the state, has changed the relationship between the state and its citizens in fundamental ways. Countries strongly grounded in social democracy have further proved that they can recalibrate their welfare programmes to adapt to changing conditions in the past decades.

International organisations and global agencies can play key roles in the dissemination of the social citizenship idea. It should be noted that the development approach that places human beings at the centre has been adopted by the United Nations since the late 1960s, when the UN Economic and Social Council endorsed four principles of social policy: (1) to leave no important section of the population outside the scope of change and development; (2) to make
it a principal objective to activate a wider sector of the population and to ensure its participation in development; (3) to accept and aim at social equity as being morally important, as well as a significant element in increasing long-term economic efficiency; and (4) to give high priority to the development of human potential, especially that of children, by preventing malnutrition during their early years and by providing health services and equal opportunities (UNDESA 1971: 11). These principles have been cemented in the 2030 Agenda for Sustainable Development and its call to “leave no one behind”.

2. Interest: Redressing Power Balance of Social Groups

Yet, ideas, no matter how good, do not translate directly into political outcomes and policies. They need an organised method of articulation, that is, a coalition of supporters. In the case of Europe, distributional conflicts have been mitigated by a “comparatively symmetric balance of power” between the interest organisations of social forces (Castles et al 2010: 11). This implies that if developing countries today aim to establish a resilient welfare state, it must redress the power balance of social groups in class, occupational, sectoral, spatial, and gender terms.

There are numerous ways to tilt such a balance. One concrete example is the co-determination system, in which workers have a say in corporate governance through formal representation on company boards. In this system, employees are given seats on a board of directors (in one-tier management systems), or seats on a supervisory board (in two-tier management systems). Large companies, particularly in Germany and Austria, usually have a two-tier board structure. Once a managerial board makes important decisions, the issues will require approval from the supervisory board, in which the work councils have half the votes, although the chairman appointed by the managerial authority will have the casting vote (for more details, see Page 2018). This co-determination system is practiced in certain European countries but little known elsewhere. It is no coincidence that countries with this type of corporate governance tend to have a more symmetric balance of power at a societal level. International campaigns to reduce inequality, which are already gathering momentum, should incorporate such practical advice as the co-determination system.

3. Institution: Crafting Compatible Design of Complementary Systems

When designing social welfare systems, policy makers should focus on the complementarities of the institutions involved. Two institutions are said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other. In their studies of capitalist systems, Hall and Soskice (2001: 18) found that “nations with a particular type of coordination in one sphere of the economy tend to develop complementary practices in other spheres as well … [For example,] dense networks of business associations support collaborative systems of vocational training.” This concept carries an important policy implication, that is, “policies will be effective only if they are incentive compatible, namely complementary to the coordinating capacities embedded in the existing political economy” (Hall and Soskice 2001: 46).
This paper has illustrated how different models of social welfare hinge on a varying set of interrelated structures. After all, welfare state building involves institutional arrangements, statutory rules, and mutual understandings which guide social policymaking and the respond-and-demand structure of citizens and welfare recipients (Stetter 2018). The introduction of a new policy should be as much compatible with the framework adopted at the national level as suited to the country’s situation. Fortunately, when searching for the right combination, today’s developing countries can gain the latecomer’s advantage from existing evidence-based research.

Consider an active labour market policy, which pertains to government programmes in the labour market to help the unemployed and strengthen labour productivity. As elaborated in Kluve et al (2007), there are various tools available. First, there is training which includes general education (e.g. language courses, computer courses) or specific vocational skills (e.g. advanced computer courses or technical and manufactural skills). Second, private sector incentive programmes which comprise measures such as wage subsidies that will encourage employers to hire new workers or keep open jobs that would otherwise be lost. Third, direct employment in the public sector entails direct creation and provision of public works to produce public goods or services. Fourth, services and sanctions contain job search courses, job clubs, vocational guidance, counselling and monitoring, and even sanctions (e.g. reduction of unemployment benefits) in the case of noncompliance, are aimed at enhancing job search efficiency by overcoming informational deficiencies.

European countries use some or all of the above tools in combinations deemed appropriate to their society at the time. Some studies find that in-work benefits and public works may reduce poverty and inequality, but are not cost-efficient in terms of increasing employment. Long-run cost-effectiveness is found in training and re-skilling programmes, especially when they are made closer to regular jobs and when disadvantaged outsiders are targeted (see Brown and Koettl 2015). A developing country affords a golden opportunity to weigh the pro and con of a particular measure or mixture.

In summary, besides the embedded idea of social citizenship and a symmetric balance of power among social groups, the building of resilient and dynamic welfare states requires careful use of compatible institutional and policy instruments.
Box 4: Welfare State in the 21st Century

Designing the 21st century welfare state is part of a broader debate redefining the role of the market, the state, and civil society. Advocates of the twenty-first-century welfare state argue that it should go beyond the traditional welfare state model in six critical ways:

1. **Risk and innovation.** The welfare state leads to better outcomes not only within a conventional static framework but also in a more dynamic and innovative economy.

2. **The country as a community: social solidarity.** It becomes expensive to enforce contracts through the law, and markets break down in the presence of extensive cheating. The law should be designed partly to reinforce norms, severely punishing those who stray too far from them.

3. **Endogenous preferences.** The welfare state encourages social solidarity, making the individual think more about the community of which he or she is a part and, in doing so, improve social behaviour in a myriad of other ways.

4. **Social justice.** If individuals are adverse to risk, and, if markets fail to provide adequate insurance, one would want society to provide social protection.

5. **Life-cycle support.** As individuals go through their lives, they face a variety of other basic needs that will be different from those in the twentieth century.

6. **Cross-generational risk sharing.** Individuals within a generation can pool their risks, but it is not possible for an individual to make a contract with someone in a generation yet to be born. Society as a whole can and should make such social contracts.

References


About the Economic and Social Commission for Asia and the Pacific (ESCAP)

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP’s research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aim to support countries’ sustainable and inclusive development ambitions.

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