Beyond the typology:  
A Reinterpretation of the East Asian Welfare Regime

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Some researchers have been convinced that welfare developments in East Asia, especially Japan and Korea, can be fitted into the existing three worlds of welfare model, while others have insisted that existing welfare regime theories are not able to explain East Asian welfare regimes. This article assumes that we need to go beyond both of these traditional explanations. In the welfare state research fields, welfare regime approaches tend to focus on specific contextual conditions and cross-national differences. As a result, they tend to overemphasize history at the expense of theory. This article tries to combine deductive causal modeling with an institutional–historical context by identifying the contingent rent political game model and deducing important characteristics of East Asian welfare regime from this model. This model opens out the possibility of change in East Asian welfare regimes following the processes of democratization and globalization. Details of this are given in the conclusion.

Keywords: contingent rent; East Asian welfare regime; political game

Introduction

Scholars witnessing the remarkable growth of the economies of East Asian countries have continuously attempted to ascertain the underlying forces that have shaped such developments in Korea, Japan and Taiwan. In “MITI and the Japanese Miracle”, Chalmers Johnson (1982) demonstrated that the growth of Japan’s economy resulted from a mix of both social and free market forces. These underlying factors were also found to be influential in the economic development of other Asian countries, including Korea and Taiwan. Johnson suggested that the rapid economic growth in Korea, Japan and Taiwan was causally related to the carefully shaped linkages between private ownership and government management of the economy, a view that gradually came to be understood as developmental state theory. The concept of the developmental state became the leading theory for explaining economic success of East Asian countries.

The attempt to understand social welfare in East Asian countries followed this line of reasoning. According to the experience of Western Europe, economic growth ought to be accompanied by the

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development of public welfare. But the rapid growth of the economy in East Asian countries was not accompanied by such growth, although there has been no significant difference between East Asian countries and their European counterparts with respect to indexes measuring the quality of life, infant mortality and average life expectancy. Interest again focused on the sort of invisible force that could be shaping this outcome (Jacobs, 2000) and was also regularly embodied in the research on this topic (Esping-Andersen, 1997; Goodman & Peng, 1996; Goodman, White, & Kwon, 1998; Holliday, 2000; Jones, 1993), especially when welfare state research began comparing the European welfare state with non-European countries. Furthermore, the period after the East Asian financial crisis was marked by intensified interest in the specific experiences of Korea and Taiwan. In the case of Korea there are not yet sufficient grounds for speaking of a full-scale ‘welfare state’, but in the last 10 years there have been a significant changes and one cannot deny the fact that in terms of GDP the Korean level of expenditure on social welfare has crossed the threshold (Hong & Song, 2006). The same phenomenon can be observed in the case of Taiwan (Ku, 2003).

Studies dealing with East Asian welfare regime can be roughly classified into one of two categories. The first are studies noting that existing welfare regime theories are not able to explain these countries. Some of these studies focus on the significant role of Confucian values and the impact it has on the broader culture and family (Jones, 1993). Others have sought to understand the elements of ‘relation-based welfare’ and its impact on the emergence of the welfare state (Hong, 1999). Still other existing arguments apply developmental state theory and stress the dependency of welfare policy on economic policies (Chung, 2002; Goodman & Peng, 1996; Goodman et al., 1998; Holliday, 2000).

The one factor that these discussions share is skepticism over the possibility of explaining East Asian welfare regime using existing welfare regime theories. In this way, they comprehend East Asian welfare regimes as a unique phenomenon. While the point of uniqueness itself does not necessarily present a problem, understanding East Asian welfare regime as unique raises both theoretical and practical questions. Strictly speaking, uniqueness in the theoretical sense suggests that it cannot be reproduced or generalized. This makes it impossible to construct a generalized causal model for any social phenomenon. Furthermore, the phenomenon itself risks being seen as bounded by cultural determinism. On the other hand, as uniqueness implies the impossibility of that it could apply to, or contributes to the development of different societies, this approach also faces necessary practical limitations.

On the opposite side, some authors have considered East Asia welfare regimes as a kind of hybrid or an embryo. According to these studies, existing welfare regime theories like Esping-Andersen’s three worlds of welfare model (Esping-Andersen, 1990) can be applied in the analysis of East Asia welfare regimes. Given that these models are presented as an ideal type it is possible to describe East Asian welfare regime as a hybrid form or embryonic state of a specific model. Esping-Andersen (1997) suggested that in Japan one can identify both conservative and liberal welfare state tendencies
and this has led to a conservative–liberal hybrid. Kim (2002) raises doubt about the possibility of applying the three worlds of welfare model, arguing that when one applies this model in the case of Korea ‘there is no coherent principle constituting a welfare system and there is high probability that all specifics of the system will eclectically merge and create a hybrid’. There also exist studies describing the Korean welfare state as being an embryonic form of a conservative welfare state or liberal welfare state. Nam (2002) states that the Korean welfare regime ‘stepped forward from the elementary stage of a conservative welfare state toward a modernized conservative welfare state’, and Cho (2002) argues that the Korean welfare regime has ‘strong conservative characteristic but finally it is a welfare system of the liberal type’.

Both views: understanding the East Asian welfare regime as a unique phenomenon that cannot be explained by existing welfare regime theories or as a hybrid or embryonic stage of established welfare models are not useful approaches. East Asian welfare regimes cannot be explained by existing welfare regime theories that have been developed to analyze European welfare states, but it is also inappropriate to explain them by applying new welfare regime theories composed in different ways. This article therefore assumes that we need to go beyond both of these traditional explanations.

**Typology to causation; re-theorizing the development of the welfare states**

The various attempts to explore the origins of the development and changes in social policy or the welfare state have been numerous. Such attempts can be chronologically categorized into three groups. The first studies produced from the 1960s to 1970s attempted to explain the development of the welfare state as a consequence of the processes of industrialization, economic growth, and the necessity of stable reproduction of the labor force. Cutright (1961) and Wilensky (1975) applied this approach, stressing the roles of both industrialization and economic growth. According to their research, socioeconomic changes caused by industrialization increased the demand for a welfare state, and this desire was able to be met due to resources created by the process of industrialization, leading to the development of a welfare state. On the other hand O’Connor (1973), Gough (1979) and others argued that the development of welfare state was a by-product of class antagonism and served a double role demanded in the process of capitalist reproduction.

The second phase of the formation of theories related to the welfare states emerged from power resources theory (Korpi, 1983; Stephens, 1979) and the political theory of interest groups (Pampel & Williamson, 1989). These discussions significantly altered the concepts for explaining the development of welfare state. Instead of employing macro-structural variables such as industrialization or the capitalist system, these researchers focused on the collective actions of political participants. Power resources theory stressed political variables, including the level of the political mobilization of the working class, and variations in the political capability of leftist political
parties. The political theory of interest groups focused on understanding the relationships in interest politics of these groups. In these approaches, social policy is regarded as a political product that resulted from the competition and coalitions between social actors. This was in direct contrast to researchers of the previous period who viewed social policy and the welfare state as a result of functional changes resulting from social development.

Though these two attempts use quite different concepts, methods and assumptions, they share at least a common research agenda. Thus, rather than focusing on differences in the social policy of individual countries, they focus primarily on theory building and the causes of welfare state development. Although individual countries present countless differences among themselves, they share common phenomena that cause the growth of the welfare state. The theoretical interest in constructing a generalized causal model concerning the development of the welfare state was the penetrating and consistent tasks in these studies.

A third group of theories relating to the development of social policy and the welfare state was initiated through the research of Orloff and Skocpol (1984) and Skocpol and Amenta (1986). This approach focused on the structural aspects of the state and the historical legacy of particular societies. They devoted attention to the historical context of individual states and the complicated mechanisms of their institutions. Since then, researchers have highlighted the historical context and institutional configuration of welfare states. The attempt to explain common phenomena in the development of the welfare state by tracing universal causal relationships turned to seeking an understanding of the diverse responses to problems by individual states.

However, the welfare regime approaches to welfare states that were now in the mainstream of welfare state literature did not appear clearly until Esping-Andersen (1990) published “The three worlds of welfare capitalism”. Subsequent to the publication of this book, welfare regime approaches became popular among researchers. Welfare regime approaches towards the development of social policy have highlighted the importance of the institutional contexts of different states and stressed the historical peculiarities related to the process of formation of social policy within this context. It has been widely recognized that the welfare regime approaches showing the importance of the institutional configuration and emphasizing the historical context on the welfare state have made great theoretical, empirical, and methodological contributions. But it has also been acknowledged that the welfare regime approach overemphasizes history at the expense of theory. Researchers in this tradition tend to focus on specific contextual conditions and cross-national differences. As a result, they have demonstrated a tendency to prefer designing welfare states typology to focusing on the vital task of building a systematic theory of the development of the welfare state. The problem with a typology is that it cannot completely explain the unique characteristics of every state through a limited number of types. However detailed and elaborated, a typology cannot encompass all elements occurring in the set of welfare states. In some cases, therefore, the typology must class a new element
as a mixture of already given basic types or subsume them under the label of a new type. We can see this in the emergence of the so-called ‘East Asian Welfare State’ typology.

This study tries to combine deductive causal modeling with an institutional–historical context, believing that the growth of the welfare state has to be explored with focus on the preferences of individuals and the institutions forming these preferences. Essentially individuals of any given society seek to maximize their utilities and the growth of the welfare state can be understood as a result of this process. However, it is clear that the rational behaviors of individuals have to be achieved within institutional and historical contexts. Therefore, we can understand all welfare regimes, both European and East Asian, as the result of choices made by social individuals bearing the same rationality within various contexts of their institutional and historical constraints. Korean, Japanese or Taiwanese individuals are rational in the same way as their Swedish, German or American counterparts. As a result, it may be said that the East Asian welfare regime is neither unique nor a hybrid.

In the following section, eschewing the typological approach, this study reinterprets the characteristics of East Asian welfare regimes using causal, middle-range model. The causal middle-range model presented in this study is different from macroscopic causal models and recognizes temporal and spatial limitations. First, this theoretical model, because it is limited in terms of the time span considered, allows for the possibility of changes in East Asian welfare regimes following the processes of democratization and globalization. Because we can derive the possibility of such changes from this model, we refer to this possibility again in the conclusion of this article. At the same time, the theoretical model of this study is spatially limited to the East Asian area (i.e. Korea and Japan), which is why general statements about other countries are not presented. However, it is necessary to stress that the theoretical model of the East Asian welfare system presented in this study emphasizes the possibility of generalization and logical explanation, rather than the concrete phenomena and nuances of context of these nations.

Formal model of East Asian Welfare Regime

In order to explicate a formal model of East Asian welfare regime, we describe the following game. In this game it is necessary, in order to engage safely in economic activities, to secure guarantees of private ownership. In order to guarantee private ownership rights, the state must shoulder a certain level of expense and in order to pay for this the state collects resources from private agents in the form of taxation. By using its monopoly power the state can collect more than it needs merely to guarantee private property rights. Weingast (1993) designed political game model in order to understand the role of the Constitution in democratic states and Aoki (2001) applied it to analyze different forms of democratic and collusive states. For the purposes of this study we present a modified form which we deem to represent the East Asian welfare regime. The basic hypothesis of this political game is as
follows.

The players are a government (sovereign) S, and two groups of citizens, A (rural agricultural and the urban informal sector) and B (the industrial business sector). An agreement for property rights has been set up by the three players, and if S limits its power to only securing these property rights, it costs 2t. A and B each provide 1t and this amount of t does not produce any loss of efficiency. Then government S, private agent A and B can enjoy some utility. For simplicity, we assumed that each utility level is 0. When such a game is realized, it may be referred to as the ‘night-watchman state’ (Smith, 1776). Now, let us consider the following possibility. S offers B a subsidy, s, for producing an industrial output. B rejects or accepts S’s offer. If B rejects S’s offer, then she gains 0. If B accepts this offer, S imposes additional taxes on private agent A in the amount of τ causing efficiency loss Δ to A. After the payment s, B chooses either to produce output (s + e), if combined with effort e which costs αe (we assumed 1-α<T, α<1) or just to consume s. There can be no ex ante commitment on the level of B’s effort, but output (s + e) is observed ex post. So, government can obtain only a fixed proportion T of the output at the end the period. Each player’s net payoff from a one-shot game can be given by 3 payoff sets

\[
\text{payoff (1)} \{S, A, B\} = \{τ - s + T(s + e), -τ - Δ, (1 - T)(s + e) - αe\}
\]
\[
\text{payoff (2)} \{S, A, B\} = \{τ - s + Ts, -τ - Δ, (1 - T)s\}
\]
\[
\text{payoff (3)} \{S, A, B\} = \{0,0,0\}
\]

If we make a normative judgment by the utilitarian social welfare function that simply sums up the payoffs of all players, socially optimum is ordered by payoff (1)>payoff (2), payoff (3)>payoff (2), and payoff(1)>payoff(3) if e(1-α)>Δ.

Static Nash equilibrium and hold-up problem in a one-shot game

First, let us think about a one-shot extensive form game shown in Figure 1. In this game we can find equilibrium by applying backwards induction. S first pays subsidy s to B and because of it B has no incentive to work hard. From the point of B, it is better to just consume subsidy s through shirking than by producing (s + e) through making an effort. In the case of shirking, B’s payoff is (1−T)s, but when B produces output (s + e), B’s payoff is (1−T)(s + e) − αe. Therefore B’s choice is (2).

S, who can anticipate B’s choice and compare the size of both quantity subsidies s offered to B and the additional taxes in the amount of τ from A, can choose one of three following types of strategy:

i) if \( τ - s + Ts > 0 \) then S chooses payoffs (2),
ii) if \( τ - s + Ts = 0 \) then S can chooses payoffs (2) or payoffs (3). In this case, S is indifferent in
payoffs (2) and payoffs (3),
iii) if $\tau - s + Ts < 0$ then S chooses payoffs (3).

We did not set any hypothesis about the size of additional taxes imposed on private agent A in the amount $\tau$ or on subsidy $s$ offered to B. However, from the point of view of simple utilitarian social welfare it is clear that, compared to (1), (2) and (3) are undesirable results and that both choices (2) and (3) produce results in which developmental opportunities are lost. It is not the direct object of interest in this study but in case $\tau - s + Ts \geq 0$, S will choose (2) and this becomes a statistical Nash equilibrium of one-shot extensive form game depicted in Figure 1. In this case S is in collusion with private agent B in order to plunder A. This kind of state is called a predatory state.

![Figure 1: Political exchange in one-shot game](image)

**Contingent rent as a developmental device in repeated game**

We have seen in the case of the previous one-shot extensive form game that not only is the developmental opportunity lost but also that S colludes with private agent B and becomes a predatory state. If this is so, which conditions must be fulfilled in order to ensure that payoff set (1), which leads to a developmental opportunity, is optimal? If we could infinitely repeat this game, S’s trigger strategy could lead to such equilibrium. In the situation of the infinitely repeated game first it is necessary to import a discount factor concerning the payoff. We indicate this discount factor as $\delta$ ($0 < \delta < 1$). Let’s suppose that S will use the following trigger strategy:

- **Period t:** supplies $s=s^*$
- **Period t+1:** offers $s=s^*$ if the history of play is subsidy ($s^*$) and output $(s + e)$. But to offer $s=0$ otherwise.

When S states that he will use this kind of strategy, B can calculate his expected payoff in the following way:
\[ \pi_{\text{effort}} = \frac{(1 - T)(s' + e) - \alpha e}{1 - \delta} \]
\[ \pi_{\text{shirk}} = (1 - T)s' + \frac{0}{1 - \delta} \]

So if \( \pi_{\text{effort}} \geq \pi_{\text{shirk}} \), the choice to get subsidy \( s \), supply effort \( e \) and produce output \( (s + e) \) will be rational for B. Also in case B makes this choice, S can offer supplies \( s = s^* \). In other words, payoff set (1) becomes to optimal if:

\[ s^* \geq \frac{-e(1 - T - \alpha)}{\delta(1 - T)} \]

We regard \( s^* \) as a kind of rent. The classical concept of rent is defined as returns to an economic factor whose supply is naturally fixed. But we can identify a number of concepts of rents. Quasi-rent is a transitory rent that relates to a resource whose supply is temporarily fixed. An innovation whose supply will eventually become diffused in the economy is one of a quasi-rent. We can also think about rents which are created by government intervention in the market. For example, government can create an artificial scarcity of goods by means of import quotas. Government may also provide subsidies to certain industries and tax exemption for those who qualify according to political considerations.

Activities aimed to capture these rents may divert scarce resources away from productive use. Accordingly, the costs incurred from this induced misallocation of resources may exceed the possible benefits from limiting the supply of goods. Due to this, it has been widely recognized that government interventions are unproductive and inefficient. But there can be another kind of rent that is differentiated from rents that induce unproductive rent-seeking behavior. The patent system, export subsidies, and other rents contingent on productive performance or outcome are of exactly this kind, \( s^* \), the coordination device of our game, increases the incremental value of cooperation by providing a reward only when cooperation is achieved. It facilitates private sector coordination and allows developmental opportunities. This rent is contingent on productive output by the private sector, so it can be called a contingent rent, as suggested by Aoki, Murdock, and Okuno-Fujiwara (1997).

Reinterpretation of the East Asian welfare regime

Contingent rents are the coordination device that made some East Asia countries economically successful. However, in order to make this device run smoothly, several conditions must be fulfilled. This study argues that these conditions have produced salient characteristics of East Asian welfare regimes. Here we deduce important specifics of East Asian welfare regimes from these conditions.
De-politicized welfare politics

Other things being equal, the discount factor $\delta$ perceived by $B$ must be high enough. The higher $\delta$ is, the less equilibrium contingent rent $s^*$ is needed because of $\frac{\text{d} s^*}{\text{d} \delta} = \frac{e^{-T}(1-r)(1-T)}{(1-T)\delta^2} < 0$. If industrialists in sector $B$ regard $S$ as short-lived, they prefer shirking to making an effort.

In the contingent rent game, depoliticized welfare increases the value of the discount factor $\delta$ perceived by $B$. It is not easy to believe that an ‘economy first’ policy orientation continues for a long time when demands and interests in welfare are expressed in the political sphere. Therefore, the depoliticization of welfare is the crucial condition for guaranteeing that the government’s trigger strategy is trustworthy. One of the characteristics of East Asian welfare regimes was that the political mechanisms of expression and compromise of various welfare interests had not been formally institutionalized, and therefore welfare issues were usually depoliticized. This contrasts with the example of development of European welfare states. According to power resources theory, competitions among political parties usually usher in welfare politics. Leftist political parties exist in Japan, but they have been very weak. Moreover in the cases of Korea and Taiwan, both had authoritative governments and strong right-wing political parties that have ruled for long periods of time. Right-wing political parties holding power in Korea, Japan, and Taiwan primarily valued the ‘economy first’ approach. In Figure 2 we can see the ratio of parliamentary seats needed to win a majority in Korea and Japan from 1960 to 2000. If this ratio is surpassed by 1, the right-wing party will obtain the majority of parliamentary seats and can execute its policy even with no cooperation from the other political parties. In the case of Korea this percentage during the analyzed period was never below 1 and in Japan such a case occurred only from 1977–1979 and 1993–1997.

Having experienced rapid industrialization, the Korean government had consistently promoted the economic growth in a systematic manner. The Economic Planning Board (EPB), which was merged with the Ministry of Finance and formed the Ministry of Finance and Economy (MOFE) in the 1990s maintained tight control of this process. The EPB and MOFE dominated other ministries and had been entrusted with all aspects of budget planning, the management of finances, and the control of all policy matters with the exception of national security. The president consistently supported EPB and MOFE during this period. This policy-making structure was highly significant in the Korean case as it limited departure from ‘economy first’ goals and thus ensured that any policy that moved away from these goals would be difficult to achieve (Hong & Song, 2006). EPB and MOFE were responsible for setting the tone in the central government by enacting a strict logic of economic growth. The outcome was a continual flow of policies that were in keeping with this economic imperative.
<Figure 2> The ratio of right-wing seats to the parliamentary seats needed to have a majority in Korea and Japan; 1960–2000. Source: Ahn, Hong, Baik, Baik, and Joo (2007).

**Hard budget discipline and low level of public welfare expenditures**

*Other things being equal, the larger the equilibrium contingent rent \( s^* \) is, the more \( e \) is devoted because of \( \frac{de}{ds^*} = \left( \frac{ds^*}{de} \right)^{-1} = \left[ \frac{-1}{(1-T-\alpha)} \right]^{-1} > 0 \). In order to keep the adequate level of \( s^* \), government expenditure except for the subsidy to \( B \) is tightened. Therefore, hard budget discipline and low level of public welfare expenditures prevailed.*

Another important feature discovered in East Asian welfare regimes is that the levels of public welfare expenditures as a percentage of GDP are very low. Figure 3 shows the level of social security transfers as a percentage of GDP in five countries including Korea and Japan. The other countries selected here are Sweden, Germany, and the UK, which represent three worlds of welfare capitalism. Compared to the European countries the levels of public welfare expenditure in Korea and Japan are relatively low when we consider that the level of economic development is comparable. In 2000, the per capita GDP of Korea was a little bit higher than US$ 10,000 dollars, a level that was reached by Sweden, German and Japan during 1977–1981 and in the UK in 1987. When we look at the level of social security transfers as a percentage of GDP right after the years included in Figure 3, Sweden and Germany are at 17–18%, UK at 13%, Japan at 9% and Korea at 5%.
In 1997 Korea experienced a financial crisis and a change of the government at the same time. The financial crisis rapidly increased the rate of poverty and unemployment, and the shift of political power led to an expansion of social welfare organizations and policy responses to popular feelings about these problems. As a response to the rapid increase in unemployment, the new Korean government improved eligibility rules and expanded the coverage and benefits level of employment insurance. The coverage of national pension insurance also expanded and health insurance administration system was unified. The enactment of the National Basic Livelihood Guarantee Act in particular brought crucial change in poverty policy, and after 1998 public welfare expenditure in Korea reached more than 5% of GDP. Before then, public welfare expenditure remained at a rather low level because of Korea’s adherence to a policy demanding a balanced budget. As a result of this balanced budget policy, fiscal deficits have been limited in Korea up to the present. For example, in the two years following the 1997 financial crisis the Korean government ran a deficit of -4.2% and -2.7% respectively. However, by 2000 the government reported a surplus of 1.3%.

The Japanese level of social security transfers as a percentage of GDP is much higher than Korea. However, generally it is lower than other OECD countries and appears unbalanced relative to her...
economic development. There also exists a close connection between this and government efforts that strive to maintain a balanced budget policy. The Japanese government has traditionally pursued such practices. A balanced budget approach can generally reduce tax burdens and result in tax reduction measures, but since 1973 Japanese fiscal deficits have increased. In 1973 the Japanese government itself declared it was entering the ‘First Year of Welfare’ and it stressed that public welfare benefits would be given priority in the budget. Thus, it was easy to blame the expansion of public welfare for the fiscal imbalance.

All the same, the expansion of welfare expenditure was not the main cause of these fiscal deficits. According to Asako, Ito, and Sakamoto (1991) who have conducted a detailed study of Japanese fiscal policy, the crucial cause of the increase in the deficit during this period was a decrease in tax revenue following the expansion of general financial expenditure and a slowdown of the economy. They argue that in the first half of the 1970s the deficit resulted primarily from the expansion of public welfare but in the second half the 1970s the cause can be attributed to general public investment. However, as the Japanese government began a full-scale effort to decrease the financial deficit in 1982, its previously declared launch into welfare were forgotten. The Ministry of Finance demanded a reduction of the governmental budget and imposed a principle of zero growth. The ad hoc council on administrative reform, ‘Rincho’ established in 1982, prepared and put into practice several reform plans for fiscal reduction. The fact that the Japan Ministry of Finances proudly achieved fiscal balance in 1990 was direct result of such actions (Asako et al., 1991).

**Significance of the company welfare**

*The trigger strategy of S must be credible. In order to achieve this, sector B is composed of multiple and competitive industrialists. If one industrialist may defect, the government will terminate subsidy to that industrialist and replace her with another.*

In order to get payoff set (1) in a repeated game, there has to be a group of companies competing to access the contingent rents offered by the state. In other words, agent B is replaceable. Accordingly, companies have to constantly continue to exercise the first best effort. In the process of this competition, companies strive to reduce their production cost and to enhance their productivity. In so doing, they can increase the value of the contingent rent. Company welfare is one of these productivity-enhancing devices. First, company welfare provision is one of the measures it uses to respond to the problem of monitoring employees (Hong, 1996). The company expects that employees will faithfully work but they may shirk at any time. However, monitoring employee’s behavior is a very difficult task and, although doing so possible, it has high costs. Accordingly, a complete solution of the monitoring problem is not possible. Thus the company tries to create incentives in order to minimize this problem and company welfare provision is one of these incentive devices. An important
point to note is that in order to play such a role, company welfare benefits must be wage-related and/or deferred, because such benefits can reveal whether an employee has suitable attributes and attitudes and finally decrease the possibility of their shirking.

Second, employee investing in firm-specific skills and companies dependent on such skills may prefer company welfare (Hong, 1996). From the viewpoint of the employee, firm-specific skills are more risky than general skills because in the former case the market value of the skill is tied to a particular firm. Faced with this possible job insecurity, employees are not motivated to invest in such skills without safeguards. Company welfare is a safeguard to encourage employees to invest in firm-specific skills. As stated by Estevéz-Abe (1999) and Mares (2003), this safeguard could be applied in the form of state welfare. However, in order to develop state welfare, the preferences of employees and companies have to be expressed in the political sphere. As we have seen above, in East Asian welfare regimes the political mechanisms of expression and compromise of various welfare interests were not institutionalized. Under such circumstances, employee and company may prefer company welfare to state welfare.

In Korea, company welfare started to develop as a crucial measure for responding to the employees’ need for welfare provision after full-scale industrialization began in the 1960s. According to the results of a survey conducted by Bank of Korea (1967), 62% of company welfare expenditure was spent on housing, simple medical treatment or meal services. After 1973, due to the promotion of heavy industries and chemical industrialization, the growth of Korean companies was very rapid and there was a simultaneous shortage of labor. In this period various company welfare programs were introduced, but for the most part of them aimed to meet only the employees’ basic needs. According to a report released by the Federation of Korean Industries (1979), 87.5% of sample companies provide meal services for employees and 67–68% of them have mutual aid associations and medical care system. Other programs, such as housing subsidies or scholarships were at the rate of 24.9% and 35%, respectively. The period from 1980 to the first half of the 1990s was a time of expansive development with respect to Korean company welfare. According to a survey conducted by Korea Employers Federation (1989) compared to 1986 during the two years 1987–1988 expenditure on company welfare increased by 55.1%, school fees assistance increased by 76.6% and housing support programs increased by 64.8%.
In Figure 4 we see the changes in average monthly cost per employee in non-legislated welfare expenditure and in legislated welfare expenditures from 1982 to 2005. Unlike legislated welfare expenditure, which consists of contributions to social insurance and similar items and which are heavy burdens demanded by law, non-legislated welfare expenditure consists of items which are an optional cost to the company. Therefore, each of this expenditure can represent state and company welfare from the perspective of labor costs. When we look at the figures, we see that legislated welfare expenditures are constantly increasing but until 1999 it can observed that they are lower than the scale of non-legislated welfare expenditures. This shows that until the financial crisis the Korean welfare regime depended more on company welfare than on state welfare. On one hand, the differences between non-legislated welfare expenditures and legislated welfare expenditures were lower until 1988, after when they started to increase. From 1988 to 1995, the labor costs of non-legislated welfare expenditures were 1.4–2.3 times higher than legislated welfare expenditures. When companies were asked for the reasons for the rapid increase of company welfare expenditures after 1987 (Song, 1995), most answers indicated that they were necessary responses to the company’s internal problems, as well to increase labor motivation (in 44.6% of answers), and to stabilize the relation between labor
and capital (14.8% of answers), among others. During autocratic industrialization when the state exercised a strong leading role, private agents delegated their welfare demands and desires partly to the company and partly to the family. The ‘underdeveloped welfare–developed corporate welfare–culturalized relation-based welfare’ characteristic of Korean welfare regime is reproduced through this process (Hong, 1999).

The fact that company welfare programs play a relatively more important role than state welfare is well illustrated by the point that non-legislated welfare expenditures are greater than legislated welfare expenditures in labor costs. However, as can be seen in Figure 4, this relation has changed since 2000. Starting in 1993, the increase of non-legislated welfare expenses slowed down and decreased and after a lapse during the financial crisis was reduced to nearly 7% of the total labor cost. On the other hand, legislated welfare expenditures stagnated at a level of near 5% of the total cost of labor, but after 1998 started to rapidly grow and in 2000 exceeded non-legislated welfare expenditures. The reversal of non-legislated welfare expenditures and legislated welfare expenditures continued after this point as well.

In Japan, the development of company welfare is seen as one of the important characteristics of the Japanese welfare regime. Until the collapse of the bubble economy in the 1980s, company welfare was considered to be crucial in both company organizations and in relations between labor and capital. Already one decade previously, Dore (1973) had described the Japanese welfare system as ‘welfare corporatism’. In the same context, Gordon (1985) identified company welfare, seniority wages and promotions, permanent employment, and unions organized at the company level as the four pillars of the Japanese employment system. According to Peng (2000), one of the main approaches in describing of Japanese welfare regime is to see it as a ‘corporate centered society’ with corporate principles that penetrate deeply into the social, political, and economic spheres. We may say that the development of company welfare is strong evidence of such a characteristic. In summary, 80% of Japanese companies offer as a form of company welfare family allowances, 72% offer a company saving plans for employees and 92% offer a lump sum retirement/severance allowance (Peng, 2000).

In Figure 5 we can see the trend of change in Japanese company welfare from 1955 to 2006. Until the ‘First Year of Welfare’ in 1973, Japanese company welfare functioned in a way similar to that of Korea as a crucial apparatus for fulfilling the welfare demands of private agents. This development of the company welfare system was linked to the policy of the Liberal Democratic Party which suppressed the possibility of expanding public welfare in order to focus on ‘increasing the size of pie’ (Shinkawa, 1993). As presented in Figure 5, till 1970 the non-legislated welfare expenditures were greater than the legislated welfare expenditures in Japanese companies’ average monthly labor cost per employee. One of the issues connected with the Japanese welfare system to which we have to pay attention is the retirement allowance.
In Japan, a retirement allowance is one of the company welfare programs offered according to company options. After the latter half of the 1970s the total amount of cash expenses allocated to the retirement allowance increased. This change is closely related to cancelling the ‘Year of welfare’ and the promotion of a ‘Japanese style of welfare society’. The idea of ‘Japanese style of welfare society’ emerged in the background of the economic recession following the oil shock in the 1970s. This idea criticized the previously stressed European model of the welfare state, instead highlighting the role of family, local community and company but in different ways than previous company welfare did. Previously company welfare had stressed its optional character, but the ‘Japanese style of welfare society’ idea formally presented the responsibility of companies for their employees’ welfare. Based on this policy orientation, ‘Lifetime welfare plan’, which materialized in order to meet various welfare demands and to share the burden of social security responsibility with government, emerged as a new company welfare model (Shinkawa, 1993). The increase in legislative welfare expenditures and the cost of the retirement allowance after the latter half of the 1970s reflect this change in the character of company welfare. In this context, Lee and Ryu (2002) characterized Japanese company welfare as semi-public welfare.

The development of the invisible welfare state
S sometimes faces the risk of political conflicts with sector A, so she might to try to ease these conflicts by transferring a portion of developmental returns to sector A as ex post compensation.

One of the characteristics of East Asian welfare regimes is that there are large tax expenditures and subsidies to sector A. Our theoretical model implies that the government policy in East Asian welfare regimes is in favor of the promoting industrial growth of the sector B based on resource extraction from sector A. In this context we may say the industrial development of East Asian countries was achieved through the sacrifices of the agricultural sector. The problem is that in order to continually repeat this game it requires ex post compensation for sector A’s sacrifices. In the situation of the depoliticization of the welfare demands of private agents and the minimization of public welfare expenditures, this ex post compensation should be as invisible as possible. Tax expenditures and subsidies are programs bearing this characteristic. Such programs can, after their institutionalization, disappear relatively easily from the political sphere and avoid the political repercussions arising from direct programs like public welfare. As a result, bureaucrats can have more room for policy discretion. By defining the state welfare as the sum of ‘visible’ public welfare programs like income maintenance and social service, scholars have ignored state welfare programs such as tax expenditures and subsidies. When tax expenditures are enacted into the tax code, they reduce the amount of tax revenues that may be collected. Also, when subsidies are paid to a citizen, they supplement that citizen’s income. Indeed, the effects of these programs are just like those of direct public welfare expenditures. In this sense, tax expenditures and subsidies for citizens are described as ‘invisible’ state welfare programs.

In Table 1 we see the amount of tax expenditures and their functional division in Korea. Tax expenditures as a percentage of related national tax were maintained at approximately 14%. From 2000–2003 they decreased slightly but after 2003 they increased again. Tax expenditures, seen from the perspective of functional division, that show that laborers, farmers and fishermen get most support and since 2003 approximately 45% was spent on this purpose. The portion of tax expenditures offered to these groups is achieved by income deduction. In Korea the income tax threshold continually rises as a proportion of tax deducted from total income. The standard income tax threshold for earned income for a four-person household in 1982 was 2,380,000 won, and in 1999 was approximately five times higher, at 11,571,000 won (Sung, 2002). According to this, it appears that the Korean income tax threshold is excessively high and when taking as a standard the year 2002, for a four-person household the income tax threshold is 1.28 times the amount of the official living minimum expenses and for one-person households it is 2.83. The excessively high income tax threshold has decreased the number of tax payers. In 1997 those who paid income tax constituted 68.0% of total working population but in 2001 this dropped to 55.8% (Jeon & Weon, 2003).
Table 1: Tax expenditure in Korea

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax expenditure as a percentage of related national tax</td>
<td>13.8</td>
<td>13.4</td>
<td>13.3</td>
<td>14.0</td>
<td>14.2</td>
<td>14.5</td>
</tr>
<tr>
<td>Budget function as a percentage of tax expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laborer, farmers and fishermen support</td>
<td>50.1</td>
<td>45.2</td>
<td>47.8</td>
<td>45.0</td>
<td>45.6</td>
<td>43.4</td>
</tr>
<tr>
<td>Economic development</td>
<td>32.0</td>
<td>33.7</td>
<td>32.9</td>
<td>35.5</td>
<td>36.7</td>
<td>37.6</td>
</tr>
<tr>
<td>Social development</td>
<td>13.1</td>
<td>16.0</td>
<td>14.3</td>
<td>14.8</td>
<td>13.9</td>
<td>15.5</td>
</tr>
<tr>
<td>National defense</td>
<td>3.7</td>
<td>3.9</td>
<td>4.3</td>
<td>3.3</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>General administration</td>
<td>1.0</td>
<td>1.0</td>
<td>0.4</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Etc</td>
<td>0.2</td>
<td>0.3</td>
<td>0.2</td>
<td>1.2</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Note: * This is an estimation.

The phenomenon of a high income tax threshold can also be observed in Japan (Aoki, 2002). The highest income tax threshold of 1,830,000 yen in 1975 changed to 2,357,000 yen in 1986, and by 2002 it was raised to 3,842,000 yen. Table 2 shows that the Japanese income tax threshold for the average family is higher than in all other states except Germany. In 2000, more than 16.7 million gainfully employed workers who accounted for about one-quarter of the total workforce paid no income tax, mainly because of the extremely high tax threshold.

Table 2: International comparison of income tax threshold in 2003 (in thousands of yen=$8.26)

<table>
<thead>
<tr>
<th>Country</th>
<th>Japan</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Germany</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,842</td>
<td>3,164</td>
<td>1,500</td>
<td>4,223</td>
<td>3,385</td>
</tr>
</tbody>
</table>

Notes: Base exchange rates are the average actual market values from June until November 2002.
Source: Aoki (2002).

The agricultural sector also receives significant subsidies. Figure 6 shows the percentage of producer support estimate (PSE) in some OECD countries. When we look at the agricultural subsidies from 1986 to 2003, the PSE was more than 70% in Switzerland, Norway and Iceland. The percentage of PSE in Korea was 68%, followed by Japan with 58%. Due to rapid industrial growth, the real role of agriculture in the whole national economy of both countries has rapidly decreased. In Korea from 1970 to 1993 the contribution of the agriculture sector to GNP decreased from 26.6% to 7%, and from the point of population, the percentage of people engaged in the agriculture sector dropped from 45% to 12.3%, and, in relation to the whole directly economically active population, the percentage dropped from 50.4% to 14.2%. In Japan, agriculture, forestry, and fisheries industries are rapidly declining in their relative importance to the economy. In 1960, this sector employed 32.7% of the working population, but this figure has decreased to 16.5% in 1970 and 5.3% in 1995 (Japan Statistical Research and Training Institute, 2008). Donnelly (1977) argued that because the ruling Liberal Democratic Party remains electorally dependent on a rural vote, Japan’s rice farmers receives
relatively big amount of subsidies in spite of the decreasing importance of agriculture in the national economy.

![Figure 6](image-url) Percent of producer support estimate by some OECD countries: 1986–2003. Note: The producer support estimate (PSE) is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers. The percentage of PSE in this figure is expressed as a ratio of the value of total gross farm receipts, measured by the value of total production (at farm-gate prices), plus budgetary support. Source: OECD (2005).

**Concluding remarks: East Asian welfare regimes in transition**

As mentioned earlier, the theoretical model of this study concerning East Asian welfare regimes is limited both in terms of time and space. The time limitation especially suggests the possibility of change in East Asian welfare regimes. In the latter half of the 1990s, the progress of democratization and significant upheavals from the financial crisis in many East Asian countries greatly weakened the possibility of a continuous political game that is based on contingent rent. As this study perceived that this aspect is the main source of the change of East Asian welfare regimes, it is especially necessary to clearly indicate the following points.

First, the more the game is repeated, the more politically and economically hindered is resource extraction from sector A. The possibility of unequal development in sectors A and B increases with the achievements of economic development and consequently, the possibility of resource extraction from sector A decreases. Furthermore, the possibility that the final consumption of products produced
in sector B can be smoothly acquired through sector A also decreases. In order to repeat the game, government and the industrial sector have to rely more and more on the outside world to mobilize resources and to sell their final industrial products. This means creating an economy that is dependent on exports and foreign investments. Then the viability of East Asian welfare regimes becomes vulnerable to external shocks. Is it an exaggeration to perceive the financial crisis in the late 1990s as the inevitable result of this political game?

The second point is that due to industrial development, there are gradual decreases in companies’ dependency on the contingent rent. Economically successful companies need no longer depend on the contingent rent from government. There now arises a situation where conjoining private ownership with state guidance will give way to market principles of private control coincided with private ownership. The progress of globalization and the dissemination of neoliberalism add an extra weight on this change of direction. In this situation, devices preferred by companies to increase productivity may be to transfer their production capacities abroad and stress the flexibility of labor market, and so on, rather than opting for rigid company welfare.

To maintain global standards and competitiveness, individual companies began to shirk the responsibility for social welfare that had been passed on to them by the government. On the other hand, to cope with the changed international economic environment and abide by IMF conditions, the Korean government had no choice but to reclaim the responsibility for social welfare from the private sector. As such, the tripartite commission consisting of the government, business, and labor, which was established in the aftermath of the financial crisis, can be regarded as an example of this readjustment of the roles of the government and the private sector that has taken place vis-a`-vis social welfare. (Hong & Song, 2006)

Third, maintaining the crucial conditions for demonstrating that the government trigger strategy is trustworthy and the depoliticization of welfare became continually more difficult. The free trade system means that tax expenditures and subsidies to the agriculture sector are attacked as unfair trading practices, and, together with the reduction of company welfare, becomes a reason for pressure to enlarge direct public welfare programs. Changes in the structure of the population and the transition of family structure also increases the welfare demands of private agents, and due to changes in the economy, the growth of income inequality increases the demand of private agents for redistribution. Together with the political progress of democratization, private agent’s demands for welfare start being articulated in political discourse and bring about welfare politics. The recent expansion of public welfare in Japan, Korea, and Taiwan shows that a political game based on the contingent rent is not able to produce equilibrium any more.

However, it seems that in spite of such changes, players are still as tightly bound to this game as they were before. The expansion of direct public welfare usually increases government expenditures
and the tax burden of private agents. There is almost no way to increase the public welfare program, to maintain a fiscal balance to a certain degree without reducing invisible state welfare programs. If such a program exists, then it cannot be maintained without increasing the level of the burden on middle-class families with incomes above the tax threshold.

In Korea, the expansion of public welfare by the centrist party holding power for the last 10 years was an example of this and it may be one of the causes of the discontent within the middle class. The same was the case in Taiwan. In recent presidential elections, citizens of Korea and Taiwan voted for a candidate stressing economic growth in his election pledges. Does their delusive dream for a revival of already expired game come true?

References


