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The Role of Social Policy in Economic Development

Some Theoretical Reflections and Lessons from East Asia

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Introduction

During the heady days of Neo-Liberal counter-revolution in the 1980s, the World Bank and the IMF prided themselves in not wasting their time on "soft" things like social policy in designing their "structural adjustment programmes". In the older, hardcore version of Neo-Liberal orthodoxy that had prevailed until the early 1990s, diverting resources to social policy, which softens the blow of the adjustment on the weaker sections of the society, was regarded as buying short-run palliatives at the cost of long-term productive development, as it can only slow down the necessary "adjustments". Many people remember how strongly this line of thinking was pursued during the 1980s. This was pursued to the point of producing a call for "adjustment with human face" by those who did not completely reject the need for structural adjustment programmes but were deeply concerned by what they saw as unnecessary human suffering caused by such programmes in their unadulterated forms (Cornia et al. 1987).

However, with the continued economic crises in many developing countries throughout the 1990s, and the failures of the Neo-Liberal "adjustment" and "reform" programmes to resolve such crises (many would in fact say that these programmes are actually one of the causes of these crises), even the World Bank and the IMF are now beginning to pay serious attention to social policy (Mkandawire 2001), provides an illuminating review of this shift). They now acknowledge that developing countries may need a "social safety net" to catch those who fall through the cracks in the process of economic "reform" based on their programmes. This shift in the attitudes of the part of the Bretton Woods institutions was, for example, manifest in the IMF programmes in the East Asian countries after the recent financial crises (Korea, Thailand, and Indonesia), where the Fund and the Bank put unprecedented emphasis on building "social safety network" devices.

The attention to social policy by the Bank and the Fund is most welcome. It is a positive development that they are now thinking about broader social consequences of their economic policies. However, there still exists a fundamental limit to their understanding of social policy. As the UNRISD has pointed out in a series of recent publications, the Bank and the Fund still view social policy as an essentially residual category of "safety net", and not as an essential ingredient in developmental strategy (Mkandawire (2001), succinctly summarises the UNRISD view).

However, social policy, if well designed, can be much more than a safety net and significantly contribute to productive development (for further details, see Chang 2002: ch.3). Cost-effective public provision of health and education can bring about improvements in labour force quality that can, in turn, raise efficiency and accelerate productivity growth. Social welfare institutions reduce social tensions and enhance the legitimacy of the political system, thus providing a more stable environment for long-term investments. Smoothing of consumption pattern through

devices like unemployment benefit can even contribute to dampening business cycle, which stabilises the macro-economy and thus encourage investments.

The present paper aims to elaborate on how social policy can be, and indeed needs to be, an integral part of a dynamic developmental strategy, by using the East Asian development experience as an example.

The choice of East Asia as an exemplar in this context may sound somewhat surprising, because traditionally East Asia has been regarded as "social policy free zone". Indeed, in the days before the Asian crisis, the apparent absence of social policy in the East Asian countries was often brandished as a proof that countries do well when they concentrate on economic policy and forget social policy. However, as we shall show later, this is a fundamentally mistaken characterisation of the East Asian developmental experience. The East Asian countries have used many policies and institutions to address "social" problems. The reason why many people think they have not used social policy is because many of the policies and institutions that they used in order to address "social" problems were *not* ones that are usually defined as "social policy" in the narrow sense. For this reason, looking at the East Asian experience can open up some new horizons in the discussion of the role of social policy in economic development.

The importance of "hidden" or "surrogate" social policies in East Asian developmental experience makes it necessary for us to engage in a theoretical discussion as to the validity of the customary distinction between economic policy and social policy before we look at the empirical evidence.

Economic Policy Versus Social Policy: A False Dichotomy?

As I have also implicitly accepted in my discussion in the introductory section, it is customary to distinguish economic policy from social policy. However, I would argue that in the final instance there cannot be a distinction between economic policy and social policy. Why is this?

The separation of economic policy and social policy implicitly assumes that it is possible to objectively define an economic sphere that should (and does) operate according to some "scientific" economic logic and a social sphere where we may want to (but are normally advised, by those "hard-nosed" economists, not to) over-ride the economic logic with "ethical" considerations (such as income distribution, employment creation, protection of human rights, etc.) despite the "inefficiencies" that such action is going to create.

This dichotomy is a useful fiction at one level, which I also use for some purposes. However, I think that it unduly constrains and ultimately misleads our research and policy agendas. I say this because I believe that, in the final analysis, there can never be such thing as an objectively definable economic sphere, neatly separable from other ("social" or whatever) spheres of life.

People usually assume that what goes on in the market belongs to the economic sphere and the rest in the social sphere. However, a market can be defined only with reference to the rights and the obligations of its (legitimate) participants, which in turn are products of various (conscious and unconscious) political decisions, and not some "scientific" law of economics. In other words, as Polanyi (1957) has so clearly shown, the market itself is a political (and social) construct, and therefore there cannot be such thing as neatly separable domain of "market" that is free from "politics" or "social concerns" (in the final analysis, this point is further developed in Chang (2001)).

To begin with, all markets are based on institutions that regulate who can participate. For example, laws may stipulate that certain types of individuals (e.g., slaves, foreigners) cannot own (certain types of) property or that children may own property but cannot exercise full property rights until they reach a certain age. Banking laws or pension laws may limit the range of assets that banks or pension funds own and therefore limit the range of asset markets that they can enter. Child labour laws, immigration laws, and laws regulating professional qualification (e.g., doctors, lawyers) dictate who can participate (or not) in particular labour markets. Company laws and industrial licensing rules will decide who can participate in the product market, while stock market listing rules and brokerage regulations determine who can participate in the stock market.

Second, there are institutions, which determine the legitimate objects of market exchange (and, by implication, of ownership). In most countries, there are laws illegalising transactions in things like addictive drugs, "indecent" publications, human organs, or firearms (although different societies have different views on what count as, say, addictive drugs or indecent publications). Laws on slavery, child labour, and immigration will stipulate, respectively, that human beings, labour service of children, and labour service of illegal immigrant may not be legitimate objects of exchange.

Third, even when the legitimate participants in and the legitimate objects of exchange have been stipulated, we need institutions that define what exactly each agent's rights and obligations are in which areas. So, for example, zoning laws, environmental regulations (e.g., regarding pollution or noise), fire regulations, and so on, define how property rights in land can be exercised (e.g., what kinds of building can be built where). For another example, the laws regarding health, safety, and grievance resolution in workplaces will define the rights and the obligations of the workers and the employers.

Fourth, there are numerous institutions that regulate the process of exchange itself. For example, there are rules regarding fraud, breach of contract, default, bankruptcy, and other disruptions in the exchange process, which are backed up by the police, the court system, and other legal institutions. Consumer laws and liability laws, for another example, will stipulate when and

how buyers of unsatisfactory or faulty products may annul the act of purchase and/or claim compensation from the sellers. Social conventions (e.g., those regarding fairness and probity) or codes of conduct issued by trade associations (e.g., bankers' association or industry associations) may also influence the way economic agents behave in economic transactions.

All the above-mentioned "regulations" that define the boundaries of the market (and thus of the "economic" sphere) are products of complex interaction between political bargaining, moral values, and technical considerations. And as the political bargains and moral values change, the legitimate boundary for the "economic" and "social" changes too.

Historically, what is regarded as the legitimate boundary of the economic sphere has changed tremendously. There are many things that used to be perfectly legitimate objects of monetary transaction but are not regarded as such any more. Public offices, the rights to collect taxes (tax-farming that was widely used among the European countries up to the 18th century), human beings (as in slave trade), the labour service of children (as in child labour), and so on were perfectly legal and politically legitimate objects of exchange in all societies in the past, but they are not so in many societies now (at least explicitly).

Many institutions defining the boundary of the "economic" sphere that we take for granted these days had been greeted with an outrage when they were first introduced. Although the languages used differed across cases, essentially their detractors saw those institutions that re-drew the boundary of the "economic" sphere as unwarranted imposition of "social" concerns on the sacrosanct "economic" domain. Let us illustrate this point with a number of examples (further details can be found in Chang (2000; 2002: ch.3)).

The most striking example in this regard will be the institution of self-ownership. This institution was obviously an anathema to slave-owners, and during the Civil War. Even many non-slave-owning Americans of the Southern states were willing to go to war in objection to the introduction of such institution, which they perceived as a grave threat to their states' economic (and by extension, political) freedom.[1]

The attempt to regulate, not to speak of banning, child labour was initially greeted with outrage by many people. For example, in the UK, in the debate surrounding the 1819 Cotton

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[1] It is well known that slavery was a key issue behind the American Civil War. However, it is less well known that this was not the only cause of the War. Another important cause was the disagreement on trade policy, where the South wanted free trade with Britain (so that they could buy higher quality British manufacturing products) and where the North wanted protection of their newly-emerging manufacturing industries. Some would argue that the "tariff" issue was in a way more important than the slavery issue in the sense that at least in the beginning of the War, Lincoln, who although objected to slavery thought the blacks racially inferior and regarded the abolition of slavery only as a theoretical possibility in a distant future, was quite willing to compromise on the slavery issue (he openly said that he did not want to impose slave emancipation upon Southern states that do not want it). However, no compromise was even proposed seriously on the tariff issue. See Chang(2002: ch.2) for further details.

Factories Regulation Act, which banned the employment of children under the age of 9 and restricted children's working hours, some members of the House of Lords argued that child labour should not be regulated because "labour ought to be free" (Blaug 1958).[2]

People showed even stronger reaction along the same line when the first attempts to introduce maximum working hours for the adults (especially adult males) were made in the now-advanced countries during the late 19th and the early 20th centuries). For example, in 1905, the US Supreme Court declared in the famous Lochner vs. New York case that a ten-hour act for the bakers introduced by the New York state was unconstitutional because it "deprived the baker of the liberty of working as long as they wished" (Garraty and Carnes 2000: 607).

When central banking was first introduced, the influential 19th century British political thinker, Herbert Spencer objected to it on the ground that it will encourage excessive risk-taking, because if the financial system gets into trouble, imprudent lenders as well as deserving ones will be rescued by the central bank. He argued: "(t)he ultimate result of shielding man from the effects of folly is to people the world with fools".[3]

Likewise, when limited liability was first introduced, many people regarded it as a deviation from a sensible economic principle. Commenting on late 19th Britain, Rosenberg and Birdzell (1986) document how even decades after the full-scale introduction of the principle of limited liability (although limited liability had been occasionally granted by royal charters, it was generalised only in 1855), small businessmen "who, being actively in charge of a business as well as its owner, sought to limit responsibility for its debts by the device of incorporation" were still frowned upon (p. 200).

The examples can go on, but the point that emerges from these discussions is the following (further examples can be found in Chang (2002: ch 3)). We seem to use the term "economic policy" as a short-hand for a policy whose underlying structure of rights and obligations is relatively uncontested (or, more likely, should not be contested according to the point of view of the person making the particular distinction) and "social policy" as a short-hand for a policy whose underlying structure of rights and obligations is more contested.

So, for example, regulation of child labour may be regarded as a "social policy" in countries where there exists priority of the rights of the children not to toil and to be educated over the employers' right to hire anyone they like, but in countries where such priority is clearly accepted, it will be regarded as one of the routine "economic" policies.

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[2] In chapters 10 and 15 of his *Capital, Volume 1*, Karl Marx provides a classic documentation and an illuminating discussion of the child labour issue at the time of first regulation on it in Britain. See Marx(1976).

[3] As quoted in Kindleberger (1996: 146). The original source is H. Spencer (1891: 354).

Given our discussion up to now, we can say that accepting the very dichotomy between economic policy and social policy is in effect equivalent to accepting the (often implicit) political and social values underlying the particular demarcation of these two spheres that exists in the status quo. Unless we start by denying this dichotomy, those who want to implement policies that aim to modify the existing rights structure (usually the "progressives") will always be at a disadvantage in the debate, because they are always portrayed as the "softies" who have no stomach for "hard economics". Bearing this point in mind, let us look at the role of social policy in East Asian development.

Social Policy in East Asian Development: An Unconventional View

Social Policy in East Asia: Some Misunderstood Facts

As I have mentioned in the introduction, the conventional wisdom has regarded East Asia as a "social policy free zone". And in the days before the Asian crisis, when many schools of thoughts had tried to use the East Asian economies as the vindication of their particular theories, many rightwing theorists argued that the economic success of the East Asian countries proves that countries do well when they concentrate on economic policy and not waste valuable resources on social policy, which is likely to have a negative impact on economic growth.

There are at least three problems with this view – that is, even when ignoring the problems with the assumption that "social" policy is harmful for "economic" growth, a point that is increasingly disputed by even many mainstream economists (for example see Rodrik 1999); for a discussion from a non-mainstream point of view, see Chang (1995)).

The first problem with the view East Asia achieved successful economic development despite, or rather because of, the absence of social policy is that there have actually been a lot more social policies in the East Asian countries than what conventional wisdom holds.

It may be true that these countries may not have had many social policies in the narrow sense of the term – that is, "welfare-state" style policies, such as public health care, free education, unemployment benefit, state pension, and income support. However, even then there were some important examples of social policy in the narrow sense among these countries. For example, Korea had income support and public works programme for the very poor (although the coverage was relatively limited), while Singapore had a strong state pension system based on a forced saving scheme (the Provident Fund).

Moreover, if we define social policies more broadly to include not simply "welfare state" policies but to include all policies (and institutions) that address "social" problems (poverty, income inequality, worker rights, human rights, etc.), we begin to see that a wide range of social policies have been used in the East Asian countries (the following details are from Chang (1998)).

The most important example in this regard is land reform. Japan, Taipei (China), and Korea all instituted comprehensive land reform measures in the early post-World-War-II years, involving redistribution of land, land ownership ceilings, and the restrictions on the terms of tenancy. Other countries in the region, for example, the Philippines, also instituted some limited land reform measures with relatively limited success. Governments of countries like Malaysia and Thailand provided supports to the schemes for opening up new lands in order to diffuse the pressure for land redistribution.

Labour movement was often brutally suppressed in many East Asian countries, but even those countries frequently made some efforts to incorporate the working class interests in policy-making. Even countries like Korea and Singapore, which have been notorious for harsh policy towards union movements, have co-opted some sections of the union leadership (e.g., appointing some union leaders in government posts). They also provided some degree of protective measures for the ordinary workers (e.g., cover for industrial accidents, legal priority for wage claims over other claims in case of enterprise bankruptcy).

Hong Kong and Singapore also put emphasis on providing extensive public housing, thus easing the tension over the most contentious political issue in these land-constrained city-states. Other countries also have run public housing programmes, but they were not as extensive and successful as those of Hong Kong and Singapore. However, it needs to be pointed out that these measures were implemented after a period of political unrest over the issue – in Hong Kong, there were even housing-related riots in the early postwar years (more on this later).

In the case of Malaysia, the income gap between the politically dominant Malay community and the economically better off but politically weaker Chinese community was seen as the major threat to national cohesion. Following the infamous race riot of the late 1960s, the Malaysian government implemented the NEP (New Economic Policy) programme that included measures intended to reduce the economic gap between the two ethnic communities. The measures included quota on entry into higher education, quota on enterprise share ownership, and the establishment of a range of public enterprises, which kept certain industries from the Chinese interests. Government supports for small-scale agriculture can also be interpreted as a measure of ethnic redistribution, given the predominance of the Malay community in the sector. While there have been many problems with these measures of ethnic redistribution, it will be hard to deny that without these measures the Malaysian society is likely to have experienced greater political unrest.

To sum up, there were a lot more social policies in East Asia than it is typically believed, if we define social policy more broadly than what is the custom (which equates it with "welfare-state" type of policies). There were land reforms, some protection of labour, public housing programmes, and even inter-ethnic income redistribution.

The second problem with the conventional view regarding the role of social policy in East Asian development is that many "social problems" were addressed by policies and institutions that would not be classified as "social policies" or "social welfare institutions" even in the broader sense of the term that we have used in the preceding paragraphs.

In countries like Japan and Korea, corporate welfare system (including not just the famous lifetime employment system but also things like housing and health provision or educational subsidies for the employees' children) has played an important role in "buying" industrial peace in large firms. And it has to be pointed out that corporate welfare schemes were strongly encouraged, if not legislated, by the governments of these countries.

Some regulatory measures, which are regarded by some outsiders as "unfair" hidden trade protection measures were, at least in their inception, mainly motivated by concerns for income distribution and social cohesion. The most important example in this regard is the protection of certain "losers" in the economic development process such as small farmers (through agricultural trade protection and/or restrictions on farmland ownership) and small shopkeepers (through the "Large Store" Law in Japan and through urban planning in Korea). These were people who were neither qualified enough to get a job in the modern manufacturing sector nor entitled to much social protection measures due to the poorly-developed welfare state (for further discussion see Chang (1996); Kusano (1992) and Upham (1996) for the details on the Japanese retail sector protection).

Even policies aimed at restraining luxury consumption vigorously in their earlier phases of development used by the governments of some East Asian countries – notably Japan and Korea, but also Taipei (China) – can be understood as a social policy in the broader sense. These governments controlled luxury consumption not only because they thought it will reduce overall savings and the foreign exchanges available for importing capital goods, but also because they regarded conspicuous luxury consumption as damaging for social cohesion through its "demonstration effect" (for further details, see Chang (1997)).

Thus seen, the functions that are usually associated with social policies in other countries – helping the weak (e.g., small farmers, small shopkeepers), providing industrial, and in general social, peace and so on – have been served in the East Asian countries by policies and institutions which are not normally classified as "social policy" or "social welfare institutions". These have included corporate welfare system, "protective regulations" in favour of certain "losers" in the economic development process (e.g., farmers and small shopkeepers), and luxury consumption control.

Last but not least, the conventional view on the role of social policy in the economic development of East Asia is based on the misconception that the East Asian countries did not *need to* have strong social policies (which, as we have pointed out, is not true) because they did not have

many “social” problems that had to be addressed. In this view, the East Asian countries are seen as low-conflict societies thanks to historical factors like more egalitarian income distribution, ethnic homogeneity, or even an inherently less conflict-oriented “Asian” culture.

However, the truth is that social peace in East Asia is in fact a relatively new thing (see Chang (1998), for a further discussion). Between the end of World War II and the 1970s, East Asia was arguably the most conflict-ridden part of the world. The Chinese Communist revolution, the Vietnam War, and the Korean War (despite arguably one of the most homogeneous populations in the world) are some of the best-known incidences of violent conflict in the region, but the list of less well-known conflicts in the East Asian countries is quite long.

Despite its recent reputation as a country of industrial peace, in the 1950s and the early 1960s, Japan lost more working days per worker in industrial strikes than did UK or France, not to speak of West Germany or Sweden which were known for industrial peace in those days. For example, during 1955-59, Japan lost 254 working days per 1,000 employees whereas the UK and France respectively lost 220 and 180 days. During 1960-64, Japan lost 177 days per 1,000 employees but the UK and France lost respectively 146 days and 197 days.

Table 1. Number of Working Days Lost in Industrial Disputes, 1955-80 (per 1,000 employees)

	1955-59	1960-64	1965-69	1970-74	1975-80
Japan	254	177	107	151	69
USA	615	301	513	539	389
UK	220	146	175	624	521
France	180	197	163	201	195
Italy	433	932	1,204	1,404	1,434
West Germany	47	23	7	55	41
Sweden	19	6	38	69	222

Source: Koike (1987).

There was a riot in Taiwan in 1947 by the "Taiwanese" (descendants of the immigrants from the mainland during the previous few centuries) against the "Mainlanders" (those who were parts of the Kuomintang, or the Nationalist Party, government that took Taiwan over from Japan after the latter's defeat in World War II), who the former saw as alien invaders. Indonesia's 1966 military coup ended up in a civil war was arguably one of the bloodiest in the 20th century, with millions of death. There were armed Communist insurgencies in Malaysia, Singapore, and Thailand until the 1970s, and in the Philippines it still continues. There was a race riot in Malaysia in 1969. Hong Kong had a famous housing riot in the late 1960s. Korea was world-famous for its leftist student demonstrations throughout the 1980s. And so on.

These examples show that until the 1970s at least, the East Asian societies had been highly conflict-ridden societies. Social peace is a relatively recent thing in these countries. And the recent events in Indonesia show how much fragile some of such social peace in fact has been. It was only because of a range of social policies (combined with political repression in some cases, of course) that the East Asian countries could hold their societies together and maintain social peace better than other developing countries have done during the last two decades.

So to summarise the discussion in this section up to now, East Asia has not been a "social policy free zone" as it is often portrayed to be, not least because there were various policies and institutions which played the role that "social policy" in the narrow, conventional sense played in other countries. Moreover, it is important to recognise that the East Asian countries did not start their postwar economic development as "low-conflict" societies, as it is often believed to have been the case. The region has seen more than its share of war, armed insurgencies, military coups, and riots of various kinds (e.g., ethnic, housing-related, etc.). The social cohesion they have subsequently achieved during the last two or three decades has been deliberately manufactured through an active use of social policy both in the narrow and the broad senses of the term.

Social Policy and Economic Development in East Asia

In the above I have shown, contrary to the popular perception, social policy, broadly defined, has been crucial in generating social cohesion in the East Asian countries. In the below, I would like to argue that such social cohesion positively contributed in generating rapid economic growth and development in the East Asian economies.

The importance of political stability and industrial peace in assuring the potential investors of the feasibility of long-term investments is widely known. Therefore, it does not need much elaboration here why social policy, both in the narrow and the broader senses, has been useful in promoting an environment conducive to long-term investments by generating greater social cohesion and social peace in the East Asian countries.

Less widely acknowledged is the importance of policies and institutions that give the workers of their long-term employment security (although not security in their current job) in encouraging technological progress, another key to economic growth. This point is probably best illustrated by the Japanese institution of lifetime employment guarantee (large firms in Korea offered similar guarantees, but they were never as comprehensive, widespread, and deeply embedded in corporate culture as in the case of their Japanese counterparts).

Since the late 1950s, in the face of agitation by Communist unions and concerned with high job turnover, Japanese firms started granting employment security to the core workforce (roughly two-thirds of the workers in the large enterprises and one-third of the workers in smaller firms) by offering them what is commonly known as "lifetime employment". Here it is important to note that lifetime employment is a practice that was only recently started, and not a remnant of old feudal culture, as some people believe.

Through this "institutional innovation" of lifetime employment, the Japanese firms were able to make their workers more readily accept the introduction of new technologies with less labour demand and involving re-organisation of the shopfloor. It is no coincidence that Japan and Sweden, which provided such security through a comprehensive welfare state and "active labour market policy" (involving training and relocation subsidies to displaced workers), are two most robotised economies in the world. This contrasts starkly with the experience of Britain in the 1960s and the 1970s, where the absence of mechanisms to provide employment security drove the unions into defensive obstructionism, which made it very difficult for the firms to introduce new technologies, which in turn seriously damaged the economy's international competitiveness.

Thus seen, the East Asian developmental experience shows the importance of social policy, or more broadly the institutions and the policies that enhance social cohesion, in encouraging capital accumulation and technological progress – the two main sources of economic development.

Contrary to the conventional wisdom, East Asia does *not* prove that a neglect of social policy is compatible with, not to speak of being conducive to, economic development.

The Future of "Social Policy" in East Asia

The policies and institutions that had enhanced social cohesion in various East Asian countries have come under increasing strain recently due to changing national and international circumstances.

First of all, the rise of Neo-Liberal ideology on a worldwide scale generated increasing opinions inside and outside the East Asian countries that supported radical deregulation. Second, the very economic success of the countries in the region generated pressures from the European countries and especially the USA to open up their markets, including the deregulation of the retail sector that was perceived as a covert protectionist mechanism. Third, with economic success also came growing domestic constituencies calling for liberalisation and opening-up: certain sections of business clamouring for freedom from state intervention; upper-middle class people who wanted American salary scale and lifestyle; and some radical intellectuals who (mistakenly) believed greater market forces will weaken the power of unwieldy big business; and so on.

Some measures, such as the protection of the small retailers, are regarded as covert protectionist measures that are unacceptable in the new era of globalisation. Some other measures, for example, ceilings on the ownership of farmland (imposed in some countries after the early postwar land reform) and restrictions on large retail stores are criticised for reducing efficiencies in the farming and the retail sectors. Still some other measures, such as ethnic quotas, are attacked from both inside and outside as inefficient and unfair. Institutions like the corporate welfare system are, in my view correctly, criticised for privileging certain workers over others.

As a result, there have been calls for greater liberalisation and for the dismantling of corporate and other institutions that the East Asian countries have used to enhance social cohesion. And in countries like Korea, which has been subject to a radical policy and institutional overhaul after the recent financial crisis, moves have been made towards the dismantling of traditional, segmented "social policies" in the broader sense and towards a more universal, citizenship-based welfare system.

At one level, such moves are to be welcomed, as they have the potential of instituting a more egalitarian welfare system. However, there are clear limits to such approach.

To begin with, in the general push towards a small government and given the history of anti-welfare-statism in the country (see below), the universalistic welfare provisions recently introduced in countries like Korea are more of a minimalist "safety net" type provision, rather than, say, Swedish style fully-fledged welfare state. The limitations of the "safety net" approach is

testified to by the recent sharp increase in income inequality and poverty in these countries (although probably not all such increase may have been preventable even with a generous welfare state, given the severity of the crisis). However, the more serious problem with the suggestion that the East Asian countries should dismantle "inefficient" and "unfair" policies and institutions that protect certain group of people in favour of a more universalistic (if minimal) social welfare provision is that it misses the bigger picture.

What the East Asian countries have been "buying" with these sometimes (but not always) inefficient and, sometimes, unfair institutions are social cohesion and political peace, which have been the foundational stone of their prosperity, as I have pointed out above. It may be possible to increase the "efficiency" of the Asian economies by abolishing many of the above-mentioned "social" policies and institutions. However, in the longer run, this will increase social tension and political unrest, and may ultimately damage their prosperity by shaking investors' confidence and the workers' willingness to accept technological changes. Let us elaborate this point in some more detail by using the example of the notoriously "inefficient" and "unfair" protection of farmers and small shopkeepers in Japan and Korea (for further details see Chang 1996).

It is true that many of the policies and institutions that are intended to protect the "losers" of the developmental process such as the farmers and the small shopkeepers in Japan and Korea have been costly, and are perhaps becoming more so, in relative terms. For example, on some estimates, a far-reaching deregulation (including opening up to foreign competition) of these protected sectors will bring about unemployment rates, which are above 10%, which implies that there has been a significant "over-manning" and thus inefficiency in these sectors (Eatwell 1995). On the basis of these kinds of estimates, many commentators suggest that it will be actually less costly to withdraw the protective regulations for them and use the resources released by the resulting efficiency gains to pay off the small farmers or the small shopkeepers, either in the form of continuous income supports or in the form of "severance payments".

The problem with this argument is that Japan and Korea simply do not have the political basis and the ideological inclination for such a dramatic transition towards a European-style "welfarist" regime.

Historically, as "frontier states" in the Cold War, social democratic coalition that can back a fully-fledged welfare state could not develop in these countries. In Korea, no party with strong links with labour unions or with a social democratic leaning was allowed. Even in Japan where there existed Communist, Socialist, and Social Democratic Parties, they remained more or less in permanent opposition since the late 1950s in the presence of the grand rightwing coalition around the Liberal Democratic Party (itself a product of a merger between two rightwing parties, the Liberal Party and the Democratic Party), which have been the government, mostly alone and

occasionally in coalition with other parties, all the time except for a few years during the 1990s since its foundation in 1958.

It is out of such rightwing dominance in politics that a strong tradition of anti-welfare-statism has grown in Japan and Korea (as in the case of many other East Asian countries). The policy-makers and the citizens of these countries do not seem to be willing to accept that people can claim income without "working", however socially unproductive they may be (e.g., self-employment in low-productivity retail shops). And for the same reason, the governments of Japan and Korea are averse to the idea of expanding income support much beyond the minimal level that is given to the very poor, even if this can be less costly than maintaining the "expensive" protection of the weaker sectors. Another complication is that many of those who work in the protected sectors are self-employed and do not want to "retire", partly because they do not have the qualification to be employed in the modern sectors but partly because they seem to derive intrinsic values from "being one's own boss".

Given all the political and ideological obstacles, it is highly unlikely that a new political coalition can be built in the short- to medium-run in the East Asian countries that will support a high-tax regime that can finance a generous welfare state. This is not to say that things have not been changing.

Japan has slowly but surely expanded its welfare state over the last couple of decades, not least because of the dramatic aging of the society. Korea has gradually expanded welfare provision over the last decade or so. This was, initially, because of the increasing dissolution of traditional family and community support networks with the progress of economic development and more recently because of the need to fill the vacuum left behind by the dismantling of many corporate welfare institutions following the recent financial crisis.

Nevertheless, these changes have been slow and not very dramatic due to the anti-welfarist political coalition and ideologies, which has in effect meant an increasing failure to address the "social" problems. Unless a new system can be established that can address the "social" problems at least as effectively as the old system, the long-term prosperity of these countries may be compromised.

Conclusion

My paper started by observing that the increasing attention to social policy that the World Bank and the IMF, traditionally the scourges of social policy, have been showing in the recent past is far too narrow and misleading. They see social policy only as a "safety net" that can be used to catch those who fall through the cracks during the process of absolutely necessary and generally beneficial "reforms". They do not see it as a crucial, or even beneficial, component of a dynamic developmental process.

The developmental experience of East Asia shows that the new orthodox view on social policy is seriously mistaken. Conventionally, many commentators have attributed the economic success of East Asia to a single-minded pursuit of economic growth and neglect of "social" problems. The implication is, of course, that "social" problems will be taken care of through trickle-down, if you have fast enough economic growth.

In this paper, I have shown how the East Asian countries have used a wide range of policies and institutions that address "social" problems and how they contributed to generating high investments and rapid technological progress through various channels. The reason why East Asia looks like having been a "social policy free zone" is only because many of these policies and institutions do not neatly conform to the conventional idea of what social policy should look like, namely, some version of welfare-statism as defined by the advanced countries of today. Theoretical points were also made to show why the definition of "social policy" should be widened beyond this narrow definition.

More importantly, we should remember that, as highly conflict-ridden countries up till the 1970s, the East Asian countries had to find ways to reduce social conflict and enhance social cohesion, and they worked hard at it. The fact that the current popular image of the East Asian countries is those of societies which historically inherited low inequality, low conflict, and conformist culture is the very proof of their success in deploying policies and institutions that address social problems and enhance social cohesion.

The role of social policy in the economic development of East Asia, and the theoretical considerations that form the backdrop of our discussion of it in this paper, must have challenged some theoretical concepts and empirical "facts" that have been taken granted for many people. I do not claim that my theoretical positions and empirical interpretations advanced in this paper are necessarily the correct ones, but I hope they at least call for some serious re-thinking on the role of social policy in economic development.

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