

## **Modeling East Asian Welfare States by *Bringing the State Back In*:**

Why Did the State-led Coordination Create  
the Virtuous Cycle between Growth and Redistribution?

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— Abstract —

This research finds that the state-led coordination mechanisms—the mobilization system, rapid industrialization, and the state’s coordination with firms that excluded the labor class—created the *virtuous cycle between high economic growth and fair redistribution*, which is the redistribution mechanism and the precondition of East Asian welfare states. This cycle implies East Asia’s two social contracts: 1. *Economic growth with redistribution measures leads to fair redistribution*; and, 2. *Redistribution leads to further growth*. The diversity thesis in welfare state literature explains that a different level of corporatism has created divergent—not convergent—welfare regimes despite globalization. East Asian states’ mobilization system and their coordination with firms which excluded the labor can be characterized as *conservative corporatism*, which is differentiated with Western Europe’s social democratic corporatism. This type of corporatism would not be the best formula for developmental states, because the exclusion of the labor would make East Asia’s political economy of consensus Pareto suboptimal. But East Asia’s virtuous cycle showed good records on redistribution, and was contrasted with Latin America’s vicious cycle between economic dependence and high inequality. By revising the diversity thesis and the state-centric approach, this research explains why the state-led, conservative corporatism achieved rapid industrialization, and by extension created the virtuous cycle. Partisan politics, electoral system, and labor unions, all of which have been main independent variables of welfare state development, show strong explanatory powers to the Western welfare states despite *high multicollinearity*; however, they reveal *empirical parochialism* in the application to the non-West. They have marginal roles in creating East Asian welfare states, while the state was a main player in not only industrialization but redistribution mechanism and welfare regime development. Modeling East Asian welfare states by *bringing-the-state-back-in* is one way to overcome the parochialism and multicollinearity, and thus makes its application to developing countries possible.

Key Words: Varieties of Capitalism (VofC), Diversity Thesis of Welfare States, Coordinated Market Economies (CMEs), Statist Market Economies (SMEs), Conservative Corporatism, State-led Industrialization, East Asia.

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## I. How to Model East Asian Welfare States

This research finds the fair redistribution mechanism of East Asian states, which had weak and immature welfare institutions, in order to model East Asian welfare states in a comparative perspective with social democratic Western Europe and liberal North America. I deliver corporatism and the state-centric approach to emphasize the state's mobilization and coordination mechanism with firms that excluded the labor class. In East Asian countries, such as Japan, South Korea, and Taiwan, the state created growth-oriented regimes in the severe competition with neighboring countries beyond their different political regimes—either democracy such as Japan or autocracy like South Korea and Taiwan and their another difference in the stage of economic development.

Despite these differences, during the rapid industrialization period (1960s to 1990s) East Asian states created the *virtuous cycle between high economic growth and fair redistribution* in the respect of public education, health insurance programs, and income redistribution (Benabou 2000). They prioritized industrialization and national defense over social spending in government expenditures due to the international pressures. But the state-led, rapid industrialization with fair redistribution measures such as institutional support for public education and health care programs enhanced income redistribution and well-being of East Asians. The diversity thesis of welfare state theories does not focus on the state's positive role in welfare states. This research answers the puzzle on why East Asian welfare states achieved fair redistribution despite low social expenditures and priority of industrialization over welfare in their developmental strategies. It models East Asian welfare states as the virtuous cycle between growth and redistribution under the state-led coordination.

The diversity thesis has been inspired by Katzenstein (1985), Esping-Andersen (1990), and Hall and Soskice (2001). Their works differ in their analytic level—state, labor, and firm, respectively. Considering state size, Katzenstein explains that *strong* small states provide extensive social insurances to compensate citizens for insecurities created by open economies. By focusing on the labor's political strength, Esping-Andersen categorizes welfare capitalism into the liberal welfare state

(e.g., the United States, the United Kingdom), conservative welfare state (Germany), and social democratic welfare state (Sweden). Hall and Soskice's (2001) varieties of capitalism (henceforth "VofC") literature explains that the firm's coordination modes create differences between liberal market economies (LMEs)—such as the United States and the United Kingdom—and coordinated market economies (CMEs). CMEs include industry-based coordination like Germany and Sweden and group-based coordination such as Japan and South Korea (Hall and Soskice 2001).

The state's coordination mechanism was the most important causal factor to redistribution mechanism and welfare state development in East Asia. The diversity thesis literature explains the divergence of welfare regimes, and emphasizes the role of corporatism (e.g., Katzenstein 1985; Hall and Soskice 2001) as the main causal factor of welfare state development. Corporatism also matters for East Asian welfarism, since the state's coordination mechanisms—rapid industrialization, the mobilization system, and the state's coordination with firms—had a major role in industrialization and social security. However, East Asian states created the mobilization system and the state-led coordination and consensus with firms that excluded the labor; this exclusion would make East Asian states' political economy of consensus Pareto suboptimal, because it is a narrow, not broad, consensus. This type of corporatism emphasizes the state's authority and the leadership of the government as the state's central agent. I define them as conservative corporatism which differentiates East Asian welfare states with European models, which are characterized as democratic corporatism or societal corporatism. An eclectic approach between the state-centric approach and corporatism may revise the diversity thesis of welfare state theories and also model East Asian welfare states.

East Asian states achieved fair redistribution by effectively providing public goods such as health insurance programs and institutional support for public education, and further by inducing high job protection through full-time and lifetime employment policies under their coordination with firms despite low social expenditures. The state as a main actor led cooperation with large firms, and then reached consensus on the goals for national development, although its exclusion of the labor made a *narrow*—not broad—consensus. Through this conservative corporatism, the state achieved the state-led

industrialization and fair redistribution which became historical foundations of East Asian welfare states.

Partisan politics, electoral systems, and labor unions, which have been main independent variables of previous welfare state theories, showed strong explanatory powers to the Western welfare states despite *high multicollinearity*; nonetheless, they revealed *empirical parochialism* in their application to the non-West. Regarding parochialism, these factors have a marginal role in creating East Asian welfare states, while the state was a main player in not only industrialization but redistribution mechanism and welfare state development. Since previous welfare state theories have focused on the Western welfare state development, Modeling East Asian welfare states may reconstruct the diversity thesis of welfare state theories in order to apply to the non-Western and developing countries, and by extension overcome the empirical parochialism and high multicollinearity problems of previous welfare state research. Fair redistribution as well as the state-led industrialization and conservative corporatism will be key elements that differentiate East Asian model with the other capitalist democracies.

Theoretical reviews and causal mechanism in Section II propose how modeling East Asian welfare states can improve theories and methodology of welfare state research. The qualitative analysis in Section III explains why the state-led coordination mechanisms—rapid industrialization, the mobilization system, and the state’s coordination with firms—led to an initial egalitarian structure and industrialization, and then the virtuous cycle between growth and redistribution. The quantitative analysis of Section IV provides hypothesis testing on East Asia’s two social contracts: 1. *Economic growth with redistribution measures leads to fair redistribution*; and 2. *Redistribution leads to further growth* in order to confirm whether the virtuous cycle is generalizable beyond East Asia. The Conclusion explains the logic of East Asian welfare states, and defines East Asian states not only as conservative corporatist regimes but statist market economies as one type of political economies of consensus, but a narrow consensus.

## II. The Diversity Thesis of Welfare States: How to Improve Theory and Methodology?

### 1. Corporatism: Focusing on Consensus Making between the State and Firms

The diversity or divergence thesis as an antithesis of the convergence thesis has explained differences between small states versus large states (Katzenstein 1985), “varieties of capitalism” framework (VofC) between liberal market economies versus coordinated market economies (Hall and Soskice 2001; Manow and Ebbinghaus 2001), and typology between liberal versus corporatist versus social democratic welfare states (Esping-Andersen 1990) despite similar degrees of capitalist development or globalization. The convergence thesis has two contrasting vision. As an optimistic idea or the logic of upward standardization, industrial advancement in all industrial societies will lead to convergence of welfare state development in terms of stratification systems regardless of the role of politics (Wilensky 1975); as a pessimistic idea or the logic of downward standardization, global political economy converges by the pressure of neoliberal globalization, which aims to standardize the rules and norms of WTO and IMF regardless of stages of economic development in each country (Mishra 1999; Rudra 2008). Two versions of diversity thesis, such as the *small state* thesis (Katzenstein) and VofC framework (Hall and Soskice), commonly emphasize corporatism: democratic corporatism and the firm-led coordination respectively. The previous main corporatist approaches are different with conservative corporatism that I define as the mobilization system and the state-led coordination with firms that excluded the labor, both of which are commonly found in East Asian states.

#### 1) The State’s View: The Logic of Small States for Mobilization and Consensus

East Asian states have been surrounded by large states like China and Russia; the United States is also an influential international actor. With severe conflicts between the two Koreas and the endless rivalry between China and Japan during the colonial period, World War II, and the Cold War, East Asian states have evolved into strong states with very high ethnical homogeneity and strong

nationalism. Due to severe international pressures and competitions, the logic of small states is essential to not only Katzenstein's small state thesis but developmental state theory and collective action theory. Developmental state theory (Johnson 1982; 1999; Woo-Cumings ed. 1999) assumes that war-time mobilization and huge international competition caused East Asian states to achieve rapid industrialization and devised their national economy development plans.

According to Katzenstein (1985; 2003), European small states reached consensus and create organizational mobilization power more effectively than large states. The *small size* of domestic market makes small states open to world trades (Cameron 1978). *Perceived vulnerability* to international pressures brought about an ideology of social partnership that became a basis for *democratic corporatism* (Katzenstein 2003: 11; *Italics* are exogenous variables). Under the democratic corporatist regime's tripartite partnership with firms and labor unions, the small states utilized world markets through smart strategies to compensate damaged groups in open economy, and achieved *successful economic performances* (as dependent variables). (Katzenstein 1985: 9, 34, 80). The paradox of "the strength of the weak" implies that small states have effectively reached consensus through democratic corporatism and that they could evolve into *small but strong states* (p. 21). The term "strong" refers to state strength, which is structured by the state's coordination capacities with social actors like firms and labor unions, because the state may reinforce its autonomy through the state-led coordination.

According to collective action theory, small states may aggregate their state capacities in providing citizens with public goods relevant to welfare more successfully than large states, since smaller groups monitor their members' free-riding behaviors more effectively. The larger the size of the group, the more it will fall short of providing optimal amounts of public goods (Olson 1965). The smaller the state size, the larger the government should be in order to respond to the pressure of external forces by increasing government spending (Alesina and Wacziarg 1998). Thus, small states need strong governments with higher share of government spending over GDP in order to survive. In contrast, the large size of state increases social inefficiency that may decelerate (political or economic) development, since governing the large state needs enormous social costs in managing economic

growth, social welfare, and legal justice. A trade-off between benefits of state size on the one hand versus costs of heterogeneity of preferences and culture of the population on the other defines Pareto optimal equilibrium of the state size (Alesina 2002). But not all small states can resolve collective action problems and create corporatism. Therefore, this research finds how East Asian states created mobilization system and the state's coordination with firms that excluded the labor in the context of the state-led, conservative corporatism.

## 2) The Firm's View: Dense Coordination between the State and Firms

The VofC research explains diverse modes of market economy through the firm-led coordination mechanism. Liberal market economies (LMEs), mainly Anglo-Saxon countries, are made by firms' market coordination ruled by law with actors' short-term interest, weak employers' associations, and fluid capital markets. In European corporatist states and East Asian developmental states, coordinated market economies (CMEs) are constructed by firms' strategic interactions with governments and social actors through non-market coordination and dense network of business organizations by sharing long-term interest and patient capital, making negotiations and consensus, and facilitating high levels of investment in firm- or industry-specific skills (Hall and Soskice 2001: 6-7).

CMEs are divided into industry-based coordination, such as Germany and Sweden, and group-based coordination, like Japan and South Korea. I argue that the pivotal player in coordination between the state and firms was firms in Europe, but that it was the state in East Asia. Hall and Soskice (2001: 34-35) point out that the horizontal and sectoral coordination in Europe is very different from the vertical, familial coordination in East Asia. Dense coordination between the state and firms is common between East Asia's conservative corporatism and Europe's (social) democratic corporatism. But East Asian states' coordination capacities may differentiate two regions of CMEs. East Asian states play a stronger role in coordination with firms in industrial and social policies than European counterparts.

## **2. Empirical Controversies: Empirical Parochialism and High Multicollinearity**

*The virtuous cycle between high economic growth and fair redistribution* has been a basis of East Asian welfare state development. Modeling East Asian welfare states can be one way to expand the diversity thesis in welfare state theories. The *poverty* of abundance in the diversity thesis is attributed not merely to the fact that its independent variables such as partisan politics, electoral systems, and labor unions were not important to East Asia's welfare state development, but to that the thesis does not focus on the state-led coordination, which was the most salient in East Asia's strong states. By illuminating the state's coordination capacities, the *revised* diversity thesis on welfare states can enhance generalizability in theory, and overcome empirical parochialism and multicollinearity in the statistical analysis.

The original argument that welfare state literature reveals empirical parochialism and multicollinearity was suggested by Mares (2009). Nearly all theories on this research have focused on the historical experience of advanced industrialized economies, consisting of less than twenty countries. Research on Scandinavian welfare states fills up entire libraries, while scholars lack basic knowledge on many developing countries (p. 374). High multicollinearity among explanatory variables generated by empirical parochialism has made severe obstacles in testing various welfare state theories against each other (p. 359). Welfare state development was explained by the presence of labor union movements, left parties, progressive religious groups or civil organizations, and proportional representative electoral systems. Labor unions were the main institutional players that created left parties, which entered congress for advanced welfare regimes. Labor unions and left parties emerged and gained institutionalized power in the stage of industrialized capitalism and advanced democracy. Because these independent variables reveal a high correlation, previous welfare state research reinforced a *self-fulfilling prophecy* in the explanation of European welfare states. But East Asian governments exerted a strong leadership in initiating policies for fair redistribution without partnership of left parties, labor unions, or other progressive groups.

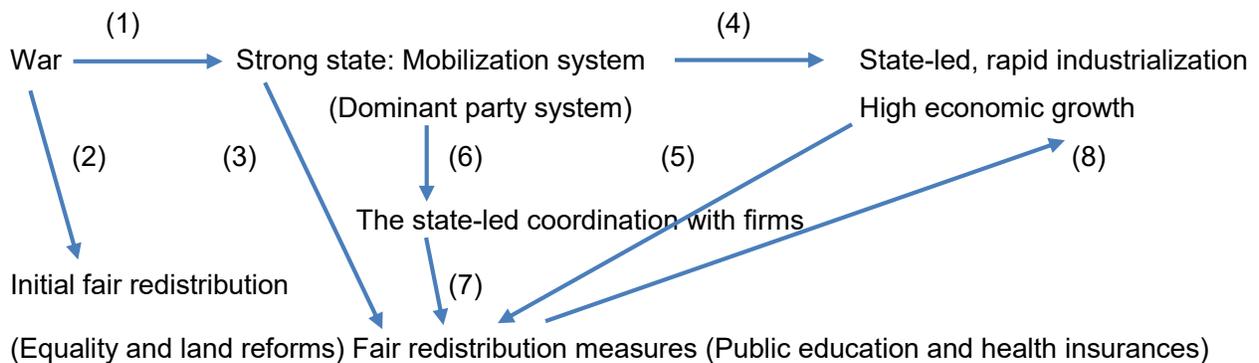
Main welfare state research has been theorized from developed economies and Western countries, not from developing and non-Western countries. Previous welfare state theories are not generalizable to developing countries where advanced welfare regimes are more urgently necessary than in developed countries. Lindert noted the “Robin Hood paradox” of social spending: “Redistribution from the rich to the poor is least present when and where it is most needed” (Lindert 2004: 15; cited in Mares 2009: 374). The Robin Hood paradox also exists in welfare state research, since welfare state theories are least present when and where they are needed most. Where are East Asian welfare states positioned in Esping-Andersen’s trifold typology of the liberal versus conservative versus social democratic welfare states? He also admits that East Asia does not match his categories, and recognizes that “*institutionally* speaking, any attempt at labeling the Japanese welfare state is premature, since it has not yet sunk its roots” (Esping-Andersen 1997: 179; emphasis added). If Japan’s case is premature, South Korea and Taiwan are *too young* to compare its social expenditures and welfare regime with European welfare states in an institutional analysis. East Asia’s strong states created immature welfare regimes and weak social cleavages under the power asymmetry between institutional actors.

It is ironic that despite their low social expenditures and immature welfare regimes East Asians had fair redistribution effects from public education, healthcare, life-long employment, and family-centric care culture under Confucianism; subsequently, East Asian states did not experience citizens’ intense pressures for advanced welfare regimes, and did not have strong desires to spend extensive social expenditures. But at *critical junctures*, such as Japan’s long-term depression and South Korea’s financial crisis in the 1990s, East Asians recognized the urgent need for introduction of universal social policies. East Asian states have been categorized as a unique pattern of the Confucian welfare state (e.g., Jones 1993). How should the exceptional cases of East Asia be generalized in a comparative perspective with Anglo-Saxon liberal welfare states and European corporatist or social democratic welfare states? I suggest East Asian states should be conceptualized as conservative welfare states and statist market economies which are political economies of consensus but a narrow consensus.

### 3. A Causal Mechanism and Hypotheses for East Asian Redistribution Mechanisms

The state is a transmission belt between domestic winning coalitions and the international force. The developmental state was originated from domestic, partisan coalitions in the post-war process as the political micro-foundation, and war as an international and structural factor. War created strong states in East Asia. Winning groups of war created political cleavages through war-time mobilization and economic nationalism, and subsequently formed the dominant party systems (Arrow 1). War purged the previous ruling elites and initiated land reforms, and eventually created initial egalitarian structure (Arrows 2 and 3). Developmental states, which were structured under the mobilization system and the bureaucracy's plan-rationality, contributed to state-led rapid industrialization (Arrow 4). The strong states formed dense coordination with firms (Arrow 3) and reached consensus with citizens for modernization. As the state's coordination mechanisms, rapid industrialization, the mobilization system, and the state-led coordination with firms led to fair redistribution (Arrows 2, 3, 5, and 7. Social contract 1: the path from economic growth with redistribution measures to fair redistribution). Redistribution brought about further economic growth (Arrow 8. Social contract 2: the path from redistribution to further growth). The two social contracts of the virtuous cycle between growth and redistribution have been beliefs to East Asians in high growth periods shown in Figure 1.

**Figure 1.** A Causal Mechanism of East Asian Development: Hypotheses and Causal Arrows



Note: The number in parentheses indicate each causal arrow that signifies each hypothesis.

The quantitative analysis examines social contract 1—causation from economic growth and redistribution measures to further redistribution—and social contract 2—causation from redistribution to economic growth—by using the data mainly on World Bank’s world development indicators (WDI). Redistribution is measured by *inequality of household incomes* (henceforth “inequality”) suggested by University of Texas Inequality Project as well as *GINI coefficients* and *tertiary school enrollment* (% gross)<sup>1</sup> by WDI. Economic growth is measured by *GDP per capita growth rates* (constant US \$), and economic capacity is decided by *GDP per capita*. Many socioeconomic indicators such as GDP, exports, and capital formation evolve over time. In order to avoid autocorrelation, I focus on economic growth rates rather than GDP itself. Relative changes in exports or capitals as well as relative differences in education level from  $t-1$  to  $t$  period are also trials to avoid autocorrelation. *Education improvement* is the relative difference of tertiary school enrollment between the previous and present periods. In order to observe longer term trends (e.g., economic growth rates in 5 years interval such as 1960-1964) rather than short term periods (e.g., annual growth rates), I measure these socioeconomic indicators in 5 years interval rather than 1 year interval. When GDP pc is included, the analysis delivers fixed effects model by controlling time.

*War* dummy variable assumes Charles Tilly’s (1985) thesis that war creates strong states. I postulate that by destructing previous privileged classes and social cleavages after major war, states are more likely to lead to redistribution. States which experienced major wars are recorded based on Sarkees and Wayman’s (2010) inter-state war data on wars between the 19<sup>th</sup> and 21<sup>st</sup> centuries, which is a subset of the Correlates of War (COW) Project. After World War II and the Korean War, major wars among great powers were absent, the Cold War resulted in a long peace among great powers, and thus previously established states and new emerged states proceeded the *modern* nation state building. In that state building process, many states initiated redistribution measures such as land

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<sup>1</sup> According to WDI, gross enrollment ratio for tertiary school is calculated by dividing the number of students enrolled in tertiary education regardless of age by the population of the age group which officially corresponds to tertiary education, and multiplying by 100.

reforms. Initial distribution structure after the post-war process had a path dependence effect on redistribution. *Initial distribution* dummy variable is measured by both *GINI* and *inequality* coefficients of the early 1960s, which are coded as 1 if the *GINI* coefficients are less than 40% and as 0 if they are over 40%.<sup>2</sup> *Developed countries* dummy is defined as countries which are ranked the world's 30 largest economies in terms of GDP per capita—except for small states and oil exporting countries—in the investigation in each year. East Asian tigers switched their status from developing to developed countries in the early 1990s. Small or mini-states whose population is less than 1,000,000 are excluded in the quantitative analysis, because their economy as well as growth and redistribution mechanisms would be easily affected by neighboring large states or external shocks. Oil exporting countries may maintain very high GDP per capita and exert redistribution measures from their natural resources. Therefore, I controlled small states and oil exporting countries, when I counted each country's ranking in GDP per capita. In the redistribution analyses, *log-transformed population* is included as control variable, because it is assumed that smaller states are more egalitarian than larger states, because they can more easily resolve collective action problem.

Regional dummy variables identify diversity of political economy among East Asia, Western Europe, Scandinavia, Anglo-Saxon countries, and Latin America. By focusing on the labor's political strength, Esping-Andersen's (1990) welfare capitalism is categorized into liberal versus conservative versus social democratic welfare states. Hall and Soskice's (2001) varieties of capitalism (VofC) literature explains that the firm's coordination modes create differences between liberal market economies (LMEs) and coordinated market economies (CMEs). CMEs include industry-based coordination and group-based coordination.

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<sup>2</sup> First of all, I prioritized *GINI* coefficients in WDI. But when they are not available in some countries, I used *inequality* indicators, which are coded as 1 if they are less than 45% and as 0 if they are over 45%, because they are more conservative in the decision of inequality. If both *GINI* and *inequality* indicators are less than 40% or 45% respectively, they are coded as egalitarian (=1). If some countries are not determinate to decide because of lack of relevant data, they are treated as missing.

Japan, South Korea, and Taiwan had political economy of consensus as far as East Asians shared the two social contracts that from initial redistribution measures economic growth leads to fair redistribution, and that redistribution has increasing returns to further growth. The two paths created the mutually virtuous cycle. East Asia dummy includes Japan and South Korea, because World Bank's WDIs do not include Taiwan as a single country. The second dummy, Western Europe, includes Germany, France, Netherlands, Belgium, Switzerland, Austria, and Denmark. Scandinavia dummy refers to Sweden, Norway, and Finland. These two dummy variables are included into industry-based coordination. Anglo-Saxon is LMEs represented by the United States and the United Kingdom.

This research provides the causal arrow from initial redistribution measures and economic growth to fair redistribution in terms of inequality and advanced education. Consistent economic growth measured by GDP pc growth rates in both present ( $t$ ) and previous ( $t-1$ ) periods may have positive effects on reducing inequality. Advanced education should be the outcome of both fair redistribution and economic growth. Economic growth can also contribute to fair redistribution, in particular if it accompanies redistribution measures. Another causal arrow from redistribution to growth in terms of *GDP per capita growth rates* is tested with growth rates of exports and capitals as well as consistent education improvement in both present ( $t$ ) and previous ( $t-1$ ) periods. In economic growth model, developed countries and regional areas are included as dummy variables.

Redistribution model specification 1:  $Inequality = \beta_0 + \beta_1 War + \beta_2 Initial\ distribution + \beta_3 GDP\ per\ capita\ growth\ rates + \beta_4 GDP\ pc\ growth\ rates,\ t-1 + \beta_5 Population,\ logged.$

Redistribution model specification 2:  $Gross\ enrolment\ ratio,\ tertiary\ (\%) = \beta_0 + \beta_1 Inequality + \beta_2 GDP\ per\ capita + \beta_3 Population,\ logged (+ \beta_5 Time: in\ fixed\ effects\ model).$

Economic growth model specification:  $GDP\ per\ capita\ growth\ rates = \beta_0 + \beta_1 Exports\ growth\ rates + \beta_2 Capital\ growth\ rates + \beta_3 Education\ Improvement + \beta_4 Education\ Improvement,\ t-1 + \beta_5 Developed\ Countries + \beta_6 East\ Asia + \beta_7 Western\ Europe + \beta_8 Scandinavia + \beta_9 Anglo-Saxon + \beta_{10} Latin\ America.$

### **III. Historical Origins: The Virtuous Cycle between Growth and Redistribution**

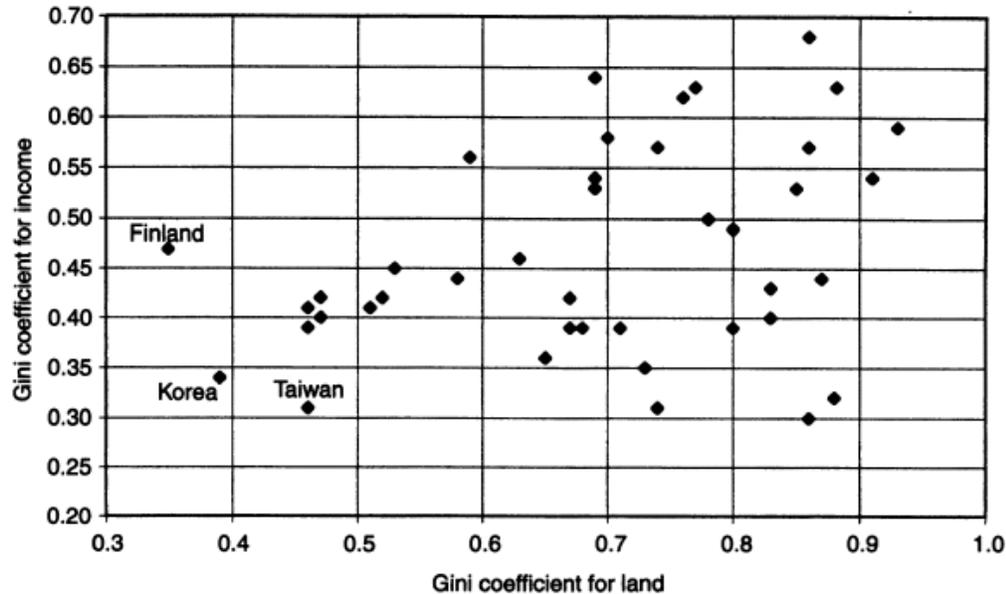
#### **1. The Mobilization System: The Initial Egalitarian Structure of the Post-War Process**

After War and land reforms, the mobilization system created fair redistribution mechanism in East Asia. The initial egalitarian structure provided a favorable precondition for industrialization and by extension the virtuous cycle between growth and redistribution. War significantly enhanced state autonomy and state capacities, and eventually structured the mobilization system and dominant party system in Japan, South Korea, and Taiwan. World War II, the Korean War, civil war in China, and severe competitions with neighboring countries created strong nationalism and competitive nation states in East Asia. Tilly's (1985) logic that "war made the state, and the state made war," is applicable to East Asia, where war made the state more competitive to maximize its potential through mobilization or consensus making in a corporatist regime. The South Korean and Taiwanese states could have extracted many resources from their societies, because the states need to collect and mobilize resources and to check dissident groups (Herbst 1990: 119-21). According to developmental state theory (Johnson 1982; Amsden 1992; Wade 1990; Woo-Cumings ed. 1999), the professionalized bureaucrats have been recruited based on meritocracy, and established rational plans under a strong coordination with firms for economic development and fair redistribution with a long-term blueprint. Developmental states could realize their state goals in the party system insulated from electoral cycles and turnover between governments.

Not only war but land reforms as parts of post-war processes dismantled previous classes like the landed elite class. During the 1950s, South Korea's Rhee Syngman government and Taiwan's KMT regime, both of which were authoritarian governments, voluntarily propelled progressive land reforms not to be defeated in the competition of political legitimacy with their alternative states, respectively North Korea and China. The latter two formulated collectivist planned economies. Figure 2 plots GINI coefficients for income and land distribution for 41 countries for which both measures are available for

a year around 1960. Korea and Taiwan are the two countries closest to the origin, which means that they show the lowest overall inequality.

**Figure 2.** Measures of Income and Land Distributions in 1960



Source: Rodrik et al. (1995: 76). Analyzed from Data in Alesina and Rodrik (1994).

Therefore, East Asian states had weak social cleavages due to post-war state building, and established fairly egalitarian societies in income and land redistributions. Both the land reform and the Korean War made South Korea one of the most egalitarian societies in the world. Although the Korean War standardized Koreans' living downward, the Korean War and the land reform purged the landed elite class.<sup>3</sup> Chosun dynasty aristocrats' previous authority also became meaningless in a new Korean state. Political elites have intentionally created political cleavages like regional sentiments and manipulated new classes like chaebols favorable to them in the political vacuum. After the defeat by

<sup>3</sup> Tain Chung points out that land reforms and the Korean War created the initial egalitarian conditions in South Korea. “양극화, 문제는 분배다.” *The Kyunghyang Daily Newspaper*. June 9, 2014. <[bizn.khan.co.kr/art\\_print.html?artid=201406082151445&med\\_id=>](http://bizn.khan.co.kr/art_print.html?artid=201406082151445&med_id=>).

the Chinese Communist Party (CCP: 中国共产党) in the civil war, the KMT interpreted the failure of its control over mainland China in the early 20<sup>th</sup> century was caused by the failures of land reforms, hyperinflation control, and corruptions within the state apparatus (Chan and Clark 1992: 144-146).

Under war-time mobilization and the absence of previous social cleavages, East Asian states had commonly formed the dominant party system or a conservative party dominance. A single party dominance was maintained for a long time not only by Japan's LDP and Taiwan's KMT but by Korea's conservative parties, which rebranded its party name even though they consisted of the same power blocs. Social cleavages in East Asia structured the right-oriented dominant party system, while those in Western Europe kept balance of power between the left and the right.

**Table 1.** GINI Coefficients: Inequality of Income Distribution

		1965	1970	1976	1984	2011
East Asia	Japan	0.380 <sup>s</sup>	0.420 <sup>b</sup>			0.376 <sup>e</sup>
Conservative	South Korea	0.344 <sup>s</sup>	0.332 <sup>s</sup>	0.381 <sup>s</sup>		0.311 <sup>f</sup>
	Taiwan	0.322 <sup>a</sup>	0.293 <sup>s</sup>	0.289 <sup>s</sup>		0.342 <sup>g</sup>
Anglo-Saxon Liberal	United States		0.362 <sup>c</sup>			0.450 <sup>h</sup>
	United Kingdom					0.38 <sup>i</sup>
Continental Europe Corporatist	Germany				0.29 <sup>j</sup>	0.31 <sup>i</sup>
	France				0.38	0.32 <sup>j</sup>
Scandinavian Social Democratic	Sweden				0.24 <sup>k</sup>	0.26 <sup>j</sup>
	Norway				0.25 <sup>l</sup>	0.27 <sup>i</sup>
East Asia Socialist	China				0.28	0.37
Latin America	Brazil	0.520 <sup>d</sup>	0.630 <sup>s</sup>		0.58	0.53
	Argentina				0.43 <sup>m</sup>	0.44

Source: The comparisons are based on GINI indexes of inequality: Indexes on 1965, 1970, and 1976 are cited in Scitovsky (1985: 218) with label s. Indexes of e, f, g, and h are from the Central Intelligence Agency's The World Factbook. All other sources (i, j, k) are from World Development Indicators.

Note: a 1966; b 1971; c 1972; d 1960 ; e 2008; f 2011; g 2011; h 2007; i 2010; j 2005; k 1987; l 1986; m 1986.

Under the mobilization system, economic growth and fair redistribution of assets and income had a synergic effect of further development, and hence the dominant party had a strong leadership in

government performances. Land reforms and fair income redistribution contributed to equal opportunities to education and improvement of labor productivity, and in turn almost full employment (Kwon 1984).<sup>4</sup> Although the Korean government prioritized manufacturing industry over agriculture in the industrial period, it could equalize rural and urban incomes through the costly expedient of a farm-price support program accompanied with subsidized low food prices for consumers (Scitovsky 1985: 218). Consequently, East Asian states' GINI coefficients were lower than other economies such as Latin American countries and even many European corporatist countries (see Table 1).

## **2. Rapid Industrialization with Fair Redistribution Measures**

During East Asia's rapid industrialization period, East Asian governments persuaded the masses of the logic: "economic development first, distribution later."<sup>5</sup> The state's first priority of economic development was to catch up to Western developed countries, whereas social welfare was the secondary priority. East Asian countries were economic overachievers (measured by both GDP per capita and its growth rates) among major economies in particular during their high growth period between the 1960s and 1990s (see Table 2). The authoritarian leaders—Park Chung-hee in Korea and Chiang Kai-shek in Taiwan—who first embarked on the comprehensive national development plan instilled patriotism into their citizens. Higher economic growth and subsequent income redistribution did enhance their political legitimacy.

Therefore, East Asian states perceived social expenditures as unproductive and wasteful outflows. From the 1960s' rapid industrialization period to the late 1990s' financial crisis period, East Asia's

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<sup>4</sup> The number of enrollments in primary school doubled between 1945 and 1955 despite the Korean War's (1950-1953) devastating effects on the whole society. The enrollment in secondary schools increased more than 8 times. The enrollment in universities increased ten times during the same period (Kwon 1984).

<sup>5</sup> Another logic of authoritarian regimes in South Korea and Taiwan was the logic of "economic development first, and democratization later."

governments did not have to be deeply concerned with advanced welfare state building, because the persistently high economic growth accompanied very low income inequality. Furthermore, they could not manage sufficient budgets for advanced social welfare because of the priority of economic development and the necessity of national defense expenditures. They believed that if fast economic growth creates almost perfect employment (hence very low unemployment) and lifelong employment, economic growth itself may enhance their citizens' wellbeing. East Asians did not treat inequality between classes as a source of severe social insecurity. They did not have to worry about social welfare in the period of long-lasting, rapid economic growth. Their implicit consensus of prior growth and subsequent redistribution has a strong self-reinforcement effect among the government, firms, and citizens. The priority of social cleavages may reflect Maslow's (1943) hierarchy of needs, since a society needs to satisfy security—national defense and material survival—first and then seek economic prosperity and democratization in turn (Inglehart 1977).

It was after the late 1990s' financial crises that East Asian states seriously thought of demands for universal welfare. Pressures of globalization and post-industrialization were additional factors to deepen the gap between rich and poor and intensified the demands for extended social expenditures. To South Koreans and Taiwanese, the most salient issue in elections was democratization not inequality or social welfare, while high economic growth consistently led to fair redistribution during the authoritarian rule from the 1960s to 1980s. East Asian states incrementally enhanced public welfare because of electoral competition and political compensation for political pressures from below (Peng and Wong 2010; Ramesh 1995). The main framework of the Korean welfare state was built after the financial crises in the late 1990s and Kim Dae-jung government (1998-2002) (Kwon 2005). As the conditions of bail-out program, the IMF demanded strong reforms of large companies. The financial crises brought about the mass discharge of workers from workplaces. When the myth of full employment through high economic growth was broken after the economic crisis, the Korean government needed to strengthen the social safety net.

**Table 2.** Economic Growth of Major Economies in a Comparative Perspective, Measured by GDP pc

Region	Country	1970	1991	1970-91(%)	1992	2013	1992-2013(%)
East Asia	Japan	15161	32110	3.64	32293	37573	0.72
	South Korea	1968	9591	7.83	10039	23893	4.21
	* Periods before and after South Korea's economic crisis						
	(Year)	(1970)	(1997)	(1970-97)	(1998)	(2013)	(1998-2013)
	GDPpc	1968	13651	7.44	12778	23893	4.26
Anglo-Saxon	USA	21135	32508	2.07	33200	45710	1.53
	UK	18110	28337	2.15	28386	40225	1.67
Western Europe	Germany	17463	30026	2.61	30371	39205	1.22
	France	17428	28471	2.36	28783	35668	1.03
	Netherlands	21287	31503	1.88	31799	42893	1.44
Scandinavia	Sweden	22806	31740	1.59	31189	45551	1.82
Latin America	Brazil	2373	3993	2.5	3912	5823	1.91
	Argentina	4699	4411	-0.3	4872	6195	1.15

Source: World Development Indicators.

### 3. The State's Coordination with Firms

In the rapid industrialization period, firms' higher employment and corporate welfare contributed to redistribution under the state-led coordination. East Asian states could achieve nearly perfect employment by promoting firms' performances in domestic markets and world trades. In East Asia, the state created strong alliance with the firms as national champions, and even fostered the firms to be competitive in world markets. The state gave incentives to their firms—in particular, big companies, called *keiretsu* in Japan and *chaebol* in South Korea. The state imposed performance standards on by using subsidy, such as low-interest capital, and rights to enter new markets. The firms responded to the state's aim for modernization by providing regular workers with corporate welfare, age limit security, high job protection, and lifetime employment. The state approached social welfare practically and flexibly in cooperation with firms and private sector. Corporate welfare and vocational training may enhance the firm's productivity (Hall and Soskice 2001; Swenson 2002). As far as the virtuous cycle between growth and redistribution continued, firms could provide enough jobs with lifetime

employment and high job protection. High economic growth consistently ensured a high rate of employment (low rate of unemployment) and high protection of job market (see Table 3).

South Korea as a developing country needed a strong cooperation with chaebols for strategic plans and compulsory savings to overcome lack of capital, technology, and skilled labor (Fields 1989: 1073-89). The military government and chaebols found a formula of political exchange to satisfy the two sides in a symbiotic alliance network (Kim and Im 2000: 28). Historically, democracies have permitted political participation of the labor, while authoritarian regimes harshly suppressed trade unions and labor movements. Unlike general authoritarian leaders, Park Chung-hee, South Korea's coup leader, proposed progressive social policies to enhance the industrial workers' welfare. The coordination between his regime and large firms made it possible to provide regular workers with major social insurance programs, such as Industrial Accident Insurance, National Health Insurance, and the National Pension Program (Kwon 1999).

After democratization in South Korea and Taiwan, their welfare regime had chances to evolve into more democratic corporatist regime. The Korean government should have carried out labor market reforms after the financial shock in the late 1990s. But President Kim Dae-jung established the tripartite Employees-Employers-Government Committee in 1998 to reach social consensus for labor and welfare reform. Two major labor unions such as the Federation of Korean Trade Unions (한국노총) and the Korean Confederation of Trade Unions (민주노총) participated in this committee with another. This committee was able to produce a broad-based social consensus for welfare reform (Kwon 2003). Especially in South Korea, the government initiated social movement for citizens' wellbeing. In 1970, Park Chung-hee's regime fostered Saemaeul Movement (the New Community Movement) to modernize the rural Korean economy and enhance people's education and wellbeing with the combined efforts between the government and the private sector. In Taiwan, trade unions were controlled by the state during the martial law period. Once this oppressive law was lifted in 1987, trade union movements and the Taiwan Labor Front in particular, started to mobilize workers. They

demanded political freedom and higher wages, and the number of strikes increased sharply (Chen et al. 2003). Taiwan introduced unemployment insurance with a training program package in 1999.

**Table 3.** Unemployment, Total (% of total labor force) (modeled ILO estimate)

		1991	1995	2000	2005	2010
East Asia	Japan	2	3	5	4	5
Conservative	South Korea	2	2	4	4	4
Anglo-Saxon	United States	7	6	4	5	10
Liberal	United Kingdom	9	9	6	5	8
Continental Europe	Germany	6	8	8	11	7
Corporatist	France	9	12	10	9	9
Scandinavian	Sweden	3	9	6	8	9
Social Democratic						
East Asia	China	5	5	5	4	4
Socialist						
Latin America	Brazil	7	6	10	9	8
	Argentina	6	19	15	11	8

Source: World Development Indicators.

#### IV. Empirical Tests for the Virtuous Cycle: Generalizable beyond East Asia?

##### 1. Social Contract 1: Growth with Redistribution Measures Leads to Fair Redistribution.

The quantitative analysis tests East Asia's two social contracts: 1. the path from economic growth with redistribution measures to fair redistribution; and 2. the path from redistribution to further growth. According to Table 4 (particularly in Equity model), war experiences and initial distribution structure have strong path dependent effects on redistribution. Consistent economic growth measured by GDP per capita growth rates in both present ( $t$ ) and previous ( $t-1$ ) periods may have positive effects on reducing inequality. If a country creates egalitarian structure, consistent economic growth may contribute to fair redistribution. East Asian states created a mobilization system since their state building. They could create egalitarian societies from war and land reforms. Table 1 shows that East

Asian countries are more egalitarian than Latin American countries, although both of them are potential candidates for advanced economies. Table 3 indicates that East Asia's consensus-based economies such as Japan and South Korea show much lower unemployment rates than any other advanced economies like LMEs, CMEs and, even Scandinavian countries. They are contrasted with Latin American countries with high unemployment rates and GINI coefficients. East Asia was also lower in GINI coefficients than LMEs. Economic growth itself does not have a stronger effect than initial distribution measures in term of predicted importance (standardized beta). However, the analysis indicates that the consistent economic growth from the previous to the present periods may have a positive effects on reducing inequality.

**Table 4.** Causes of Low Inequality: Initial Distribution and Economic Growth

Dependent Variable: Inequality of Household Incomes					
Model		Equity	Growth	Final	
Variable Property	Variable Name				Standardized Beta
Initial Distribution	War	-2.381*** (0.281)		-1.630*** (0.301)	-0.11835
	Initial Distribution	-9.501*** (0.250)		-7.935*** (0.266)	-0.60388
Economic Growth	GDP per capita, growth rates		-0.035*** (0.007)	-0.020** (0.008)	-0.04759
	GDP per capita, growth rates, $t-1$		-0.078*** (0.008)	-0.043*** (0.008)	-0.10135
	Population, logged	0.807*** (0.086)	-0.137 (0.085)	0.777*** (0.092)	0.167645
	Constant	35.134*** (1.351)	46.335*** (1.403)	35.339*** (1.487)	
	$N$	2,222	2,518	1,600	
	$R^2$	0.504	0.064	0.473	

Notes: Standard errors in parentheses (\*, \*\*, and \*\*\*: significance at the 10, 5, and 1% levels).

Table 5 shows that advanced education is expected to be improved not only by economic capacity but also by very low inequality. Even though time is controlled in fixed effects models, economic

capacities (GDP per capita) created by high economic growth (GDP pc growth rates) may contribute to fair redistribution in particular advanced education (gross enrollment ratio of tertiary school). Results in Tables 4 and 5 as well as qualitative analysis and descriptive statistics in section III find that economic growth may contribute to fair redistribution, in particular if the state created an egalitarian structure since its state building. Social contract 1 that growth with redistribution measures leads to further redistribution can be generalizable beyond East Asia.

**Table 5.** Causes of Advanced Education: Growth and Redistribution

Dependent Variable: Gross Enrolment Ratio, Tertiary (%)				Fixed Effects			
Model		Equity (1)	Growth (2)	Final (3)	Growth (4)	Final (5)	
Property	Name	Beta					
Redistribution	Income Inequality	-1.092*** (0.054)		-0.391*** (0.065)	-0.124		-0.223 (0.148)
Economic Growth	GDP per capita		1.001*** (0.022)	0.884*** (0.033)	0.549	0.738*** (0.187)	0.657*** (0.182)
	Pop. logged	1.212*** (0.264)	1.629*** (0.197)	1.093*** (0.237)	0.077	-33.765*** (4.721)	-34.671*** (5.919)
	Group (year)					1.309*** (0.111)	1.367*** (0.136)
	Constant	48.925*** (4.972)	-11.823*** (3.210)	13.410*** (4.935)		518.317*** (73.760)	551.210*** (95.093)
	<i>N</i>	2,336	4,022	2,144		4,022	2,144
	<i>R</i> <sup>2</sup>	0.158	0.339	0.405		0.727	0.760

Notes: Standard errors in parentheses (\*, \*\*, and \*\*\*: significance at the 10, 5, and 1% levels). In fixed-effects (within) regression of model 4, R-sq: within = 0.7266; between = 0.0027; overall = 0.0241; In fixed-effects (within) regression of model 5, R-sq: within = 0.7596; between = 0.0089; overall = 0.0314.

## 2. Social Contract 2: Redistribution Leads to Further Economic Growth.

The next analysis tests if not only the government's plan rationality such as export promotion and capital accumulation but also consistent improvement of advanced education leads to economic growth measured by GDP per capita growth rates. East Asian governments have promoted exports in

world trades and accumulated capitals for investment in key industries through foreign direct investments, foreign aids, and national savings. The addition of the previous ( $t-1$ ) and present ( $t$ ) periods in improvement of tertiary school enrollment implies that the consistent improvements of human capital have a long term effects on economic growth. In East Asia, fair redistribution measured by advanced education have been the driving force for high economic growth.

**Table 6.** Causes of Economic Growth: Plan Rationality and Advanced Education

Dependent Variable: GDP per capita growth rates in 5 Years Interval							
Model		Growth	Equity	Total		Final	
Variable Property	Variable Name	Model 1	2	3	4	5	Beta
Plan Rationality	Exports growth rates	0.284*** (0.004)		0.234*** (0.008)	0.227*** (0.008)	0.218*** (0.008)	0.502
	Capital growth rates	0.008*** (0.001)		0.009*** (0.001)	0.008*** (0.001)	0.008*** (0.001)	0.101
Redistribution	Education Improvement		0.556*** (0.045)	0.346*** (0.037)	0.381*** (0.037)	0.384*** (0.036)	0.196
	Education Improvement, t-1		0.333*** (0.050)	0.255*** (0.041)	0.315*** (0.041)	0.315*** (0.040)	0.144
	Developed Countries				-4.744*** (0.635)	-9.213*** (0.988)	-0.272
	East Asia					10.588*** (1.887)	0.111
	Western Europe					3.220*** (1.190)	0.068
	Scandinavia					4.315*** (1.540)	0.059
	Anglo-Saxon					6.091*** (1.562)	0.082
	Latin America					-5.323*** (0.873)	-0.112
	Constant	1.103*** (0.295)	7.006*** (0.471)	0.502 (0.499)	2.072*** (0.535)	3.522*** (0.570)	
	<i>N</i>	4,328	2,127	1,830	1,830	1,830	
	<i>R</i> <sup>2</sup>	0.564	0.104	0.390	0.408	0.433	

Notes: Standard errors in parentheses (\*, \*\*, and \*\*\*: significance at the 10, 5, and 1% levels).

Plan rationality and consistent improvement of advanced education may lead to further economic growth, as shown in statistical tests with their positive signs and very high statistical significance. The two factors imply that economic growth causes increasing returns for development in the long term. Growth rates of exports and capitals are the government's measures for economic growth, whereas consistent improvement of advanced education can be considered as its institutional support for redistribution. Developed countries are expected to have lower economic growth rates, because they have been already advanced in their economy in their long industrial revolution history. It implies that late industrializing countries may have the second mover's advantage as East Asian tigers did in the past. Although regional variations are noticeable, regional dummies do not enhance explanatory power significantly. R-squared (= 0.433) of Model 5 with many regional dummies is not more remarkable than that of Model 4 (= 0.408) without regional dummies. Table 6 shows that East Asians' another contract that redistribution leads to economic growth is also applicable beyond East Asia.

## **V. Revising *Varieties of Capitalism* by Bringing the State Back In**

### **1. The Logic of East Asian Welfare States: Health Insurance and Public Education**

#### 1) Progressive Health Insurance Programs

In Japan and South Korea, extensive health insurance programs were introduced during their early industrial stage (see Table 7). Japan was the first Asian country that introduced a comprehensive social insurance program for financing health care using Germany's implementation of progressive healthcare as a model (Jeong and Hurst 2001; Walker and Wong 2005; Wagstaff 2007; Hakoyama 2010; Yu 2014). Japan introduced the Health Insurance Law in 1922 (implementation: 1927) (Fukawa 2002), and provided universal health coverage with virtually all access to medical services at an affordable cost beginning in 1961 (Shibuya 2011).

In South Korea, President Park Chung-hee introduced the National Health Insurance program in 1977. It was a compulsory health insurance program that has been expanded progressively over the years and was extended to cover the entire population in the reform of 1998 with very low medical costs. He imitated reformative social policies of Bismarck, *the Iron Chancellor* of the late-19<sup>th</sup> Century Germany. The Bismarck model was designed to retain the hierarchy by holding core loyal elites, such as public officials and military officers, but South Korea's social policies were progressive considering its status of a developing country. By 1990, about 94% of Koreans were enrolled in a health insurance plan. In 2007, 96% of the Korean population was covered by the national health insurance program, and the remaining 4% was covered by medical aid (Jeong 2011). The Korean government entirely sponsors the Medical Assistance Program for poor people unable to pay insurance premiums or make co-payment for services. Both South Korea and Taiwan have developed their health care systems with reference to the Bismarck model (Walker and Wong 2005). In Taiwan, National Health Insurance was introduced in 1995 with a central management system (Kwon 2005).

**Table 7.** Coverage by Major Social Security Programs in the Private Sector in 2000

Country	Proportion of people eligible to benefits, either as a percentage of the total population (national health insurances), or as a percentage of the labor force (other schemes)
<b>Japan</b>	
Universal health coverage	Since 1961 virtually all access to medical services at an affordable cost (Health Insurance Law was introduced in 1922; implemented in 1927)
<b>South Korea</b>	
National Pension Plan	44.4
National Health Insurance	100.0 (introduced in 1977; by 1990, about 94%).
<b>Taiwan</b>	
Labor Insurance	46.6
National Health Insurance	96.2 (introduced in 1995)

Source: Asher (1992: 94); Cited in Croissant (2004: 512); author's own compilation for Japan's case.

## 2) Institutional Support for Universal Public Education

East Asia's high economic growth was accompanied by advanced public education, health insurance programs, nearly perfect life-long employment with high job protection, and low inequality. Due to its employment effect rather than the redistribution effect through welfare spending and taxation, income redistribution in East Asia is more egalitarian than Anglo-Saxon liberal states.

Income redistribution in Japan has been more equal than in most Western countries and, compares favorably with that of Scandinavian countries (Pempel 1989: 155, 180, cited in Mishra 1999: 88-89). Public education and health services have been provided more extensively in East Asia than in Latin America, although most countries in these regions—representatively South Korea versus Brazil—were developing societies under authoritarian regimes. East Asians' belief that growth will enhance redistribution is inspired by rapid industrialization first, and by subsequent universal public health insurance programs and institutional support for human capital investment. This type of social consensus or conservative corporatism is contrasted with democratic corporatism or social partnership in European developed countries. Consequently, egalitarianism contributed to East Asia's more advanced education level than other societies as shown in Table 8.

The government's institutional support for public education as well as fair redistribution improved the level of education among the population. In turn, East Asian governments and large firms have recruited their members by meritocracy. The Korean government could establish meritocratic bureaucracy with the supply of enough university-educated elites (You 2005). Chaebols could also recruit well-educated employees with the help of fair redistribution and hence advanced public education. South Korea has consistently accumulated human capital since its state building (Nehru and Dhareshwar 1993; Noland and Pack 2003: 38-39). Considering the very high rates of young Koreans' university education (over 70%) these days, South Korea's human capital would be ranked very high even compared with very advanced or affluent countries. Enhanced human capital helped

Korean industry switch from light industry to heavy industry and eventually to IT industry, since the Korean economy increased returns from investment in these key industries by hiring well-educated young elites. Therefore, fair redistribution through health insurance programs and public education intended not only to enhance citizens' wellbeing but also to increase productivity for industries.

**Table 8.** Human Capital Accumulation: School Enrollment, Tertiary (% gross)

		1975	1980	1985	1990	1995	2000	2005	2010
East Asia	Japan	25	31	29	30	40	49	55	58
Conservative	South Korea	8	13	32	37	49	79	93	101
Anglo-Saxon	United States	51	53	58	71	78	68	81	93
Liberal	United Kingdom	18	19	21	27	48	58	59	61
Continental Europe	Germany				33 <sup>a</sup>	44			57 <sup>b</sup>
Corporatist	France	24	25	29	36	49	57	54	56
Scandinavian	Sweden	23	36	31	31	42	67	82	75
Social Democratic									
East Asia	China	N.A.	1	2	3	5	8	18	23
Socialist									
Latin America	Brazil	10	11	10 <sup>b</sup>	11	12 <sup>c</sup>	16	26	N.A.
	Argentina	27	22	36	38 <sup>a</sup>	37 <sup>d</sup>	53	64	75

Source: All other sources are from World Development Indicators. Note: a 1991; b 1986; c 1996; d 1994.

## 2. Modeling East Asia: Conservative Welfare States and Statist Market Economies

### 1) Conservative Welfare States

East Asia's social policies have been incrementally proposed as a posterior prescription of economic development for higher productivity. Although East Asia has shown a very low level of social expenditures compared with Western Europe (Haggard and Kaufman 2008), it has provided their citizens with universal health insurance programs and institutional support for public education. Although social security legislation was delayed in East Asia compared with Western Europe, East Asia's welfare is not passive considering the timing of industrialization. The early 20<sup>th</sup> century's introduction of welfare regimes in Europe was much later than the 18<sup>th</sup> century's industrial revolution.

Of course, in East Asia, institutional introduction of welfare regimes started in the 1990s, when Korea experienced the financial crisis and when Taiwan accepted democratization. However, East Asian countries created the egalitarian structure after war and land reforms, and then adopted progressive measures for redistribution in the 1970s' early industrial stage. East Asia is more advanced than Europe in terms of their industrial stage, because East Asia provided social welfare in the early stage of industrialization (Hort and Kuhnle 2000).

East Asian conservative welfare states emphasize the state's coordination capacities which were not analyzed by the previous diversity theses. Their conservative corporatism emphasizes more vertical, cohesive coordination capacities unlike Europe's democratic corporatism. Since East Asian firms positively participated in economic nationalism promoted by their states, they provided extensive corporate welfare, including high job protection, and full-time and lifetime employment with the government's guidance. The East Asian model also has communitarianism and collectivist cultures based on Confucianism, although it is political economy of a narrow consensus unlike a broad consensus in European corporatism. The state's great role in welfare programs has been explained by the productivist welfare state (Holliday 2000) and the developmental welfare state (Kwon 2005; Pierson 2004; Aspalter 2006; Kwon and Holliday 2006).

In East Asia, the state's role as late comers in modernization was important under the wartime mobilization system during the Cold War era. In East Asia's industrialization, tripartite scaffolding of nationalism, wartime social mobilization, and goal culture in the communitarian and collectivist society may operate as the formula (causal mechanism) for developmental states (Woo-Cumings 1999: 8). East Asian states exerted strong leadership in their coordination among domestic social actors. According to developmental state theory, East Asian states suggested to firms and labor unions rational plans for national wealth, and guided their societies for economic development and hence national development (Johnson 1982; Amsden 1992; Wade 1990; Woo-Cumings ed. 1999).

East Asian states' social policies have aimed for modernization to catch up with the developed West and hence for higher productivity and economic growth. Social policies contributed to economic

development through capital mobilization like pension funds or through improving labor power such as work injury and health insurances. Universal health welfare programs contributed to improving citizens' life satisfaction. Universal education policies have been devised not only for enhancing citizens' life standard but for human capital in economic development.

## 2) Statist Market Economies: Political Economies of a Narrow Consensus

East Asian conservative welfare states can be defined as statist market economies (SMEs) in their corporatist strategies. Labor markets in East Asia are more rigid, and income redistribution is more egalitarian than the liberal market economies. The state-society relation identifies differences between North America versus Europe versus East Asia more clearly than the previous VofC discourse. Despite the commonality of dense coordination between the state and firms, firms in Europe have a leading role in the coordination between the state and firms, while East Asian states have a strong leadership in consensus making. In Anglo-Saxon countries, firms have a higher autonomy in markets than the other advanced economies. As an expansion of the VofC research, I define East Asian welfare states as conservative welfare states and statist market economies (SMEs). Strong consensus making through non-market coordination (strong coordination) produces CMEs and SMEs. Weak coordination that leaves actors' interaction in markets makes LMEs. If the state coordinates with firms in a balance of power between the two, the coordination creates CMEs. When the state coordinates by its authority and hierarchical regimes, the coordination creates SMEs. SMEs are another type of *political economies of consensus* like CMEs, but they are based on a narrow consensus, not a broad consensus; whereas, LMEs are political economies of competition. The state-society relation along with coordination modes identifies regional differences between Europe and East Asia more clearly as shown in Figure 3.

I do not argue that this narrow consensus makes the East Asian developmental states' social policies Pareto optimal. Garret and his colleagues (Garrett 1998; Lange and Garrett 1985: 799) find that social democratic corporatism may lead to a positive cycle between economic growth and

redistribution. Encompassing labor movement decreases the temptation for “free riding” of organization in redistribution strategies. Strong left parties reduce uncertainty in labor movements. Therefore, corporatist compromise in social democratic corporatism may enhance economic growth. In their perspective, East Asian developmental states’ corporatism exclusive to labor must be an incomplete consensus among the state, capital, and labor that would make the positive cycle between growth and redistribution fragile. Developmental states could move to Pareto optimum, if their programmatic economic growth strategies with wise statecraft, plan-rationality, and long-term goals accompany broader consensus with labor in the framework of social democratic corporatism.

**Figure 3.** Coordination Structure in *Varieties of Capitalism*

		The state-society relation	
		The state-led	The society-led
Mode of coordination	Non-market	Conservative welfare states  (Statist market economies: Political economies of a narrow consensus)	Social democratic welfare states Corporatist welfare states (Coordinated market economies: Political economies of a broad consensus)
	Market		Liberal welfare states (Liberal market economies: Political economies of competition)

Statist market economies are characterized as 1) the state-centric plans for state competitiveness as late-comers in the early industrial stage, 2) economic growth matched equity, specified by universal health insurance programs and public education, and 3) statism and nationalism under serious competitions between East Asian great powers, communitarian traditions and collectivist hierarchies based on Confucianism, and 4) the state’s dense coordination with firms, and its bold investment in strategic industries. This capitalism has been an alternative of individualized capitalism of the West,

which is commonly labelled as liberal Anglo-Saxon countries, corporatist continental European countries, or social democratic Scandinavian countries.

This research expands the diversity thesis presented by Katzenstein (1985) and Hall and Soskice (2001) in the context of the state-centric approach and corporatism. I evaluate the diversity thesis in the vein of the state-centric approach as a subtype of new institutionalism. East Asian states have a great role in social development—not to mention economic development—by making the egalitarian structure and fair redistribution with healthcare and public education. The state as an actor or a society-shaping institutional structure is not only an institution which coordinates social actors domestically and also an institutional actor which pursues its own interests in the international arena (Skocpol 1985). The international pressures and inter-state competitions in the institutional, world-historical contexts may diminish state autonomy; therefore, states need to enhance state autonomy and state capacities to realize policy goals (Skocpol 1979: 19-24; Evans et al. 1985: 6-8).<sup>6</sup> As long as competitions among nation-states remain an important reality, it is most productive to employ the state as the main unit of analysis. The state is a primary institutional actor that leads domestic social actors to make consensus on economic development and social welfare domestically and then to negotiate with their counterparts—the other states—for the state's aims.

Of course, there are criticisms on the logic that economic growth can enhance wealth redistribution. Stubbs (2005) argues that it is an irresponsible and incomplete prescription for the government to leave national wellbeing to chances like fluctuating growth rates. Tilly and Albelda (1996: 195) point out that it is morally inappropriate, theoretically indeterminate, and empirically unwarranted to subordinate income redistribution to economic growth. I agree that economic growth does not necessarily lead to redistribution and that authoritarian regimes of Korea and Taiwan were

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<sup>6</sup> State autonomy is state's independent potentials to formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society. State capacities are state's abilities to implement official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic circumstances (Evans et al. 1985: 9).

repressive to the labor. However, East Asia's economic growth was not an ephemeral, but a *long-term consistent phenomenon* exclusively about more than three decades. East Asia's industrialization was not devised only for economic growth; but its economic growth plan accompanied fair redistribution measures, although they were not universal social policies. Korea and Taiwan had good records on fair redistribution considering their authoritarian regime and developing country status. East Asian states could persuade their citizens that economic growth may have a diffusion effect for redistribution with the government's leadership, systematic plans, and long-term goals. They could effectively repress their citizens' desire for advanced welfare, although they have low social expenditures and immature welfare regimes due to their priority of economic development over redistribution.

To conclude, East Asian welfare states have a relatively short history of welfare state development and a priority of industrialization over welfare in development strategies in high economic growth period, but they achieved nearly perfect employment, advanced public education, universal health insurance programs, and fair redistribution. East Asia's fair redistribution was as impressive as fast economic development. During a very long period, for thirty years from the 1960s and to the 1990s, East Asian states showed *consistently*—not temporarily—high economic growth. Of course, growth without redistribution may lead to neither redistribution nor further growth. Development states' growth-oriented strategies would not be the best formula for an advanced welfare regime. But East Asia's initial egalitarian structure provided a favorable condition for economic growth, and then growth with fair redistribution measures could lead to further redistribution, and eventually to long-term economic growth. The state-led coordination created the virtuous cycle between growth and redistribution. This cycle brought about increasing returns or positive feedback for further economic growth; but it did not lead to inequality or decreasing returns for fair redistribution. This diversity thesis contributed to explain the diverse patterns of welfare states, since welfare states did not converge into neoliberal welfare states despite globalization pressures. Modeling East Asian welfare states by *bringing-the-state-back-in* expands the diversity thesis and further points out that East Asia's developmental states and welfare states have been structured by the state's coordination capacities.

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