

Premature Welfare State: Its implication on poverty in East Asia

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1. Research question
2. “Premature deindustrialization” is true?
3. Development of welfare system in late industrialized and industrializing countries is weak?
4. Impact of “premature deindustrialization” on poverty or poverty policies
5. Then, what can be done?

Manufacturing is the engine of growth (Kaldor 1966; Chenery, Robinson, and Syrquin 1986)

Developing countries are turning into service economies without having gone through a proper experience of industrialization. I call this “premature deindustrialization”(Rodrik, 2016).

The path to prosperity through industrialization may have become more difficult(Jesus Felipe, Aashish Mehta, and Changyong Rhee, 2014).

Research Question

Welfare system has been developed in tandem with industrialization during nearly one century in western European countries.

If “premature deindustrialization” is true, development of welfare system in late industrialized and industrializing countries will be weak and must take a different path from western-style system.

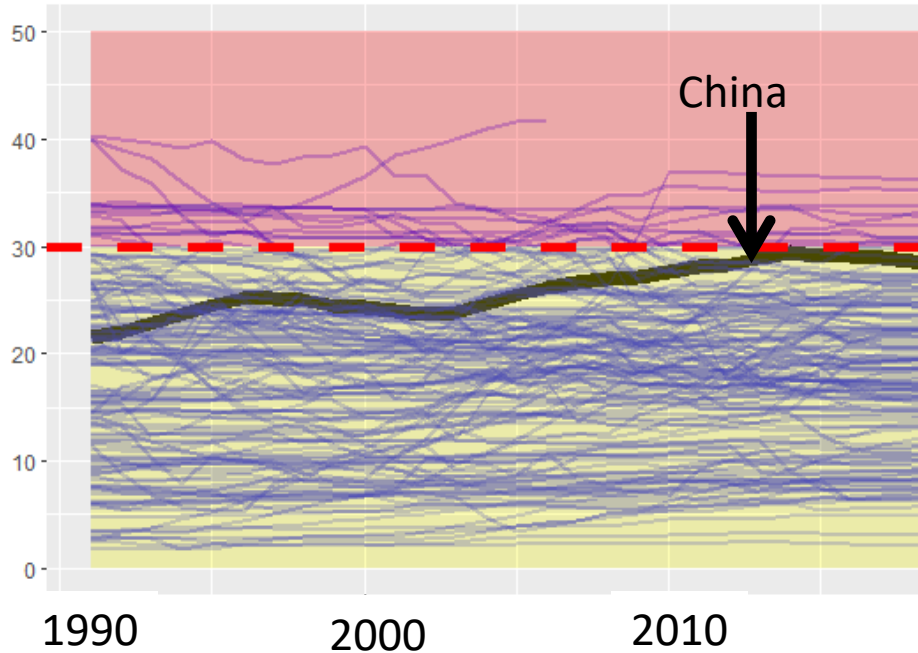
What is the impact of “premature deindustrialization” on poverty or poverty policies in East Asian countries?

“Premature deindustrialization” is true?

Share of Employment in Industry (% of total employment)

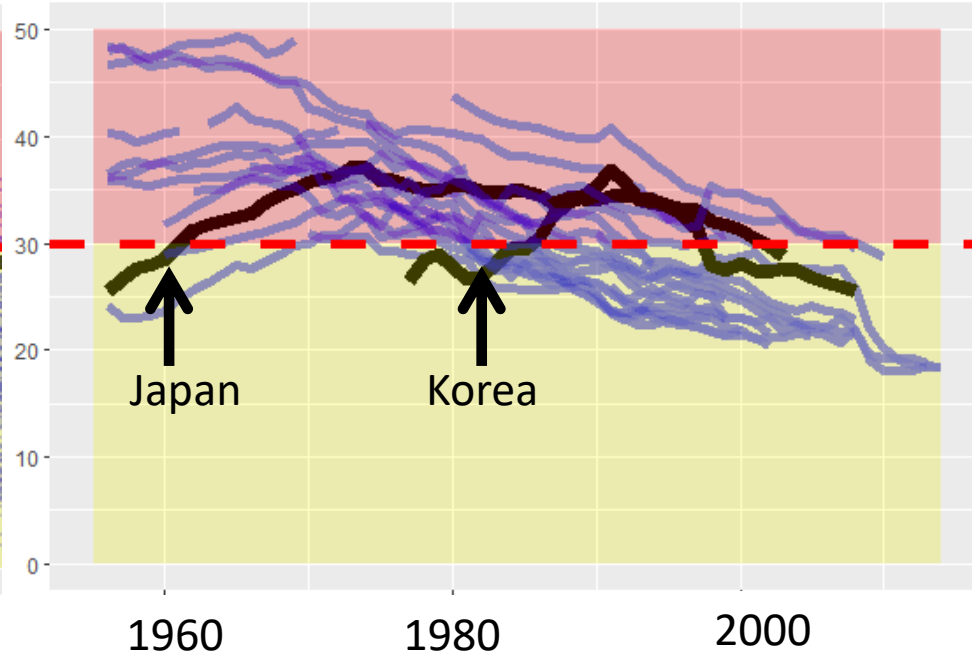
Developing Countries

(%)



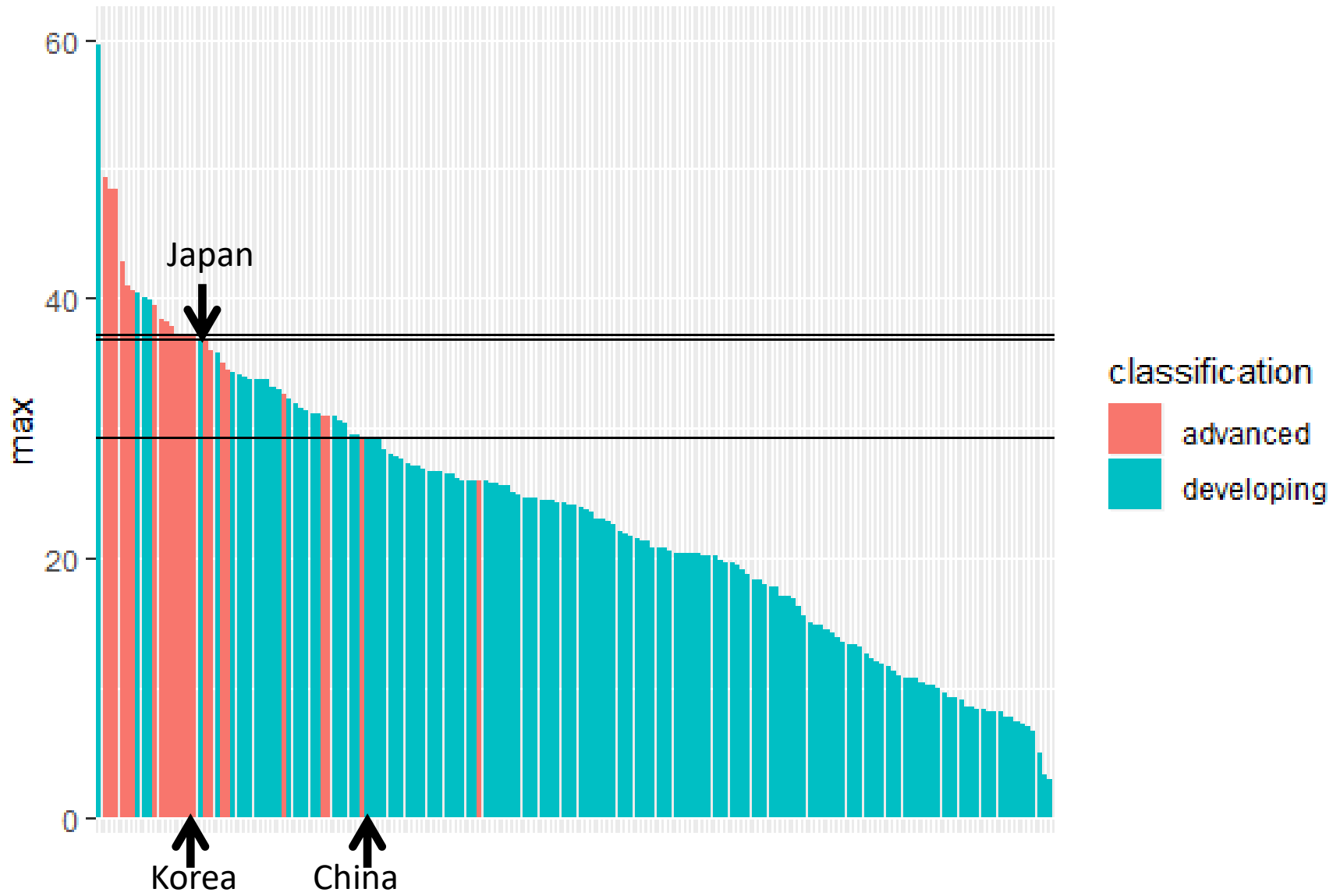
Advanced Countries

(%)



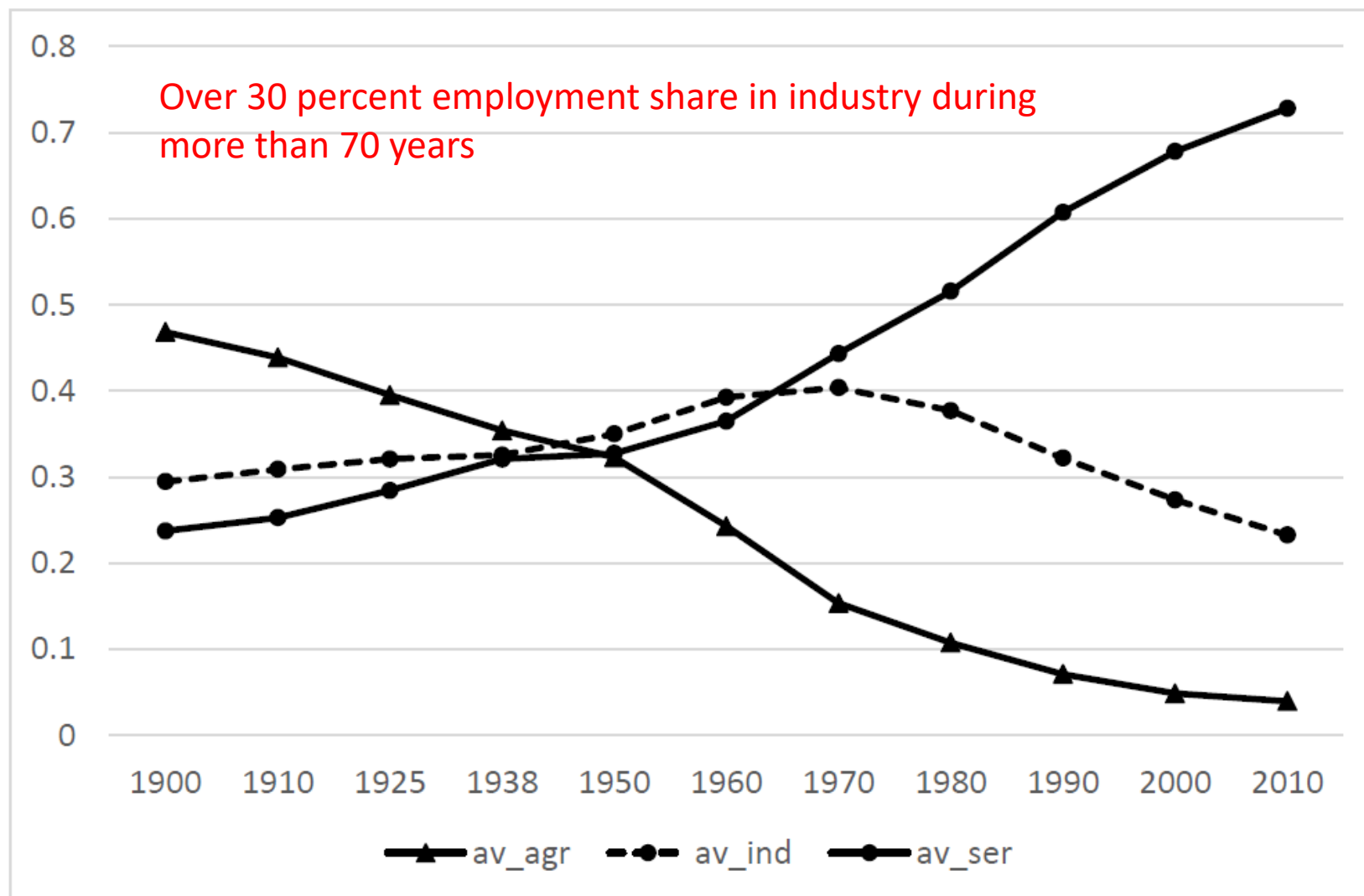
Source: For developing countries, ILOSTAT <https://ilostat.ilo.org/>, and for advanced countries, OECD Data, Employment by activity, <https://data.oecd.org/emp/employment-by-activity.htm>.

Maximum Employment Share of Industry



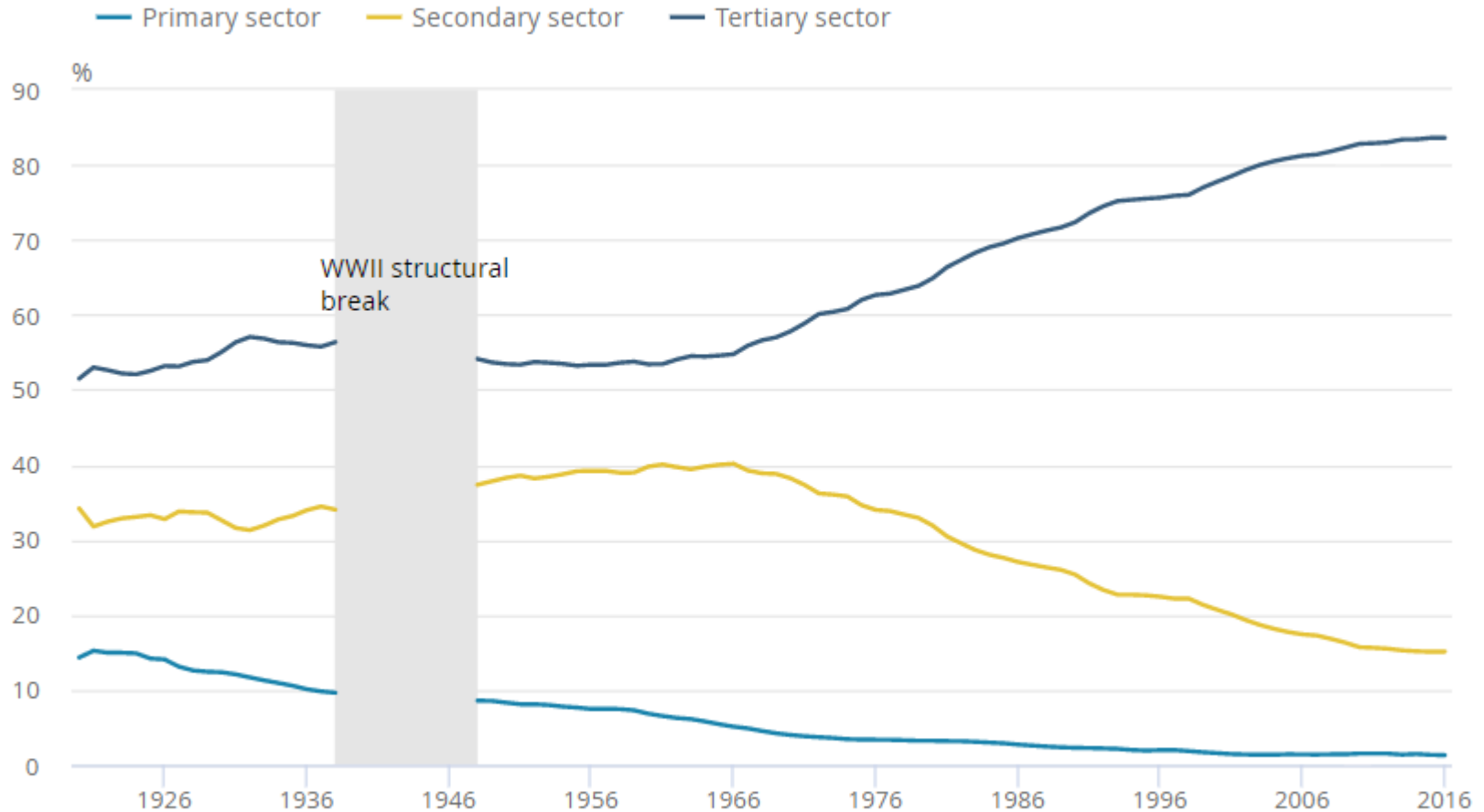
Source: For developing countries, ILOSTAT <https://ilostat.ilo.org/>, and for advanced countries, OECD Data, Employment by activity, <https://data.oecd.org/emp/employment-by-activity.htm>.

Sectoral Employment shares across 173 European regions, 1900-2010



Source: Joan R. Roses and Nikolaus Wolf, Regional Economic Development in Europe, 1900-2010: A Description of the patterns, LSE Economic History Working Papers, no. 278, 2018.

UK sectoral shares of employment, 1920 to 2016

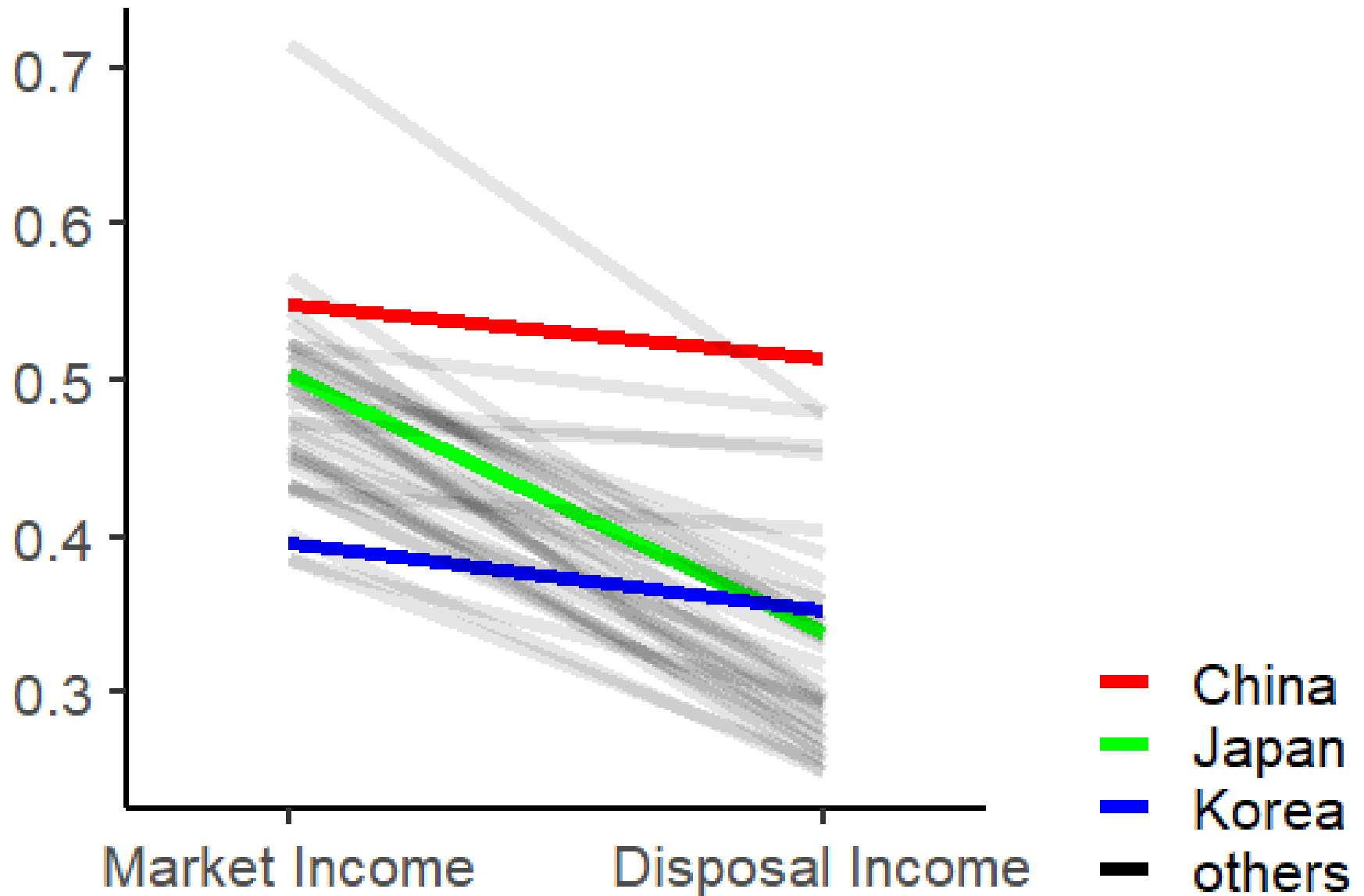


Source: Bank of England - A Millennium of Macroeconomic Data

Blessing Chiripanhura and Nikolas Wolf, Long-term trends in UK employment: 1861 to 2018, <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/april2019/longtermtrendsinukemployment1861to2018>

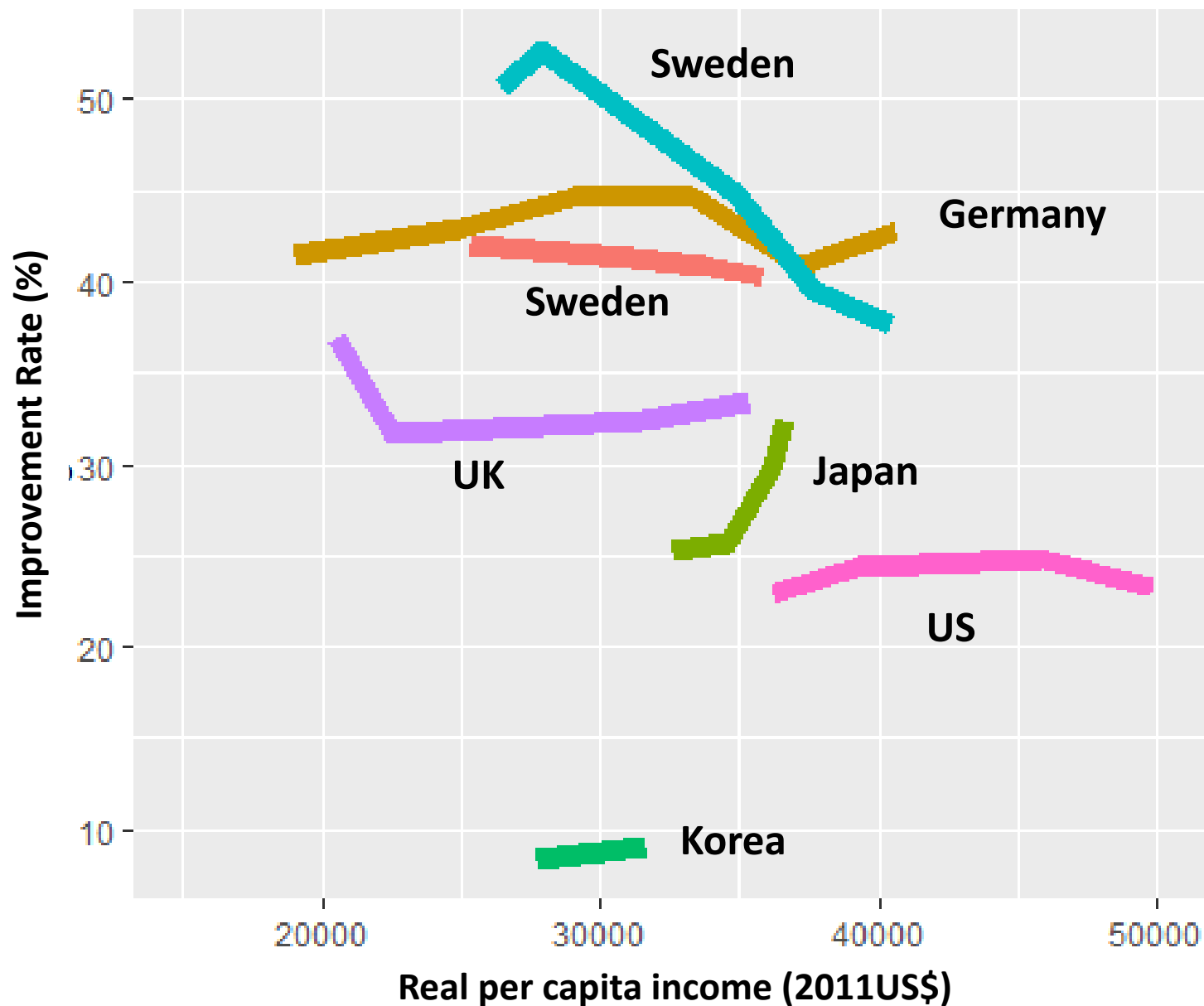
Development of welfare system in late industrialized and industrializing countries is weak?

Gini Coefficients with Market and Disposal Income (38 countries)



Source: OECD Income Distribution Database, <https://www.oecd.org/social/income-distribution-database.htm>

Real Income and Improvement Rate of Income Distribution by Tax and Social Transfer



Source: OECD Income Distribution Database and Penn World Table version 9.1

Impact of “premature deindustrialization” on poverty or poverty policies

social

weak labor union, weak bargaining power of labor ->
dualism in labor market, wage inequality

policy

dualism or fragmentation of social insurance
-> low coverage of employee's social insurance
weak liberal parties in politics
-> low social expenditure, weak redistribution

East Asia

Public pension is sustainable ?
-> future uncertainty, generational conflict

Then, what can be done ?

1. Improvement of fragmentation in labor markets and social insurance
2. Tax-funded allowance rather than social insurance
3. Out-reach activities to find and support needy people in the community. This is getting more and more important because of low coverage of benefits

Thank you !