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Building Assets for the Poor as a Strategy to Social Inclusion

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Correspondence to :

Li-Chen Cheng

Professor

Department of Social Work

National Taiwan University

Address : 1, Roosevelt Road, Sec. 4, Taipei, Taiwan

E-Mail :lccheng@ntu.edu.tw

Phone # :886-2-33661256

Fax # : 886-2-23648759

Abstract

Taiwan became one of the fast-growing “four tigers” in the East Asian area during 1960s. Since the mid-1990s, Taiwan has suffered sluggish economic growth as a result of an economic breakdown in 1997. Consequently, the economic growth was slowed down and a sharp decline in asset values, falling real wages, and rising unemployment rates were witnessed. Years of neglect in providing social security to the needy citizens by the government have devastatingly impacted the disadvantaged citizens, for example the poor and the children, during this staggering economic recession. This paper outlines the growing economic disparity in assets between the rich and the poor after the economic recession and discusses the impacts of two programs that building assets for the poor. Implications for policy innovation were included.

A. Background

Since 1960s, Taiwan had maintained a strong and rapid economic growth by effectively taking advantage of an active export industrial technology development, which successfully transformed Taiwan from an agricultural society into industrialized country in a short period of time. The economic success was marked by an average 8.0% economic rate since 1965. Household income and assets values increased dramatically in the past two decades, as indicated in table 1 (DGBAS, 2004), which included Taiwan then as one of the fast-growing ‘four tigers’ in the East Asian area (Dahlman and Sanaikone, 1997).

Table 1: Average household disposable income, consumption, and net savings.

Year	disposable income	consumption	net savings	saving rate%
1975	401,602	336,846	64,756	14.87
1980	938,648	767,742	170,906	23.17
1985	1,671,392	1,621,580	409,812	23.52
1990	2,963,628	2,358,684	604,904	28.80
1995	4,983,496	4,124,738	858,758	27.15
1995/1975	12.4	12.2	13.3	1.8

Unit: million New Taiwan dollars.

In 1997, the financial breakdown started from Thailand which ignited a chain reaction of economic recession all over the Asian area. With no exception, the recession has slowed down the once rapid sustained economic growth in Taiwan (Haggard, 2001; Kerongkaew, 2002), and witnessed a sharp decline in asset values, falling real wages, and rising unemployment rates (Haggard, 2001; Lee, 2002). As indicated in table 2, a sluggish growing trend of average household disposable income, consumption, and savings was noticed after 1999 (DGBAS, 2004). However, what raised concern was the downturn trend in household assets growth in terms of net savings, when the level of disposable income was maintained and improved gradually.

Table 2: Average disposable income, consumption, and net savings after 1995.

Year	Disposable income	consumption	net savings	saving rate%
1995	4,983,496	4,124,738	858,758	27.15
1996	5,593,368	4,539,920	1,053,448	25.65
1997	5,957,964	4,922,262	1,035,702	26.52

1998	6,390,158	5,315,074	1,075,084	25.98
1999	7,793,681	5,618,452	1,175,229	26.29
2000	7,090,185	5,955,375	1,134,810	25.66
2001	7,113,669	6,016,160	1,097,509	24.27
2002	7,212,647	6,121,771	1,090,876	23.21
2003	7,244,092	6,155,948	1,088,144	24.42

Unit: million New Taiwan dollars.

Before the Asian economic recession, Taiwan was marked not only by its high economic performance but also by its modest income disparities when compared to the developed countries in the world (Gottschalk and Smeeding, 1997). However, the economic gap was widened due to the uneven impacts as a result of the economic recession. According to the DGBAS (2004), the income gap between the rich (the highest 20%) and the poor (the lowest 20%) has increased from a ratio of 4.18 in 1980 to 6.07 in 2003, indicated in table 3. And the once higher income disparity between the highest 10% of disposable income to that of the lowest 10% in 2001 came back to that of 1980s. However, it was the widening assets disparity that raised the public attention. According to the DGBAS (2004), the assets gap between the highest 20% of savings share and the lowest 20% has increased even earlier before 1995, but grew wider after 2000. But even more notably, the value of assets of the rich was 428 times that of the poor in 2003. In short, it was the sharp inequality in assets distribution that divided the rich and the poor, instead of income disparity.

Table 3: Household income inequality indexes.

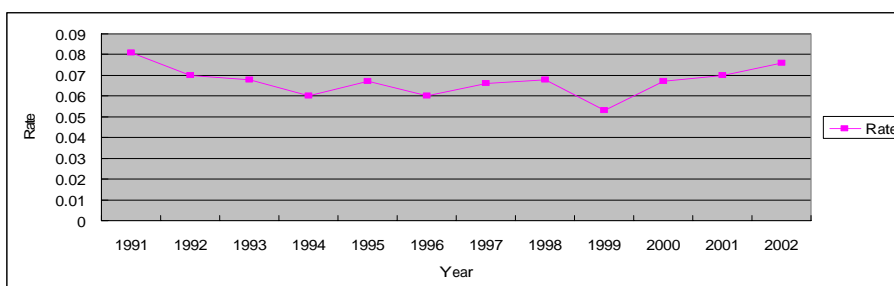
Year	Income share Ratio highest 20% to lowest 20%	Income share Ratio of highest 10% to lowest 10%	Consumption share Ratio of highest 20% to lowest 20%	Saving share Ratio of highest 20% to lowest 20%
1975	4.18	14.08	3.34	16.54
1980	4.17	13.97	3.08	14.69
1985	4.50	11.35	3.12	27.77
1990	5.18	11.76	3.38	25.58
1995	5.34	9.61	3.62	23.79
1996	5.38	9.67	3.54	45.12
1997	5.41	9.29	3.53	32.87
1998	5.51	9.16	3.63	30.23
1999	5.50	9.22	3.70	25.12
2000	5.55	8.95	3.64	44.38
2001	6.39	10.32	3.88	-

2002	6.16	9.93	3.67	-
2003	6.07	9.54	3.71	428.18

Note: ‘-‘ indicated an mathematical error for a negative savings for the lowest 20% of household savings share.

At the same time, the percentage of children living in poverty increased along with the economic recession which raised even more concern in the public. According to Hsueh (2004), children poverty rate in Taiwan was decreased from 8.1% in 1991 to 5.3% in 1999, but increased to 6.7% in 2000 and escalated to 7.6% in the year of 2003, as showed in figure 1. Living in poverty has short and long-term consequences for children. Previous literature indicated that children living in poverty were more likely to have lower self-esteem and suffer from depression, and this was especially true for adolescent (Bolger, Patterson, Thompson, and Kupersmidt, 1995; Eamon, 2002; Hanson, McLanahan, and Thomson, 1997; Ho, Lempers, and Clark-Lempers, 1995). Also, families with few economic resources and assets accumulation could invest less in their children human capital which might place constraints on their psychosocial development and future life chances (Brooks-Gunn, Duncan, Maritato, 1997). Children are the future of a society. The stake of children’s poverty experience to a society valued economic growth much would be staggering in promoting its industrial production and innovation in the future.

Figure 1: Children Poverty Rate Trend



There is an urgent need for new anti-poverty strategies to reduce the high costs of growing economic inequality, especially counter the effect of the upturn growing trend of children poverty.

B. Core Arguments for Building Assets for the Poor

In the past, in order to continue a strong economic development, the government maintained a strong fiscal position on promoting economic growth, but undertook limited social contracts to provide implicit social safety nets for its citizens (Haggard, 2001). Therefore, since 2000, the working poor increased by 14.53% in 2000 than that of 1990 due to the low wage payment, high employment rate, and mismatched job skill during the economic recession. More single parent families and more high school graduates had replaced the old poor who were disabled, older, and sick. However, public assistance, as a major antipoverty measure in Taiwan intended to maintain minimum income for the poor, was long criticized for its ineffectiveness in enhancing the living standards of the poor, but trapping them in a vicious cycle of welfare dependency. In 1998 Taipei City Mayor election, a call for welfare reform to tackle the issues of urban poverty became one of key campaign agendas due to a growing working poor population in Taipei (Cheng, 2000).

Sherraden (1991) proposed an asset-based welfare theory, suggesting that holding assets have positive impacts on people in several aspects of their lives. He made a distinction between income and assets in terms of household economic resources accumulation. Assets were referred to the stock of wealth in a household which is savings, investments, and other accumulations. Both human capital and tangible assets were legally held and could generate flow of income for specific purpose. In contrast, income refers to the flow of cash resources into household. He explained the sharp inequality in assets distribution between the rich and the poor as a result of institutionalized mechanism, formal as well as informal, that limited

incentive and fostered barriers to asset accumulation for the poor. The two-tiered welfare system encouraged the middle class to save for investments through regressive tax system, but provide public assistance to the needy households with no assets holding allowed. Therefore, he proposed 'Individual Development Account' as a tool to facilitate the poor to save for designated purpose of use as a policy framework of assets accumulation. According to Midgley (1999), in re-distributive social welfare, building assets for the poor is one of the most progressive ways to integrate low-income families into the mainstream of economic development.

In explaining saving behaviors, the life cycle hypothesis posited that household consumption was determined by the anticipated lifetime resources and savings reflected the shortage of current income from average lifetime resource. Therefore, saving among households was believed as a function of age differences. Young households were expected to de-save for high consumption level and older households had positive saving for retirement preparation. However, Carroll (1997) proposed an alternative explanation of saving behavior, the so-called buffer-stock models of savings. He emphasized that young households and households facing greater income uncertainty would accumulate small stocks of assets for a short-term precautionary motive, instead of reflecting a long term of age effects. In promoting individual and household savings, Beverly and Sherraden (1999) suggested four variables, including institutional mechanisms, targeted financial education, attractive saving incentives, and facilitation, as institutional framework of improving low income household access to financial institutions.

In UK, using the Financial Research Survey, Whyley and Kempson (1999) found that 56% of low income household in the UK more or less had savings. Among them, one fourth of them kept regular savings and one third even made investment in something. According to them, people who saved regularly started to save in their younger age and got aware of

financial information and investment. Bynner (2001) used a longitudinal data set, the National Child Development Study, found that people had experiences in financial savings and investment before 23 years old would did better in employment, family relationship, mental health, social participation, and work ethics. The empirical findings then made contribution to the latter establishment of the Child Trust Fund accounts which facilitated every child to build assets from their birth to eighteen years old. So the children could a lumpsum of savings to start with their adult life.

In short, assets may improve household well-being in a number ways and break the vicious cycle of poverty among low income households. However, in promoting the poor to accumulate assets, a proper institutional mechanism of facilitation is necessary to promote individual and household's savings.

C. Building Assets for the Poor in Taipei City Government: TFDAs and TYDAs

On July 17, 2000, the newly elected Taipei City Mayor, Ma, Ying-Chiu, announced to launch a three year anti-poverty program, Taipei Family Development Accounts (TFDAs, in short), which was to provide 100 matched saving accounts for low-income families in the City. Adopting a cultural tradition, the program was named 'Family Development Accounts,' instead of 'Individual Development Accounts' as suggested by Sherraden, to symbolize the value of co-residence or shared resources of a family. TFDAs were the first public assistance initiative in Taiwan which drew heavily on Sherraden's asset-based welfare theory that was developed to provide incentives for the poor to save for future, to gain access to financial information, and to make investment in a planned way. TFDAs was designed as an three year experimental program to know how institutional arrangements of saving incentives could facilitate the poor to plan for the future using matched savings and financial information gained in the program.

According to the program structure (Table 4), applicants who eligible to open accounts

had to be current welfare recipients and employed for at least three months. As indicated, TFDAs was intended to target the working poor in Taipei City. The participation was voluntary, instead of mandating it, to encourage savings. Each participant opened an account for matched saving by making the first deposit at a selected saving level, ranging from NT\$2,000 to NT\$4,000 (US\$1=33). Once the fixed deposit level was selected, savings were matched for 36 months at the same level for three years. During participation, if savers were unemployed for up to three months, they would be referred to social workers for occupational assistance and no savings would be matched after that point of time. All the savers were also required to attend educational classes every three weeks, totaling 135 hours in three years, where they learned about credit, budgeting, banking, investment, how to buy a home, how to start a business, and how to make educational plans. The matched savings accounts could not be accessed until completing the three-year period of saving and attending educational classes. The accumulated saving funds could be then used for a range of designated investment purposes, such as higher education, small business, or first home purchase.

At the completion of TFDAs, Taipei City Government found that low income households preferred to use their matched savings to pay for their youngsters' higher educational expenses. They then created another assets-based program for the youth from low-income families, using the same program structure of TFDAs, so called as the Taipei Youth Development Accounts (TYDAs), to examine how youths responding to the saving institutional mechanism. TYDAs started at July of 2003 and would end three years later. After matching funds were funded by the Taipei Fubon Bank Foundation, the City recruited the youth aged 16 to 22 from registered low income households. A total of 106 eligible youth participated in the program at the beginning.

Similarly, each participant of TYDAs opened an account for matched saving by making the first deposit at a selected saving level, within the range of NT\$ 2,000 (US\$1 = NT\$33) to

NT\$4,000 every month (i.e. NT\$24,000 to NT\$48,000 annually). After completing a three year saving period, they could use the matched savings after three years in designated investment purposes on either higher education or employment preparation. Since this program did not only intend to help participants save money, but to increase their self-esteem and educational aspirations, enhance their career self-efficacy, and improve the parent-child relationship. Therefore, in addition to the matched savings, all participants are required to attend 78 credit financial classes and 26 hour public services per year to improve their financial literacy and social participation. During school breaks, part-time or full-time jobs opportunities were also available for participants to apply for.

Table 4: Program structure of two assets building program at Taipei

Characteristics	Taipei Development Accounts	Youth Development Accounts
Time Period	July 17 th , 2000 to July 17 th , 2003	July 1 st , 2003 to June 30 th , 2006
Applicants	Low income household	Low income youth, 16-22 years old
Participation	Voluntary participation	Voluntary participation
Administration	The Bureau of Social Services	The Bureau of Social Services
Funder	Polaris Securities Group Foundation	Taipei Fubon Bank Foundation
Affiliated Bank	Taipei Bank	Taipei Fubon Bank
Matching rate	1:1	1:1
Deposit levels	NT\$2,000, NT\$3,000, NT\$4,000	NT\$2,000, NT\$3,000, NT\$4,000
Economic classes	Participants must complete 135 hours classes.	Participants must complete 78 credits classes and 26 hours public services.
Designated purpose for use	House purchase, micro enterprise, and higher education	Higher education and employment preparation

C. Impacts of TFDAs and TYDAs

(A) Data Collection for Evaluation

The impacts on the participant were observed during and after the implementation of the TFDAs and TYDAs. In evaluation, the data was collected from several sources during the program period to examine how the participants responded to the program structure in terms

of saving behaviors and what they learned from the program. The City received savings account statements of all TFDAs and TYDAs participants from the Taipei Fubon Bank every half-year. And each participant was required to complete self-report questionnaires before and after the program, asking about family condition, employment status, and investment plan. A few participants were invited for an in-depth interview, asking about subjective experiences about the programs. A case manager monitored on-going educational classes and kept records on activities attended, group discussion, and social networking among participants. Information about dropouts was not included in the analysis.

(B) Participants' Characteristics

In TFDAs, 184 low-income households enrolled in July of 2000, but only 100 savings accounts could be matched. For those randomly selected participants, 68 dropped out of the program by the end of 2000. Including the enrollers that replaced these dropouts, 75 participants made their regular deposits for twelve months by the end of 2001. Seventy-two continued for another year, with only three leaving the program due to emergency family crises (e.g. sudden death and sickness of family members). Finally, sixty-nine participants have stayed in TFDAs for the whole three years. Most participants in TFDAs were females, mid-aged (41 to 50), single parents, and high school graduates, which closely resembled the profile of working welfare recipients at Taipei.

Table 5: Participants' Characteristics of TFDAs

Variable	Label	9.30.2000	6.30.2001	6.30.2002	6.30.2003
Gender	Male	18(18%)	8(11%)	8(11%)	8(11%)
	Female	82(82%)	67(89%)	64(89%)	61(88%)
Age	Under 30	7(7%)	2(3%)	2(3%)	2(4%)
	31- 40	29(29%)	18(24%)	15(21%)	14(19%)
	41-50	49(49%)	46(61%)	46(64%)	45(65%)
	Over 50	15(15%)	9(12%)	9(12%)	8(12%)
Education	Primary school	19(19%)	12(16%)	12(17%)	12(17%)
	Junior school	25(25%)	18(24%)	18(25%)	16(23%)
	High school	46(46%)	31(41%)	29(40%)	28(41%)
	College	10(10%)	14(19%)	13(18%)	13(19%)

Marital status	Single	8(8%)	6(8%)	4(6%)	3(4%)
	Married	30(30%)	18(24%)	17(24%)	16(23%)
	Divorced	39(39%)	23(31%)	24(33%)	24(35%)
	Widowed	19(19%)	24(32%)	24(33%)	23(33%)
	Separate	4(4%)	4(5%)	3(4%)	3(4%)
Participants		100	75	72	69

A total of 109 adolescents enrolled in the TYDAs, however, 97 adolescents made regular deposits for the first twelve months. By July of 2004, nine dropped out of the program due to family economic crisis and unable to meet the program requirements. In the initial phase, the TYDAs' participants ranged in age 16-22 years, with a mean of 18.3 years. most participants were female adolescents. Though all participants were in school when joining this program, 70.2% have some working experiences. Among those who worked, about half have helped with household expenses. Prior to participating in this program, 40% reported that they have some savings. As indicated in Table 6, most adolescents were in high school in the first year of the program, but 67% out of 70 participants went to college and 8 participants got admitted into the graduate program. In June of 2005, fourteen participants used the savings for employment preparation and found full time jobs.

Table 6: Participants' Characteristics of TYDAs

Variable	Label	7.01.2003	7.01.2004	6.30.2005
Gender	Male	22(23%)	20(23%)	17(24%)
	Female	75(77%)	66(77%)	53(76%)
Education	High school	50(52%)	43(49%)	1(0.1%)
	College	47(49%)	45(51%)	47(67%)
	Graduate			8(11%)
Participants		97	88	70

When asked about participants using the savings at the end of the program, most TFDAs (43%) planned to invest for their children's higher education, 37% planned to use it for starting up a small business, the rest 15 participants planned to use for home purchase, as

indicated in Table 7. At the end of TFDAs, most participants pretty much followed the previous plan to use the savings for designated investment goals. In high cost of real estate in Taipei, what raised public attention was the 13 TFDAs' participants used the savings as downpayment to become homeowners after the completion of the program. Thirty-one participants spent their savings to pay for their children's school expenses and all their children were in college at the end of the program. Twenty-one participants started up a small business either on their own or with an investing partner.

In TYDAs, most adolescents (87%) planned to invest for their own higher education expenses and the rest (13%) planned to use it for job trainings in the end of the first year program. (see Table 7). At the completion of the program, 80% of participants started to use their savings into their own school expenses, such as computers, books, tutoring hours, motor bicycles, etc. Fourteen out of 70 participants went to college for a high education degree. What impressed in terms of educational achievements, almost every participant pursuing higher education as a savings goal went to college at the end of the program. Especially, eight participants became graduate students then.

Table 7: The change in goals for savings across years.

TFDAs Goals	6.30.2001	6.30.2003	TYDAs Goals	6.30.2001	6.30.2003
Higher education	32(43%)	31(45%)	Higher education	84(87%)	56(80%)
Micro enterprise	28(37%)	25(36%)	Job training	13(13%)	14(20%)
Home purchase	15(20%)	13(19%)			
Participants	72	69		97	70

(C) Economic Impacts of two Programs

The savers from two programs benefited directly from the participation of the programs. For example, A total sum of NT\$19,735,311 (including matched amount of NT\$9,831,026) was saved by these 69 savers by the end of the third year, an average of NT\$286,019 per

account. For welfare recipients who depended on public assistance to maintain the living, the amount of saving accumulated in the accounts was valuable to be noted. For TYDAs' savers, a total sum of NT\$18,908,996 (including matched amount of NT\$9,318,000) was saved by these 70 savers at the end of the program. For young welfare recipients who worked for supplementing household expenses, the amount of saving accumulated in the accounts was valuable to be noted.

Based on the half-year account reports provided by the bank, Table 3 describes the changes in savings patterns at different saving levels across time. By the end of 2000, 21 out of 75 TFDAs' savers who stayed in the program chose to start at NT\$2,000, seven chose NT\$3,000 and 47 chose NT\$4,000. However, the savers demanded more flexible saving patterns, requesting more freedom to adjust their deposit levels every six months. After the liberation of the structure at December of 2000, a large group of participants changed their saving levels from NT\$2,000 or NT\$3,000 to NT\$4,000 for higher matched savings in the following year. Obviously, participants of TFDAs cautiously started their savings at a lower level, but when given opportunities or incentives, they moved to higher deposit levels for matched savings. Consistently, few TYDAs' participants started their savings at a lower deposit level, but as they are more confident about their ability to save, they moved to higher deposit levels for matched savings, as indicated in Table 8. This indicated that savers actively responded to savings structure if enough incentive and friendly facilitation mechanisms were designed.

Table 8: The changes in saving patterns across years.

Deposit Levels	TFDAs		TYDAs	
	12. 31.2000	6.30.2003	12.31.2003	6.30.2005
NT\$2,000	21	4	12	6
NT\$3,000	7	3	29	4
NT\$4,000	47	62	56	60
Participants	75	69	97	70

(D) Subjective Feelings about the Programs

Based on the in-depth interview, the main attraction for participating in TFDAs was said to be the 1:1 matched savings. In terms of saving, they reported several strategies they used to manage savings, ranging from managing family consumption, cutting down unnecessary expenses, and older children sharing part of their earned incomes. Many of them agreed that attending economic classes was beneficial since they left school a long time ago. In the classes, they especially enjoyed learning about investment, budgeting, home purchasing, and human resource development. Besides the intended effects of TFDAs, the savers pointed out that they, subjectively, felt empowered by participation in TFDAs. They perceived the participants as a group for networking and information exchanging where they shared job opportunities, current trend of small business investment and home purchasing experiences. The relationship they built through attending classes or group sessions had transformed their isolated lives to a more outward networked circle of friends or colleagues. And, lastly, they mentioned how the family worked together as a team to save more money or make a plan, and how older children worked harder for higher education after they participated in TFDAs.

In TYDAS, we examined if participants' self-esteem, career decision-making efficacy, parent-child relationship, and academic performance improved after participating in this program. Correlated t tests were conducted to compare score differences between wave one and wave two. Participants' career decision-making efficacy and parent-child relationship were found to be significantly improved in wave 2 ($t = 3.58, p < 0.001$; $t = 2.05, p < 0.05$, respectively). However, respondents' self-esteem and academic performance did not improve. In a questionnaire, participants reported about the strategies used for maintain participation. About two third of respondents had to work part-time in order to save. As for their opinions toward the related educational courses, about half (48.1%) thought these courses were very

helpful to them, and they enjoyed taking these courses. Among them, 52% thought that the courses related to financial management information were most helpful.

Conclusion

This paper describes the background of developing anti-poverty programs based on assets building and the impacts of the two assets-based programs on the poor households at Taipei. The findings indicated that the participants had quite a positive picture of two programs in terms of economic gains and subjective feelings. No matter the young or elder participants, they would choose to save more, if given opportunities or incentives. They also willingly stayed employed to put money into their savings accounts. And, they worked hard toward to achieve their goal-oriented investment plans, as their financial literacy advanced from attending related economics classes. Moreover, subjectively, the participation had positive personal and social impacts on their lives.

At the policy level, the idea of two assets-based programs drew largely on Sherraden's (1991) asset-based welfare theory, focusing on encouraging and facilitating the poor building assets as a way to future economic security. The actions have broadened the principles of public assistance in Taiwan that the nation's social safety net for low-income families can be built by encouraging them to be economically active actors and generate future oriented material resources or accumulate welfare assets, and not just altruistically maintaining their basic consumption levels. At the social integration level, the establishment of assets-based programs was innovative, more progressive than ever and promoted an alternative opportunity to equality and social inclusion by integrating low-income families into mainstream society through social and economic development.

After the implementation of the TFDAs, encouraging low-income families to accumulate assets was to be included as a clause of the newly revised Social Assistance Act

of 2005. According the Act, local governments should actively develop any kind of anti-poverty program for their enlisted low income families. And whoever participates in any anti-poverty program is allowed to receive still welfare benefits until family income increase over 1.5 times of the official poverty line. After the Act enacted, it was cheerful that more than 15 local governments have started some sort of anti-poverty programs for their low income families, ranging from financially assets-based structure to social capital based design. The experience of the TFDAs provided not only a concrete example to set up an anti-poverty program based on assets, but also had positive impacts on people in economic as well as social aspects of their lives.

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