“Growth and Inequality” the 33 International Congress of Schools of Social work held by International Association of Schools of Social Work (IASSW) Santiago, Chile, South America.

Global recession and assets disparities between the poor and the rich in Taiwan:

Building Assets for All

Inidvidual paper

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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 a economic breakdown in 1997. Consequently, the economic growth was slowed down and witnessed a sharp decline in asset values, falling real wages, and rising unemployment rates. Years of neglect in providing basic services by government have devastatingly impacted the lives of needy citizens during this staggering economic recession. This paper outlines the growing assets inequality between the rich and the poor after the global recession and describes the impacts of an anti-poverty program based on assets accumulation on the lives of the poor by providing matched savings. Implications for policy innovation and social work practice 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). Taiwan then was included 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	1,090876	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 in its high economic growth but also in its low inequality and 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 after2000. But even more notably, the value of assets of the rich was 428 times that of the poor in 2003.

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

"-" indicated an mathematically error for a negative savings for the lowest 20% of household savings share.

In short, it was the sharp inequality in assets distribution that divided the rich and the poor, instead of income disparity. The social policy to bridging the gap between the rich and the poor should focus on building assets for all.

B. Core Arguments of an Assets-based Program for the Poor

Due to an over-emphasis on economic development, the government in Taiwan maintained a strong fiscal position on promoting economic growth, but undertook limited social contracts to provide implicit social safety nets for its citizens. Years of neglect in providing basic services have devastatingly impacted the lives of needy citizens during this staggering economic recession. For example, the working poor increased by 14.53% in 2000 than that of 1990 due to the low wage payment, high employment rate, mismatched job skill, etc. There is an urgent need for new anti-poverty strategies to reduce the high social costs of growing economic inequality, especially the assets disparity between the rich and the poor. However, public assistance in Taiwan based on the principle of income maintenance was long criticized for its ineffectiveness in enhancing the living standards of the poor and instead trapping them in a vicious cycle of welfare dependency. Promoting job skill training or lifting employment barriers for the poor were considered reasonable means to regain economic sufficiency, if they worked.

Sherraden (1991) proposed an asset-based welfare theory, suggesting that holding assets have positive impacts on people in several aspects of their lives. In his opinion, 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. 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.

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), which was to provide 100 matched saving accounts for low-income families in the City. According to the program structure, applicants eligible to open accounts had to be current welfare recipients and employed for at least three months with a per capita income below 60 percent of mean consumption expenditure (equals NT$10,479 per month, US$1=33). This was to indicate that TFDAs were intended to target the working poor as aforementioned. The participation was voluntary, to encourage savings instead of mandating it. 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. 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 investment purposes, such as higher education, small business, or first home purchase.

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 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. Different from the traditional public assistance system that maintained minimum household's income through financial transfers, TFDAs encouraged assets accumulation as a means to economic self-sufficiency through attractive saving mechanism.

C. Impacts of TFDAs

The impacts on the participants, policy innovation, and social work practice are observed during and after the implementation of the TFDAs.

First, the development of TFDAs was advocated by networked coalitions of policy makers, welfare scholars, and collaborative partners. The Polaris Securities Group (PSG), a stock firm, decided to take an active role in raising funds to meet 100 matched savings accounts for three years. Taipei City Government would be in charge of program operation and welfare provisions for participants. The strong partnership built between the Taipei City Government and a non-profit organization is the first example of a collaboration effort made by the public sector in Taiwan to expand its welfare provisions and social assistance to the poor.

Secondly, the participants benefited directly from the participation of the program. In July 2000, 184 low-income households enrolled, 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 the first year. 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 in Taipei.

In total, a sum of NT$19,735,311 was saved by these 69 savers by the end of the third year, an average of NT$286,019 per account, indicated in table 4. For welfare recipients who depended on public assistance to maintain the living, the amount of saving accumulated in the accounts was impressive and valuable to be noted. According the bank savings account statement, the net savings per account was ranged from the lowest NT$72,100 to the highest NT$244,610 and matched savings ranged from NT$72,000 to NT$144,000. Unfortunately, the interest rate had been in the low tide for the past three years in Taiwan, which incurred only a 1.5 percent rate for the savings accumulated. In total, the net savings accumulated accounted for 48.7 percent of all the accounts. But the bonus incurred from the matched savings accumulated was paid well from bonds exchange in the past three years, which rebated the accounts with a 6 percent rate interest. As a total, matched savings accounted for 46.7 percent of all the savings accumulated.

Table 4 : The savings accumulated in TFDAs.

Each account	Net savings	Interest incured	Total savings	Matched savings	Matched interest	Matched total	Account total
Lowest	72,100	2,008	74,108	72,000	4,705	76,705	150,813
Highest	244,610	7,488	251,629	144,000	9,410	153,410	405,039
Average	139,204	4,350	143,540	133,739	8,740	142,479	286,019
Total	9,605,104	300,163	9,904,285	9,222,800	603,026	9,831,026	19,735,311
Percent	48.7	1.5	50.2	46.7	3.1	49.8	100

In June 30th, 2003, six-nine participants had undertaken the first steps towards goal achievement. In June 30th of 2004, in accordance with their designated purposes, 26 out of 31 intending to use savings for higher education reported that their children had advanced to higher education levels for now. Among 25 participants planning to use savings for small business, 21 started a small business either on their own or with a partner. And at the moment of the interview, twenty-eight participants had exited out of welfare, most due to family income increase, the others due to savings cross the assets baseline for eligibility.

Table 5: The achievement of the saving goals..

Purpose for use	6.30.2003	Goals achieved on 4.30.2004
Higher education	31(44.9%)	26 buy computer facilities, books, stationary, pay tuition fee, cover transportation fee to school, etc.
Micro enterprise	25(36.2%)	21 start a small business either on their own or with a partner
Home purchase	13(18.8%)	10 buy houses.
	69(100%)	57

Based on the in-depth interview, the main attraction for participating in TFDAs was said to be the 1:1 matched savings. And saving was a good thing, anyway, in their belief. 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 outlined an action they took in negotiating with the Taipei City Government to liberate fixed deposit levels in a meeting with the Division Head of PSG. They also 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, how older children worked harder for higher education after they participated in TFDAs.

Thirdly, based on the positive results reported by the participants of TFDAs, Taipei City Government started up another two assets-based programs for the poor after TFDAs. The first one is the Taipei Youth Development Accounts (TYDAs) and the second one is the Dream Come True (DCT 樂透圓夢計畫). TYDAs has been implemented in 2003 to match savings for the poor youth, following a similar program structure of TFDAs. Taipei City Bank, the financial partner of the first TFDAs program, promised to grant NT$4,800,000 every year for three years to match the 107 savings accounts, particularly for educational investment for youth from low-income families. Toward the end of the program on July 30th of 2006, seventy young participants completed a whole three-year saving period, and will start to use the savings to achieve the designated goals. During the participation, they were offered parttime jobs every summer break to make deposit money, if needed. And they should also contribute a total of 216 volunteer hours in three years to social service agency as a symbol of social participation.

Following the line of human capital theory, promoting job skill training for the poor was considered an effective way to regain economic sufficiency. However, empirical evidence suggested the other way around of the anti-poverty effect (Mueller and Schwartz, 1998). Therefore, encouraging the poor to undertake self-employed small business became another option to enhance the poor's earning capacity as a way to self-sufficiency. The DCT 樂透圓夢計畫 starting from June 2004 was designed to encourage low income family heads to undertake a micro-enterprise by providing a loan up to NT$1,000,000 with no interest rate attached and business consultation when necessary. In the June 30th of 2006, with the help of the business consultant, 14 applicants have started their own business by using the loans. The welfare effects are still too early to see, but providing the institutional assistance to help the poor starting up a business and accumulating assets was promising and innovative.

Lastly, 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 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.

Conclusion

This paper presents the background of the growing assets disparity between the rich and the poor in Taiwan due to economic recession since mid-1990s and reported the impacts of matched savings and financial literacy on the poor's lives when participating in TFDAs. The experience of developing an anti-poverty program based on assets have implication for policy innovation and social work practice in Taiwan.

First, the brief findings indicate that the participants had quite a positive picture of the impacts of TFDAs. The participants would choose to save more, if given opportunities or incentives. They also willingly chose to stay employed to maintain their savings accounts. And, their goal-oriented investment plans became more practical and realistic, as their financial literacy advanced from attending related economics classes. Moreover, subjectively, the participation of TFDAs had positive personal and social impacts on their lives.

At the policy level, the idea of TFDAs drew largely on Sherraden's (1991) asset-based welfare theory focusing on encouraging and facilitating the accumulation of assets by the poor instead of income maintenance, as a way to future economic security, and has broadened the principles of public assistance in Taiwan. 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 TFDAs 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.

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