Global recession and assets disparities between the poor and the rich in Taiwan: Building Assets for All

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ABSTRACT

Since 1965, Taiwan maintained a strong and rapid economic growth by taking advantage of an active export industrial technology development. Consequently, household income and assets values increased dramatically in the past three decades. Taiwan has become one of the fast-growing "the four tigers" in the East Asian area. However, the global economic recession since the mid-1990s has slowed down the rapid and sustained economic growth in Taiwan, and witnessed a sharp decline in asset values, falling real wages, and rising unemployment rates. Because of an over-emphasis on 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. Years of neglect in providing basic services have devastatingly impacted the lives of needy citizens during this staggering economic recession. For example, the income gap between the rich and the poor in Taiwan has increased from a ratio of 4.2 in 1980 to 6.39 in 2001. But even more notably, the value of net assets of the rich was 16.8 times that of the poor in 1991 and double that in 2001. There is urgent need for new social contracts to reduce the high social costs of growing economic inequality, especially the assets disparity between the rich and the poor.

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. 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 incentives through contractual savings mechanism. This paper presents the background of developing TFDAs as an anti-poverty program and the impacts of matched savings and financial literacy on the poor families' behaviors participating in TFDAs. The paper also discusses the similar programs developed across the island following the framework of TRDAs. Implications of the future prospects on policy innovation and social work practice are included.

Core Arguments for Developing Assets-based Welfare Program

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

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.

In short, public assistance based on the principle of income-based financial transfers, 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.

Data Collection

The data used to describe the program was collected from several sources over three years, and was based on a subset of an on-going evaluation project on how the participants responded to the structure of the program in terms of saving behaviors. Each participant was required to file a self-report annually, using a structured survey, about family condition, employment status, investment planning, and goal attained for two years. The Bureau received savings account statements of all TFDAs participants from the Taipei City Bank every half-year. In-depth interviews were also conducted in October 2001 and in May 2003 to inquire about subjectively felt impacts of the program. October interview met eight participants, two participants from each of the three different categories of goals selected and two of these participants changed goals during the program to inquire the midterm program impact. The second in-depth interview met with four participants who completed the program and used the matched savings on designated investment. A case manager monitored on-going educational classes and kept records on activities attended, group discussion, and social networking among participants. Information about dropouts is not included in this paper.

Conclusion

The preliminary findings, thus, indicate that the participants had quite a positive picture of the impacts of TFDAs. In terms of participants' characteristics, the demographic composition of TFDAs seemed to fit well with the new welfare population profile in Taipei City. 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.