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Democratization and Welfare State Development in Taiwan

Christian Aspalter



DEMOCRATIZATION AND WELFARE STATE
DEVELOPMENT IN TAIWAN



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Foreword

In reviewing the literature on Taiwan available in the 1990s, I noticed that Taiwan was not only excluded from the world community, but also to a large extent from the theoretical discourse on modernization in East Asia. Few international scholars have come to write excessively on Taiwan. Thus, the process of modernization in Taiwan never really came to the center of attention of academia in the Western world. Since it was impossible for the scope of this book to cover more than one particular colored stone in the kaleidoscope of modern Taiwan, I focused solely on the causal relationship of democratic competition of political parties and the extension of welfare state programs. Taiwan has so much to offer, especially for sociologists and political scientists who may test their theses easily at the background of a fast-running modernization process of society, a swift implementation of democracy and a mushrooming of civil society.

I am glad to have been able to live in Taiwan for such a long time, to meet and make friends with one of the friendliest peoples in the world. I had the chance to study Taiwanese people, their beliefs, cultures and democratic values first hand. Whenever I went out to carry out research, visiting friends or exploring the street life of Taipei, I had the chance to join numerous rallies and demonstrations. People there told me about their country, their happy and sad stories. From anti-radiation to pro-welfare demonstrations, from electioneering of Taiwan's new small and minor parties to labor protests of communist and socialist labor unions; all facets of democratizing Taiwan in the 1990s were easily accessible for foreign students like me. The Mandarin that I have learned (over the years) in various coffee shops and McDonald's restaurants helped me a great deal in discovering all the facets of modern Taiwan. Taiwan, itself was and still is one of the greatest teachers a social scientist can wish for.

The number of people I would like to thank for having had the chance of meeting them is endless, but a few I have to mention: Prof. Lin Wan-I, Prof. Chan Hou-sheng, Prof. Bai Hsiu-hsiung and Prof. Chang Zhe-ming in particular who supported me during my studies as a Ph.D. student at the Department and Graduate Institute of Sociology at Taida. I also thank numerous experts and head of departments of various government institutions, especially from the Council of Labor Affairs, the Social

Welfare Department of the Ministry of Interior, different departments of the Ministry of Economic Affairs, the Ministry of Finance, the Directorate General of Budget, Accounting and Statistics, and the Social Welfare Department of the Taipei City Government. Furthermore, I need to mention here the kind support dozens of scholars at universities and academic institutions from all over Taiwan. I have to be especially thankful to Prof. Lin Wan-I and Prof. Chan Hou-sheng from Taida, and Prof. Ku Yuen-wen and Prof. Chan Ying from National Chi Nan University in Puli for organizing social policy conferences of highest possible standards that I attended, which were very valuable for my research.

To cut short the list of those who supported me during my time in Taiwan is a pity, but not a crime. It is merely a necessity, since I don't know where to start and where to end. During the three years that I stayed in Taiwan in second half of the 1990s, I met hundreds of people who supported me. My memory is full of imposing feelings and impressions of my Taiwanese friends, who not only live for working, but who also enjoy the arts, their freedom, and their spare time to the highest degree. I wish all of them a prosperous and joyful life!

My new assignment to a teaching post in Taiwan, at Chaoyang University of Technology, will give me lots of new opportunities to meet my old friends and many new ones to come. I shall depart to Taichung soon, which gives me great pleasure. At this point, I can continue my personal task, i.e. to report and analyze Taiwan's fast-changing societal and political developments, since I look forward to the day when the world comes to understand what Taiwan is all about!

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1 Introduction

The book examines the relationship between democracy and welfare state construction in Taiwan; especially the impact of democratic elections on the construction and extension of the Taiwanese welfare state system. The welfare state in East Asia, these days, is drawing for the first time the attention of a great audience. The issue of globalization – and, thus, the intensified competition between worldwide production sites with different levels of social standards – emerged as a central issue in the political discourse of a great number of developed Western countries that see their high levels of social welfare expenditures as a threat to future economic development in an increasingly interdependent world economy. The notion of social dumping in the rising economies of East Asia has found its way deep into the believe system of the common people and that of government officials in the West. But, in the 1990s, the author witnessed the very same discussions about and demonstrations against the relocation of factories to cheaper production sites out of the country in Taiwan; i.e. an identical development to that in Europe. In the case of Taiwan, these were and still are above all Mainland China, Vietnam, Thailand and Malaysia. In the West, the notion goes around that it are the Tiger states that take away the masses of jobs in the globalized world economy. This is far from being true. Nowadays, however, India, Mainland China, and most countries in Southeast Asia are much more attractive for international investments since their labor force is not only abundant, but also is a great deal cheaper in comparison. The Tiger states – after years of sustained high rates of economic growth due to their booming export-driven economy – now have become also comparatively expensive with regard to production costs of labor-intensive industries.

Therefore, it is even more surprising that governments of these Tiger states do not attempt to avoid the construction of welfare state systems that either raise taxes owing to the introduction of non-contributory social insurance and assistance programs, or raise production costs directly owing to higher premiums of newly established or upgraded contributory social insurance programs. Given the particular context of globalization and the dwindling international comparative advantages of the Tiger states, the phenomenon of fast extending social security systems, i.e. social insurance

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and social assistance programs, as well as welfare provision in the field of education, health care and housing, poses new unanswered questions. Why are these countries taking the opposite path in welfare politics than it is expected by the vast majority in the Western world?

When looking closer to the reality of politics in these countries, i.e. when looking from an insider perspective, then we come closer to an answer to this particular question. When high levels of structural unemployment arise not only among the elder workforce, but also among young adults, then governments need to take a defensive strategy in protecting these laborers. In authoritarian countries, this needs to be done in order to avoid public unrest, such as labor protests, and to secure public peace. In democratic countries, governments will loose elections in case people are increasingly dissatisfied because of rising unemployment and job insecurity. Now, we have already hit the core of the problem governments in the East Asia are facing today, i.e. even they are not willing to raise production costs additionally (via higher taxes for social welfare and the introduction of contributory social insurance programs), they still have to respond to rising social hardships with a broad spectrum of new social welfare policies. From the mid-1980s onwards, East Asia has seen a salient, but rather silent democratic revolution, the most developed democracies in East Asia are according to the Freedom House Report (1998) Mongolia, Taiwan, South Korea, Hong Kong, Japan, and Thailand.

With the exception of Mongolia, which is a prodigious, however scarcely populated country located in between China and Russia, the other new democracies all belong to the group of most developed countries in East Asia. Thailand the latest arrival among the new democracies of East Asia, develops itself into the fifth Tiger state, due to fast economic development, especially in the vast metropolitan area of Bangkok. Singapore, though holding elections, is widely not regarded to be a full democracy, due to the all-out dominance of a single political party and the long-term absence of parliamentary opposition.

But Taiwan, South Korea, Japan and Hong Kong developed strong democracies within only one and a half decades. Taiwan and South Korea, both introduced democracy in the year 1987. In Taiwan, the Kuomintang (the KMT) struggled with the rising Democratic Progressive Party (the DPP), which first celebrated big victories in important county and city level elections. In South Korea, the ruling Democratic Justice Party lost its parliamentary majority as soon as 1988. In Japan, democratic elections did not led to significant levels of party competition in parliamentary elections and a change of the national government until 1993, when a coalition of the Social Democratic Party together with the Japan Renewal Party forced the long-term ruling Liberal Democratic Party into opposition. In Hong Kong,

pro-democratic forces won landslide victories in Legislative Council elections from 1991 onward.

Moreover, these countries have all experienced long periods of high rates of economic growth which result not only in the rise of labor costs (and, thus, a decline in international comparative advantages), but also in a dramatic change of their demographic development, i.e. a rapidly aging society combined with a fast declining birthrate. The special cocktail of economic development, aging of society and the introduction of democracy sparks a revolution of its own in welfare politics.

This revolution took place most visibly in South Korea and Taiwan, the two most democratic economies of East Asia. South Korea pushed the legislation of the National Pension Insurance in 1986 and 1989; extended and reformed the National Health Insurance a great deal in the years 1988, 1989, and 1998; and established a National Employment Insurance program in 1995. Taiwan introduced a farmers' health insurance program in 1989, old-age social assistance programs beginning from 1993; set up the National Health Insurance in 1995 and a new Unemployment Insurance scheme under the umbrella of the Labor Insurance program in 1998. Japan, in the meanwhile, lags behind in the welfare development of its developed neighboring economies. The relative share of state spending in the sectors of medical care and pensions had been shrinking, but the increase in elderly population is the highest in the world. However in 1997, Japan implemented a nation-wide long-term care insurance system. Hong Kong has extended governmental welfare budgets for its social assistance programs a great deal and introduced a new contributory and fully funded provident fund scheme, the Mandatory Provident Fund (MPF), in December 2000 (cf Aspalter, 2001a; Ye, 1996; Kwon, 1998: 62-3).

Decades of research in welfare state theory have not yet led to the establishment of a convincing theory placing democratic elections and party competition, besides social movements, in the center of its explanatory theoretical construct. This book is another attempt of the author to draw the attention of welfare state theorists to the impact of democratization on welfare state development (cf Aspalter, 1998; 2001b, e). This book, thus, does not only aim at showing the growth of social security programs, but also especially the electoral process that directly causes the construction of new columns of the welfare state system and the extension of existing ones. In this book, the author will not focus on the important impact of social movements on the development of the Taiwanese welfare state, or show the process of democratization itself; since this has been done elsewhere in detail (cf especially Hsiao, 2001; Schafferer, 2001). The author concentrates here exclusively on the interface between party politics, democratic elections and social policy, in order to show the causal

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relationship between the degree of party competition and the degree of welfare state expansion, taking the case study of Taiwan.

Electoral competition in Taiwan was introduced from the very beginning, i.e. as early as 1950; but this only in local elections. Voters only could choose between candidates of the Kuomintang and independent candidates. The two other legal parties apart from the KMT were not active parties, and their role was merely to enhance the legitimacy of the authoritarian rule of the KMT. Nonetheless, electoral competition in Town Councilmen elections, Town Chiefs elections, and County and City Councilmen elections was rather limited. Candidates who openly opposed the KMT were eliminated during the martial law period (1949-1987). The first new national elections, beginning in 1969, were conducted under the same rules; candidates who did not oppose the ruling party were the only form of political opposition. In 1975, for the first time, the opposition movement began to organize itself. The initially loose network of opposition leaders participated for the first time as an organized group in the 1977 county commissioner and city mayor elections. In the late 1970s and early 1980s, the opposition movement developed into a quasi-party, challenging the ruling party long before the fall of martial law.

With the establishment of the Democratic Progressive Party in 1986, Taiwan quickly turned into a full-fledged democracy, within only ten years, i.e. until the first Presidential elections in 1996. The first electoral victories of the DPP in 1989 and 1993 county commissioner and city mayor elections, deeply shocked the ruling KMT elite. In 1994, with the victory of Chen Shui-bian in the Taipei Mayoral elections – since Taipei is a stronghold of conservative political camp with a vast number of Mainland Chinese who or whose parents fled with Chiang Kai-shek from the mainland in 1949 – the Kuomintang was aware that it could lose any election, not just important local elections. Three years later in 1997, the KMT was, as it happens, surpassed by the DPP in absolute number of votes (i.e. island-wide, except Taipei and Kaohsiung); the KMT lost all important city and county magistrates losing a great amount of administrative power in the field of finance, policy administration, business and, of course, social affairs.

The KMT also faced fierce competition from within its own party. Three major parties split off from the ruling Kuomintang (the New Party in 1993, the People First Party in 2000 and the Taiwan Solidarity Union in 2001). In addition, in the 1990s, independent candidates and candidates of minor parties became another important force in the political landscape of Taiwan, winning a great number of seats in parliamentary elections. After 1994, elections in Taiwan were among the most fiercely contested in Asia (cf Copper, 1998). In South Korea, Hong Kong and Japan, democratic

elections also became increasingly competitive in the last one and a half decades (see Table 1).

Table 1: Comparison of Political Factors Behind Welfare State Development in Taiwan, South Korea, Hong Kong and Japan

Factors	TAIWAN	SOUTH KOREA	HONG KONG	JAPAN
Democratic competition in elections and government formation	low (until 1986)	none (until 1987)	none (until 1991)	very low (until 1993)
	medium (1986-1994)	medium to high (after 1987)	high (after 1991)	medium (after 1993)
	very high (after 1994)			

Source: Christian Aspalter (2001a), 'Conservative Welfare State Systems in East Asia'.

In Chapter 2 of this book, the author first examines different approaches in welfare state theory and evaluates the current status quo. In order to promote a better understanding of the methods and the problematic of modern welfare state theory, he does not abstain from putting forward here a very critical account of recent theories, especially the regime theory of Esping-Andersen. In addition, a new definition of welfare state is put forward that does not refer to redistribution and government spending as core features of welfare state policy; and the term 'welfare state' is replaced with the more useful term 'welfare state system'.

Chapter 3 gives a basic understanding of the political context in Taiwan, introducing the political history of Taiwan beginning with the 16th century. The author also sketches the historical development of Republic of China in Mainland China until the end of the Civil War in 1949; and thereafter the history of the Republic of China on Taiwan. The study goes on to investigate the impact of Sun Yat-sen's Three Principles of the People on constitution and social policy. Thereafter, the author introduces the political system of Taiwan, beginning with the presidency; then, the five branches of government; and, finally, the five most important political parties (the Kuomintang, the Democratic Progressive Party, the New Party, the People First Party, and the Taiwan Solidarity Union).

In Chapter 4, the author goes on with a depiction of Taiwanese welfare state development. Giving a chronological account, the first part of this chapter focuses on the establishment and extension of social insurance

systems, namely the Labor Insurance; then insurance schemes for military servicemen, employees and dependents of government organizations and private schools, Farmers' Health Insurance, National Health Insurance, and the Unemployment Benefit scheme of the Labor Insurance. In the second part of Chapter 4, the Taiwanese social assistance scheme is examined with special reference to the future challenge of providing social welfare for the rapidly augmenting elderly population. The author continues with a study of the growth of government expenditures in social welfare and the structural composition thereof. The last part of the chapter is formed by a retrospective of overall changes in Taiwanese welfare state policy. The Chapters 5 and 6 contain qualitative and quantitative studies of the 1997 and 1998 elections, which demonstrate the causal relationship of the degree of electoral competition in democratic elections and the number and extent of social welfare proposals of candidates and their parties.

The final chapter of the book concludes that it is not the factor economy that determines the course of welfare state development in Taiwan, as well as the rest of East Asian modern countries and most other developed regions of the world, but the factor democracy. The rising intensity of party competition in Taiwan after the formation of the Democratic Progress Party in 1986 and the New Party in 1993 is the major cause, besides the impact of a vast number of powerful social welfare movements, for the extension of the Taiwanese welfare state system.

In the 1990s, political parties that principally adopted an anti-welfare standpoint in social policy matters (that is, opposing an increase in contributory social insurance as well as non-contributory social assistance programs) began to support and even actively promote a series of comprehensive social insurance and welfare programs. Even in times of a troubled economy, due to intensified global economic competition and the Asian economic crisis of 1997, conservative governments vigorously continue to extend social security programs that increase both governmental welfare budgets and the cost of labor. Hence, there is no evidence of social dumping in the Tiger states. The opposite is true: that is to say, countries in East Asia construct welfare state systems, following somewhat the example of high developed welfare states in the West.