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Authoritarianism and the Social Insurance State: The Case of Taiwan

When one looks at the developmental history of the Taiwanese state, a contrast can be made with Singapore. While the PAP in Singapore wrestles with the key question of nation-building in the early years of its rule, the KMT (Kuomintang) in Taiwan has struggled under a survival orientation. The Taiwanese state has faced archrival Communist China in the past 50 years. Such military threat instilled a survival instinct in the minds of the ruling party. With its very strong emphasis on military spending and national defence, the authoritarian-developmental state in Taiwan soon embarked on the road of capitalist development as well as on the creation of a social-insurance state for its major constituencies. In the beginning, it granted special welfare favours to only selected groups of people. Social insurance was the mode of intervention. Social welfare services such as education and public health were made a priority because capitalist development required an educated, healthy, and highly motivated workforce. As a result, other social services have been either neglected or underdeveloped until recently. Economically, Taiwan has been long pictured as a strong developmental state whose developmental history validates the statist theory. Until recently, the country was ruled by a strong and authoritarian state that took an active role in promoting economic development (Lam & Clark, 1994). Numerous political crises that ensued from confrontation with China ultimately induced the developmental state to open up the political system to its opponents. Democratisation in turn triggered intense rivalries among the ruling party and other political parties seeking electoral success. Democratisation and ethnic divisions have diminished the power of the state, and the latter has extended its welfare concessions to the wider public as one means of gaining popular support and electoral success.

K. Tang, *Social Welfare Development in East Asia*

From authoritarian rule to democracy

In Taiwan's history, authoritarian rule has been the order of the day. China's Qing emperors incorporated Taiwan into the empire in 1683, and the island was proclaimed a separate province of China in 1887. The Qing dynasty surrendered Taiwan to Japan after it was defeated in the Sino-Japanese War. Between 1895 and 1945, Taiwan was a Japanese colony. After World War II it was returned to China, then ruled under an authoritarian and vehemently anti-Communist KMT party led by Chiang Kai-shek. There was an anti-KMT demonstration in 1947. The KMT government soon put down this island-wide revolt when many Formosan nationalists and leftists were killed, driven into exile, or silenced (Deyo, 1987). After losing the mainland civil war to the Communist armies in 1949, the KMT government fled from China to Taiwan. It was estimated that some two million KMT supporters fled to Taiwan in 1949. The stay was meant to be temporary. General Chiang Kai-shek ruled Taiwan until 1975, and his son, Chiang Ching-Kuo, succeeded him, dying in 1988.

Because of the constant Communist threat and KMT's pledge to reclaim China, military spending was exceptionally high, even in the early reign of KMT rule. Although the regime set up by Chiang Kai-shek and his son was authoritarian, it continued to face numerous political crises over the years, domestic and external. The question of survival and political legitimacy was the key problem for the KMT when it landed in Taiwan in 1949. It suffered from military defeat and humiliation at the hands of the Communists. China considered it as a rebel province, and threatened to overrun the KMT militarily; there had been some military confrontations over the years. Thus, Communist China has posed a constant and real threat to its survival, even to this day.

Externally, the United States showed some signs of abandoning the KMT in the late 1940s because Americans considered it politically weak and rather corrupt. However, the Korean War (1950–53) triggered a change in US worldwide strategy. The United States redoubled its military and economic commitment to Taiwan, with a view to containing Communism in Asia. The KMT obtained massive foreign aid from the Americans; and the government was able to enjoy a good relationship with the United States until the early 1970s, when, in another reversal of policy, the United States began to establish diplomatic relations with Communist China. It finally severed diplomatic relations with Taiwan in 1978, but its cooperation on various fronts (e.g. trade, exchanges, military deals) has remained active.

In 1971, Taiwan was driven out of the United Nations when many countries (including the United States) gave their formal recognition to Communist China and began to sever diplomatic ties with the Taiwanese state. This started the era of international isolation for Taiwan, and undoubtedly undermined the political legitimacy of the ruling party. A sense of crisis was instilled in the minds of the public. Worse still, the ruling KMT had long been seen as one imposed from outside and lacking domestic political support from the rural Taiwanese (Winckler and Greenhalgh, 1988). Politically, it constantly suppressed its opponents and tightly controlled the media. Martial law was imposed, and there was a ban on civil liberties. Labour unions were under strict control. All unions were required to affiliate with the KMT-controlled Chinese Federation of Labour. No opposition party was allowed: a one-party system existed in Taiwan until 1986, when the major opposition party, the Democratic Progressive Party (DPP), was established.

As noted, the state expended large sums of money on the military to preserve KMT's rule against its enemy from the north. After 1949, national defence and internal stability were the twin goals for the ruling KMT. One could say that the early Taiwanese developmental state put military build-up on the front burner (Fu, 1995): military spending was huge, accounting for more than 50 per cent of the total budget in the early years. Afterwards, the state continued to maintain a strong military posture, spending 10 per cent of its GNP on defence (Welsh & Butorin, 1990).

Cumings (1987: 69) commented that the Taiwanese state (along with the Korean state) in the 1950s had 'absurdly swollen military machines – about 600,000 soldiers in each army, ranking among the highest military/civilian ratios in the world'. Although the United States footed much of the military bill in Korea, it gave much less financial support to the KMT. To support high military spending, the ruling party had to find ways of securing a good source of income. Naturally, economic development was the most sensible formula. Developing the economy would enable people to escape from poverty, and would win them over on the side of the authoritarian state.

As argued earlier, Chiang's rule had been taken as the embodiment of suppression by many Taiwanese. The regime lacked political legitimacy. In historical analysis, economic growth takes place because of the particular historical circumstances confronting the KMT. Academics such as Tsang (1993) argue that Chiang was not able to reconquer China, given his lack of military might. Yet he continued to build up the military, police, and security apparatus to extend his power and strengthen Taiwan's defence against Communist invasion. This amounted

to the creation of a powerful party-state, with Chiang as the dictator. Because of the constant threat from China, his regime was very vulnerable. Tsang further contends that 'this resulted in the emergence of an "inhibited centre" in an otherwise mighty authoritarian state' (p. 12). On the other hand, Gold (1986) considers that the KMT had a free hand to impose its policies on the general population. Military might and strong leadership did not guarantee legitimacy. Chiang further needed an efficient and effective state for Taiwan. The KMT thus insisted on spending its limited resources on the steady improvement of the standard of living, even at the expense of rational long-term infrastructural development. This was the context for the early and limited development of social welfare policy on this island. It also explained why selected constituencies (civil servants, military servicemen, teachers, and labourers) were specifically targeted in social provisions.

With a 'production first' attitude, the Taiwanese state embarked on a strategy of industrialisation. In the 1950s, the KMT initiated an import substitution policy, but this was soon abandoned in favour of export-led industrialisation. The latter strategy soon proved to be the right course of action. Taiwan's upgrading to heavy and high-tech industry in the 1970s and 1980s was based on state corporations in the former case and the increasing interlinkage of the public and private sectors in the latter (Lam & Clark, 1994). Owing to popular support for the ruling KMT's successful economic policies, it was able to retain a slim electoral majority even in the 1990s elections, notwithstanding its previous authoritarian rule (Chu, 1998).

There was another result of rapid economic development. With accumulated financial resources, the KMT was able to offer lucrative concessions to the people over time. Externally, it would wield its economic clout by breaking the international isolation of Taiwan. China has often accused Taipei of using its financial clout to attract diplomatic support. Taiwan was often accused of conducting 'dollar diplomacy' when it promised foreign aid to developing countries in return for diplomatic recognition. In June 1999, its foreign minister pledged US $300 million of aid to the reconstruction of Kosovo, a gesture widely criticised by the opposition parties.

The mid-1980s saw authoritarian rule give way to a liberal democratic order. In 1986, President Chiang Ching-kuo allowed the Democratic Progressive Party (DPP) to form. The following year, he lifted martial law. Since then, major political and constitutional reforms have taken place, including direct election of the legislature and the president, the consolidation of a multiple-party system, and the steady erosion of

KMT voters (Cooney, 1996). Rapid economic growth in this decade was accompanied by a sophisticated civil society, aided in part by the rise in educational levels.

Public questioning of the role of the state came at this time, when social movement rose to its height in Taiwan. A number of social protests demanded that the state should intervene in the worsening environment and extend the existing personal social services. Ultimately, these movements produced no lasting impact as far as social welfare development was concerned. But such populist movements, though sporadic, isolated, and often unrelated, offered an indirect critique of the economic and social policies of the Taiwanese developmental state. Moreover, as Tsao (1995) points out, most politicians could not afford to ignore welfare in their platforms, an aftermath of these protest movements.

Political liberalization continued in the 1990s. Constitutionally, the first piece in the legal framework was the 1991 reinstatement of the 1947 constitution, leading to the first full elections for the National Assembly (which was responsible for the election of the president and had the power to change the constitution) and the legislative yuan in more than four decades. The new National Assembly then passed several constitutional amendments that, among other democratization measures, gave voters their first ever opportunity to choose the nation's president, in March 1996. At the same time, exiled opposition politicians had been allowed to return home, and political parties proliferated in 1992.

Authoritarian-developmental state and social development

Taiwan's road to democratization has been paralleled by success in economic development. The main indicators of development clearly show the successful transformation of the economy. This has enabled the developmental state to build a comprehensive range of social welfare services over time. Immediately after World War II, Taiwan was a poor, agricultural society. Forty years of spectacular economic growth after World War II turned a heavily rural, postcolonial economy into a modern industrialised one. With a population of 21.9 million in 1999, its per capita income has reached US $13,303 (*Asiaweek*, 5 May 1999). More important, the Taiwanese state has successfully turned Taiwan into one of Asia's economic powerhouses, after Japan, Singapore, and Hong Kong – the Taiwan economic miracle (Selya, 1995). It has made huge advances in industry and agriculture and improved the population's living standards. In terms of per capita GNP, it was ranked fourth in Asia, after Japan, Singapore, and Hong Kong.

Material success is one area in which the authoritarian state has been eager to outperform its arch rival, Communist China. In terms of income per head and quality of life, Taiwan maintains a large distance from neighbouring Communist China, which is still a low-income developing country. In 1950, the incomes of Taiwanese and of mainland Chinese were much the same. By 1989, Taiwan per capita income was US $7,500, compared to US $350 in Mainland China (*Economist*, 14 July 1990). Its economic growth has been impressive, averaging 6.4 per cent between 1990 and 1995 (Asian Development Bank, 1999). With highly developed plastics, chemical, shipbuilding, clothing, and electronics industries, Taiwan's private enterprises have flourished. It has the largest foreign exchange reserve in the world, more than $80 billion, with an account surplus of about $20 billion a year, more than 20 per cent of its GNP. This means it has the third largest trade surplus in the world and practically no debt (Welsh & Butorin, 1990). By World Bank standards, Taiwan is considered as an upper-income country. It has an export-led economy, in which exports in 1990 accounted for 43 per cent of GDP. This compares with export/GDP ratios of some 8–13 per cent in Latin American countries (Gereffi, 1994).

Until the KMT loosened its grip in late 1980s, the Taiwanese state had been strong for a number of reasons. First, although colonial experiences in most developing countries were devastating, its legacy in Taiwan was to some extent facilitative of its subsequent development. For instance, the Japanese sought to promote the development of the indigenous social and economic structure. The colonial policies were much more development-oriented, and supplied a foundation for future development (Jonsson et al., 1991). When Chiang Kai-shek fled to Taiwan, the issue of survival drove him to prompt action to develop Taiwan economically. This proved to be the correct approach, and the subsequent improvements in standard of living gave the authoritarian state some much-needed legitimacy.

The state started first with agricultural modernisation, which included land reform and investment in rural human resources to enhance labour productivity. A host of factors are considered crucial for its success: land reform, state planning, investment in future-oriented industries, US aid and investment, and universal education. Economic development occurs, analysts argue, because the political elite has made a conscious, public commitment to the need for development. The inter-ministerial council was charged with macroeconomic planning. In a series of development plans of various lengths, the broad economic and social goals were outlined. The KMT state was the only actor capable of responding to

political and economic problems. Gold (1986) describes the state managers as having an attitude of 'dynamic dependency'. They assessed the economy and society's capabilities and needs and linkages to the world system, and actively cultivated these strengths to improve their situation. The ability of the state to act independently of 'dominant' economic interests appeared to be a prerequisite for several important structural shifts, such as land reform in the 1950s and the transformation from import substitution to export promotion in the 1960s (Lam & Clark, 1994).

With a single-minded devotion to development, the state's resources were devoted only to economic purposes, with a concomitant neglect of social welfare. Although the KMT party built up a military regime, it did not totally neglect social development, however. Most notable was land reform. In Taiwan, the distribution of land was relatively equal at the start of the economic take-off. This was the result of a land reform programme undertaken by the KMT in the 1950s. It has been surmised by analysts that this reform was attributable to the US government, which was eager to contain communism. The KMT was able to push this through without much resistance because none of the Nationalists who fled to Taiwan owned any land, and they were not hamstrung by provincial warlords (Cumings, 1987). Taiwanese scholars such as Ku (1997) argued that land reform helped the KMT because land was purchased only with bonds and shares. In return, the KMT obtained immediate revenue from the tenants, which could be used for industrial development. The reform paid off well, reducing income disparities and spurring agricultural productivity.

In the wake of the reform, agricultural output jumped, with an important impact on industry (Jonsson et al., 1991). State capacity was much enhanced. Through the land reform, the KMT state sought to neutralise the threat posed to it by the old landowning class (Amsden, 1979, 1992). The redistribution of land underscored a pattern of relatively egalitarian inter-household distribution of income, both overall and between urban and rural populations. Taiwan is often cited as a prime example of the growth-with-equity strategy in development planning, as measured by a declining Gini coefficent during a period of rapid income growth based on labour-intensive, export-oriented industrialisation (Mehmet, 1995).

Health, education, and housing

The Taiwanese state recognized that it should invest in human capital to support economic development. Hence, education and health care are

high on the public agenda. Prior to 1995, when the universal national health programme was introduced, health delivery was carried out in both private and public sectors. Three labour insurance programmes (Labour Insurance, Government Employees' Insurance, and Farmers' Health Insurance) covered some 45 per cent of the total population in the early 1990s. With the introduction of national health, universal coverage has been achieved.

Traditionally, Chinese culture places a strong emphasis on education; Taiwan is no exception. Article 158 of its constitution underscores the important role of education: 'to develop the sense of nationalism, sense of autonomy, national moralities, healthy physique, knowledge of science, and earning ability'. There is a provision on education: 'All children of school age from 6 to 12 years shall receive free primary education, and all citizens above school age who have not received primary education shall receive supplementary education free of charge' (Article 160).

In development terms, the KMT realised early on that it needed an educated workforce for economic growth (Goodman & Peng, 1996). Since 1968, nine years of free and compulsory education have been available for all children (Li, 1994). For individuals, higher educational attainment is the key to social status and financial security. Over time, the state's educational expenditure as a percentage of GNP has been higher than in most other Asian developing countries: 5.5 per cent in 1991 (China, 2.3 per cent; Philippines, 2.9 per cent; and India, 3.5 per cent). In fact, it was the highest among the four tigers (Morris, 1996: 97). According to the established indicators, Taiwan performs well, and is catching up with developed economies in ratios of populations at different school ages attending schools at appropriate levels of education. As the state invested heavily in education, this engendered a significant drop in the illiteracy rate: 10 per cent in 1990. As early as 1965, the enrolment rate for primary education was already 100 per cent.

The education system serves two other functions. The state has linked the needs of economic growth with education with 70 per cent of all students between the ages of 17 and 19 in vocational schools (Morris, 1996). Second, higher education in particular was marked by politicisation (Law, 1995). The ruling KMT, like its counterpart in Mainland China, exerts considerable influence on university affairs such as administration, curriculum, and students' extracurricular activities. For example, Taiwan's university presidents are usually heads of campus political organisations, and take up party posts outside campus.

Unlike Hong Kong and Singapore, housing is not an area in which the state intervenes actively. There is a limited public housing system.

The main beneficiaries are upper and middle income groups, central government employees, senators, and congressmen. Since the 1980s, there have been housing plans which stipulated the state's commitment to a home ownership programme in which there was an annual target of 25,000 housing units. In 1988, public housing accounted for 1.48 per cent of total public welfare spending and some 4.9 per cent of total housing. The emphasis has been on home-ownership. Under the six-year plan, 1996–2001, there will be 45,740 public housing units, 8,900 units built using construction loans, and 71,800 private housing units with state subsidies (Doling, 1999).

The social insurance state[1]

The authoritarian state has been oriented toward the establishment of a number of social insurance plans for different groups of constituencies. This inevitably evokes an image of paternalism for selected groups. Socially, it would not be wrong to characterize Taiwan as a social insurance state. The first social insurance scheme was introduced and implemented as industrialisation was about to emerge in the 1950s (Chan, 1985). Since then, the social insurance scheme has developed in three directions: military servicemen's insurance, labour insurance, and government employee insurance. The first two were instituted in 1950, and the last in 1958. Military servicemen's insurance covers only military servicemen and their families; it provides lump-sum cash benefits in the event of death or disability and free medical treatment for sickness and injury. Other welfare services came later. For example, personal social services, on a piecemeal basis, appeared in the 1960s. A small public assistance programme was introduced at this time. But it was not until the end of the 1970s that appropriate social legislation for personal social services emerged (e.g. the Child Welfare Law of 1973, the Aged Welfare Law of 1980, and the Handicapped Welfare Law of 1980). In 1995 the universal national health programme was implemented, extending health coverage to all citizens. Earlier, a small Unemployment Assistance Programme was set up in July 1994, under which a worker may get limited support for a short time (US $22.22 per day for 25 days a month for up to four months). Current discussion has centred on the desirability of unemployment insurance as well as on the establishment of a national pension programme in the early 2000s.

The founding of the social insurance state can be dated back to pre-1949 China. The National Assembly was convened on 5 November

1946, and it adopted the Constitution of the Republic of China, which came into force on 25 December 1947. This constitutional document was adhered to by the KMT when it moved to Taiwan. There are a few constitutional provisions on social welfare. The most important one is Article 155, which establishes a social insurance system to promote social welfare. A labour insurance scheme was created in 1950 by the provincial government to safeguard those employed in industrial firms and mines with 20 or more employees.

Thereafter, the labour insurance scheme expanded its coverage of industrial labour in successive stages (Chan, 1985). The first expansion occurred in 1951, extending coverage to those in private firms with fewer than 10 or more employees. Voluntary coverage was also made available to employees of firms with fewer than 10 employees. There were two further extensions in coverage: Fishery labour and sugar cane plantation workers gained entry in 1953 and 1956, respectively. The state took a further initiative in 1958 by enacting the Labour Insurance Act, which gave it direct involvement in the administration of labour insurance. Thus, a provincial-level programme was transformed to a national one. The coverage of the labour insurance scheme was extended in 1965 to those who were employed in the government sector but were unqualified for government employee insurance (e.g. technicians and school bus drivers). The Labour Insurance Act was again revised in 1979, when its coverage was extended to all workers in private firms with more than five employees.

Why did the KMT state introduce various social insurance schemes? Academics such as Goodman and Peng (1996) argue that the labour insurance scheme was probably instituted on the initiative of the KMT in reaction to its failed labour policy in mainland China. They comment that it is no more than 'an appeasement measure to avoid potential worker revolt' (p. 205). The programme was state-led, and represents the state's recognition of work ethics. As one form of payroll taxes, it enhances work incentives. Labour insurance programmes, in essence, reward people who work, and they are contributory in nature (from both employers and employees). This form of social security is the most pragmatic in the case of Taiwan. With few resources, constant threat from China, and a strong commitment to growth, precious resources were devoted only to economic development and military infrastructure by the developmental state. But social welfare was not neglected. The state believed that the introduction of labour insurance targeting special groups was needed. In this context, the imposition of a social insurance programmes served the state well.

With Taiwan's strong emphasis on work ethics, it is not surprising to see that social assistance is neither generous nor all-embracing. Social assistance in the form of limited social relief was first made available in the early 1960s through county authorities (Chan, 1985). The programme was targeted at those poor people living in institutional care with no close kin. In 1965 it was extended to provide cash assistance to families living below the prescribed poverty line. There are two measures of poverty. In Taipei, the capital, it is defined as below 40 per cent of average family spending. For the whole province, it is defined as below one third of average family income. The programme now falls under the Public Assistance Law of 1980, and the local government carries the administrative responsibility. In 1988, a meagre 1.2 per cent of government spending was devoted to public assistance (Li, 1994). Not many people are protected under the scheme. It has been estimated that the ratio of poor people (i.e. those receiving public assistance) to total population hovers around 0.5 per cent to 0.6 per cent (Table 4.1).

A major development toward universalization of social security came in the 1990s. The National Health Insurance (NHI) programme was fully implemented on 1 March 1995, the state having proposed this idea in 1986. In 1994, the legislative yuan passed the National Health Insurance Law, which was subsequently promulgated by the president. It was later amended, on 3 October 1994, to include provisions for mandatory enrolment in the insurance programme. Taiwan's NHI, a unified health insurance system, aims to cover every Taiwanese citizen. Prior to this, Taiwan's health care system included 10 separate health insurance

Table 4.1 Low-income households and population in Taiwan, 1990–1997

End of year	Low-income households		Low-income population	
	Total (households)	As % of total households	Total (persons)	As % of total population
1990	40,994	0.80	114,220	0.56
1991	42,665	0.82	116,225	0.56
1992	43,780	0.82	115,284	0.55
1993	46,717	0.85	118,502	0.56
1994	48,182	0.85	115,748	0.55
1995	48,580	0.83	114,707	0.54
1996	49,307	0.82	115,542	0.54
1997	49,204	0.79	112,523	0.52

Source: *Republic of China Yearbook* (1998), p. 145.

programmes – the three most prominent being labour insurance, government employees' insurance, and farmers' health insurance. It was extended to cover their dependants and others, and the insured and insuring agencies of this new scheme must follow the regulations of these original schemes to promote the programme.

The NHI is grounded in a number of constitutional articles, including Article 155 of the constitution. Moreover, Article 157 of the constitution stipulates that 'the State, in order to improve national health, shall establish extensive services for sanitation and health protection, and a system of public medical service'. Article 9 of the amended constitution stipulates further that 'the State shall promote national health insurance.'

The NHI covers contingencies such as illness, pregnancy, or injury. It is one form of social insurance, and enrolment is mandatory. Through universal enrolment the risk is shared, and the goal of 'helping others by helping oneself' is attainable. The NHI was built on the bases of three programmes: labourers' insurance, government employees' insurance, and farmers' insurance. Because the NHI is a social insurance programme based on the principles of 'helping others by helping oneself' and 'the sharing of risks', the principle of financial self-sufficiency is actively pursued. Hence, the funds needed for the programme come from one third of each programme – from the insured, the employers, and the state.

By December 1995 there were 425,000 insuring agencies with approximately 19.12 million insured persons, giving an insurance coverage rate of 92.34 per cent of the total population. The number insured was 7.02 million more than before. By the end of 1995, the total amount of contributions collected was NT $91 billion (NT $30.6 = US $1), at an average collection rate of 93 per cent. Data on the collection of insurance contributions for the period between March and July 1995 show that the average amount of the insured wage was about NT $20,000.

Administratively, the central government is the key player. The Bureau of National Health Insurance was set up on 1 January 1995 to oversee this programme. The Department of Health is the competent authority of the NHI programme for supervision and programme assessment. Further, Article 4 of the National Health Insurance Law stipulates that to supervise the implementation of the NHI and to provide consultation on insurance policies and regulations, a Supervisory Committee for National Health Insurance should be created. The committee comprises representatives of the organisations concerned – the insured, the employers, the medical care providers, and the experts.

Some important features of the programme should be noted. First, there is an emphasis on the sharing of finances. It is planned on the principles

of fair contributions of premiums and the balance of incomes and expenditures. Furthermore, the state makes it clear that self-sufficiency is the basic principle of the financing system of the NHI. There is a strong emphasis on maintaining a sound financing system: the state will not be responsible for any gains or losses of the programme. The financial responsibility of the state ends at subsidising the legally set share of contributions and the administrative costs of the programme. Finally, the state envisages that there is more work to be done in the following areas: building an actuarial model to decide on premiums, collecting relevant financial information, improving management, improving the returns on short-term capitals, and strengthening the collection of contributions due.

At the start, analysts were worried that the programme was not financially sustainable in the long run. The growth rate of expenditure exceeded that of contributions. Others felt that some people took advantage of the unlimited visit policy. Other people tried to obtain unnecessary medical treatments, thereby creating wastage. Four years after its implementation, the programme was in the red. The developmental state had to devise means to make it financially viable.

An assessment

The Taiwanese developmental state put military and economic development at the forefront. Of particular note was its land reform policy,

Table 4.2 Net expenditure on social welfare in Taiwan, 1990–1997

Fiscal year	Net expenditure on social welfare by general government	
	As % of total expenditure	As % of GNP
1990	8.25	2.28
1991	8.31	2.54
1992	7.96	2.60
1993	7.84	2.55
1994	8.28	2.55
1995	11.17	3.46
1996	14.46	4.00
1997	14.27	3.76

Net expenditures include social insurance (not including pension), social assistance and social relief, social welfare services, employment services, and medical care and public health.
Source: *Republic of China Yearbook* (1998), p. 144.

which brought about desirable income equality for a few decades. Social welfare was used as a method of granting special favours to selected groups. This happened before 1986. Afterwards, the KMT state, weakened internally by factions and externally by opposition parties, began to structure a better social society for its people. Public expenditures on social welfare have been increasing (Table 4.2). As a percentage of GNP, social welfare spending is on an upward trend. Still, it is a social insurance state, with benefits tied to employment, while the vulnerable and weak are still marginalised and support for them remaining weak.

If one looks at public spending, one could easily come to the conclusion that social welfare spending is rather small by western standards. In the fiscal year of 1998, the central government spent US $15.9 billion, or 26.83 per cent of its total expenditures, on what it broadly defines as social services – a budget heading that includes social welfare expenses (14.45 per cent), community development and environmental protection (3.4 per cent), and pensions (8.98 per cent) (Republic of China 1998).

Taiwan's social welfare resources have been channelled predominantly to a small group of beneficiaries.[2] Taiwanese scholars (Lu, 1995; Fu, 1990; 1995) reported that the central government social welfare budget was heavily tilted toward military servicemen and government employees. In fact, 67 per cent of the central government's social welfare budget was distributed to military servicemen, government employees, and their dependents, who constituted less than 10 per cent of the total population (Li, 1994). On the other hand, some needy groups, such as women, the elderly, children, and farmers, together shared less than 1 per cent of the national welfare budget. As a corollary of such bias, there was little impact on income distribution on the part of the social welfare budget (Wang, 1994). Social insurance programmes did not have much impact either, since they required low contributions or gave out small benefits. Furthermore, the limited spending on social assistance for low-income families did not affect the income share of the bottom quintile.

Some academics in advanced industrialised countries (Gilbert & Moon, 1988; Kwon, 1998; Tang, 1993; 1998a) have challenged the use of social expenditure in the assessments of welfare efforts,[3] and some have called for an expanded definition of social welfare spending to arrive at a more accurate assessment of state's efforts. To overcome the deficiencies inherent in the social expenditure approach, a pioneering study conducted by Li (1994) used a comprehensive measure of social welfare spending. Li uses a broad definition of social welfare that includes social insurance, welfare services, health care, public housing, employment

services, pensions for government employees and soldiers, and community development. Added to it are education, tax savings, and interfamily transfers.

There were three major findings. First, Li reported that Taiwan spent 18.7 per cent of its GNP on social welfare in 1991. This was unfavourably compared to those of the United States (27.6 per cent) and Germany (31.3 per cent) for the year 1978. The latter estimates were drawn from Lampman's (1984) study. Using this enlarged measurement, social welfare development still lagged behind the western countries. Second, important items in comprehensive social welfare spending included conventional social welfare spending (4.6 per cent of GNP), educational spending (6.4 per cent), tax savings (3.2 per cent), philanthropy (0.6 per cent), interfamily gifts (2.7 per cent), and wage diversion (1 per cent). Finally, Li found that the poor (i.e. the bottom 20 per cent of income distribution) received considerably less than their counterparts in the United States because Taiwan's cash benefits were mainly redistributed through tax savings, and the middle class are the major beneficiaries.

Directions of welfare development

Overall, one could note a few salient features of welfare development. First, Taiwan relies on social insurance as the main tool of social provisions. Essentially, it is a residual social insurance-based system with limited corporate welfare. The social insurance state is characterised by compartmentalisation and fragmentation. There are a number of problems with this approach. First, it does not protect all citizens. Second, a number of administrative units are responsible for different programmes, which creates some confusion. Third, the programme favours some groups, resulting in the long-term deficit of programmes and increasing state's subsidies. Finally, the pension is only a lump sum, not an annuity. Taiwanese scholars have commented that social insurance plans (8 out of 11 plans) put much emphasis on health but ignores other contingencies such as unemployment and retirement (Lu, 1995).

Second, only very modest welfare provision has been implemented since World War II. The whole approach has been piecemeal, reactive, and lacking a grand vision. The idea of a western welfare state is expressly rejected by the state. The haphazard nature of its development could be seen in the large number of labour insurance plans. Economic development and nation-building are the prime goals for the state. As Goodman and Peng (1996: 210) suggest, 'The developments in social welfare observed in these countries [i.e. Japan, Korea, and Taiwan]

may be explained by what we describe as peripatetic adaptive learning and development strategies with the prime goal of nation-building.'

Third, intervention in housing has been relatively weak at the start. But public health is receiving state attention, and education is strongly emphasised. In 1995, some 17 per cent of net public spending was allocated to education, science, and culture – some 6.75 per cent of the GNP. A constitutional clause underscores its importance. Article 164 of the constitution states, 'Expenditures of educational programmes, scientific studies and cultural services shall not be, in respect of the Central Government, less than 15 per cent of the total national budget; in respect of each province, less than 25 per cent of the total provincial budgets; and in respect of each municipality or country, less than 35 per cent of the total municipal or county budget.'

Fourth, social programming intensified in the late 1980s. Political crises, party rivalries, and democratisation have spurred social welfare development. The landmark development is the national health programme. But there is a conspicuous absence of crucial social programmes: unemployment insurance, family allowance, and national pension. Given this, the Taiwanese state is not a western-style welfare state. The goal of redistribution is not pursued by the state; its social assistance programme is small and not generous to the poor.

Fifth, the developmental state upholds the ideals of Confucianism, and has encouraged a reliance on family and voluntary efforts in times of trouble. This would foster a sense of solidarity in the Taiwanese society. It is doubtful whether the traditional values will be upheld by many as the society industrializes and urbanizes. Moreover, the idea of social entitlement as right is absent.

Sixth, the social engineers in Taiwan have tried to plan their universal programmes in such a way as to avoid future financial crises (Mok, 1996). In other words, financial prudence is a great concern, and they want to have a sound system, avoiding the fiscal crises that other western countries have been facing. Such pragmatism has characterized the social insurance state for some time.

Finally, Taiwan's social welfare has differed from other tigers such as Hong Kong in that social programmes are grounded in legislation. In effect, there are a large number of social statutes, some of them adopted from their predecessors in China. Much social legislation has been passed between 1950 and 1999. Such statutory provision of welfare was unsurpassed by other East Asian countries. One should not overestimate their importance, because some of them took a long time to be implemented. Nor were they actively upheld by the state. Goodman

and Peng (1996) rightly observed, 'There also exists a large gap between the constitutional statement concerning the state's obligations to provide social welfare and the reality of the existing social welfare system' (p. 205).

Determinants of state welfare

We have argued that the presence of an authoritarian development state is the factor that best explains Taiwan's social welfare development. Prior to 1987, the state under KMT rule was so powerful that it could afford to neglect social needs and problems. In this respect, the Taiwanese state inherited from the Japanese overlords the following colonial legacies that helped it to remain strong: centralised administration, an efficient administrative system, good physical infrastructure, a coercive military and social control system, a belief in technical education, and some established channels of state's income. Additionally, the KMT was able to bring along a group of experts and officials from the mainland. The strength of the state meant that it could afford simply to maintain a residual social security system (Lin, 1995; 1998). It could not afford to invest much in social welfare. Rather, the state played a minimal role and encouraged people to rely on self-help and traditional family support. Because of colonial influences, education and health have received much more attention. The KMT party which succeeded to power put education at the top of its policy agenda.

In this respect, Ku (1997: 145) has offered a detailed discussion of the Taiwanese state:

> The establishment of state authority through the process of state building was preceded by violence that elevated the state to a superior position over society. Both the Japanese colonial state and the KMT were from outside Taiwan. They could maximize their options of decision making by reforming existing social structures because there was little connection between them and Taiwanese society. The introduction of modern state machinery and well-educated and loyal bureaucrats enhanced the ability of the state to carry out its policies. A high level of tightened social control and order decreased possible resistance against state's policies.

As noted, when the Taiwanese state was established in 1949, it was already a strong one that had military power at its disposal and was ready to quell any political unrest or social discontent. But it did not

belittle economic development. Rather, it saw that economic growth was the dominant factor in national defence and political legitimacy. Hence, it considered such a development as an absolute necessity. Taiwanese scholars would concur with this interpretation. For instance, Ku (1997: 146) argued that 'increasing productivity over a short period of time was not for the purpose of producing more goods in order to improve the living conditions of the people; rather, it was for the enhancement of the state's capacity, especially in terms of military power should the state go to war.' Another wise strategy at this time was land reform, which was a crucial factor in maintaining income equality in the next 40 years. With massive American aid and a growing economy, it was able to grant favours to the selected groups of constituencies. One undesirable result has been that its welfare system is rather irrational and overlapping.

The Taiwanese state put a high priority on survival (political and economic). Under this 'survival orientation', social policies played a subsidiary role to the overarching economic objective. A sense of pragmatism gradually developed when some economic development was made.

If the authoritarian development-oriented state played a key role in economic and educational development, it must shoulder all the blame for the underdevelopment of social welfare provisions. The Taiwanese developmental state has been, in large part, profoundly anti-welfarist. In 1985, Premier Hua said that there would be no welfare state in Taiwan, and appealed for sustained family assistance to members in need. The resultant social security system is traditional, conservative, residual, and selective (Lin, 1995). Social welfare is assumed to be social assistance. Other scholars concur with such characterisation (Fu, 1995). Like the colonial state in Hong Kong, the Taiwanese state encouraged its people to seek help from their families under the guise of self-responsibility, an echo of Confucian values of mutual aid and family support.

Despite the state's hostility towards welfare, public opinion toward social welfare is generally favourable. For instance, a Social Attitude Survey conducted in 1991 asked three questions relating to social welfare: (1) Would increased social welfare encourage people to evade their family responsibilities? (2) If the state spends more on social welfare, will the economy be compromised? (3) Is social welfare a financial burden for the state? The results did not reveal strong anti-welfarism on the part of the public. A total of 61.9 per cent of the respondents did not agree with the first question. A similar proportion (63.2 per cent and 61.8 per cent) voiced opposition to the second and third questions respectively (Lu, 1995). Such a favourable attitude has not impelled the

state to action. Instead, it has made little impression on the minds of the ruling party. A number of other public issues high on the agenda – for instance, the independence of Taiwan, China/Taiwan confrontation, environmental concerns, local politics, and crime and order.

The state's hostility toward welfare does not mean that the social welfare system was poorly developed. Rather, there were extensive social welfare services by the time the KMT liberalised the political system. What explained such a development? Earlier on, diffusion played a role in welfare provision. This is reflected in the poverty programmes. Influenced by the American 'War on Poverty' welfare programmes in the early 1960s, two social assistance programmes were embarked on as part of a community development strategy in the early 1970s (Chan, 1985). The Shao-Kang ('little well-off', i.e. between wealthy and poor) scheme came into being in the province of Taiwan in 1972, and the An-Kang ('healthy and wealthy') scheme was simultaneously launched in the Taipei municipality. Both schemes were designed to eradicate poverty by providing vocational training, short-term loans, employment, child care, social assistance, and low-cost assistance for the poor (Li, 1994). With the severance of diplomatic ties with the US in 1978, these programmes did not last long.

The industrialism thesis explains social welfare development as being shaped by the processes of modernization and industrialization. In the case of Taiwan, such processes have generated social needs, but the underdevelopment of social welfare before 1990 contradicts the prediction of industrialism thesis. This conclusion is supported by a pioneering quantitative study done by Lin (1991a). Testing major theories of comparative social policy, Lin finds that industrialization is not the decisive variable. Rather, variable like welfare ideology, the labour movement, diffusion, and the particular state structure each play a part.

There is no social democratic party in Taiwan; and major social initiatives do not come from the labour movement. For instance, the implementation of social insurance was not due to the labour movement. The Taiwanese case demonstrated that in Asia, labour power was insufficient as a variable to induce welfare expansion. For a long time, the labour movement was under tight supervision. The KMT was rather hostile to labour movement in China before 1949 (Cooney, 1996); indeed, it passed the Labour Union Law (LUL) during its repression of the Chinese labour movement. When it fled to Taiwan, the party implemented the LUL with a view to creating unions it could discipline.

After 1949, the KMT used two means to control the labour movement. First, it chose to implement those labour laws that suited its

purposes, and used a number of non-legislative means to carry out its labour policy, thus sidelining the law (Cooney, 1996; Tsai, 1998). It would be reasonable to say that, given the developing economy, the strong state, and the lack of knowledge of law, the legal framework provided little protection for the working class. If working-class mobilisation is weak due to other factors, then the legal mechanism offered little assistance to it. It remains to be seen how and when the law can be transformed from a weapon of state rule to a means of protecting people's rights.[4] There is another reason why the labour movement is weak. Earlier on, the KMT successfully suppressed the labour movement through martial laws, and through close supervision and penetration at the enterprise level.

Historically, there are structural reasons for the weakness of the working-class movement. First, most factories were small in size and geographically dispersed before the democratisation process in 1987. Many industrial workers are 'part-time proletarians engaging simultaneously in industrial and agricultural production. The rural experience of the workers has the effect of clouding their class identity' (Chu, 1998: 190). Second, disgruntled workers have been able to fall back on the agrarian sector. Third, the borderline between workers and small employers has remained faint until very recently. Many workers have regarded factory jobs as an apprenticeship toward entrepreneurial careers.

As a result, the workers were poorly organised, and the unionisation rate remained around 25 per cent in 1990. It is true that strikes and industrial action increased rapidly after the lifting of martial law after 1987. However, compared to many other social groups that have staged their protests on a number of social issues, labour issues did not capture as much public attention. Also, the workers were not able to contribute much to the democratisation movement, which would probably indirectly add to their strengths. They were content to be led by the local politicians, intellectuals, and the middle class, who maintained strong ties with small enterprises (Chu, 1998).

In sum, the labour movement was tightly controlled by the ruling party, as a fortress against Communism: the ruling party knew that Communism and socialism could easily be bred or fostered by a discontented labour force. Overall, unionism in Taiwan was weak. Both the labour movement and leftist parties had little influence on the course of social welfare spending. None of the major political parties are labour-focused, unlike the Labour Party in Britain, which professes to advance labour's interests. Currently, unionism is still not strong. It hovers at around 25–30 per cent of the workforce, and does not cover the majority

of the labour force, who work in small businesses (Goodman & Peng, 1996).

On the other hand, some factors favour welfare development in Taiwan. The first factor is ideology. At the time when KMT established itself in Taiwan, there was one guiding principle for social development. The Taiwan state has always pledged to uphold and implement the three principles of the people suggested by Dr. Sun Yat-sen: Min-tsu Chu I (the principle of nationalism), Min-chuan Chua I (the principle of democracy), and Min-shen Chu I (the principle of livelihood).

To carry out democratic revolution in China, Dr Sun Yat-sen, the father of the Republic of China, extensively studied the political systems of European countries and America in formulating the three principles of the people: nationalism, democracy, and social wellbeing. Sun asserted that two methods would suffice to solve the problem of people's livelihood in China: equalisation of landownership and restriction of capitalism. The term 'restriction of capitalism' means state ownership of those enterprises that are either monopolistic in nature or unsuitable for private ownership because of large capital requirements, such as banks, railways, and shipping companies. But he wanted to restrict it so that 'the livelihood of the people will not be controlled by the capitalists'.

Taiwanese scholars such as Lin (1995) and Ku (1997) have argued that the KMT was not able to ignore social welfare in Taiwan because the KMT professed to follow Dr Sun's principle of people's livelihood.[5] Lin (1995) further argued that the professed pursuit of Dr Sun's principles was one strategy on the part of the KMT to retain public support: socially, there was no grand vision on the part of the KMT; but Dr Sun's three principles were used as an ideological weapon. The state did not give much thought to social welfare until it was thrust into a crisis, as evidenced by the establishment of these social programmes. Inevitably, ideology such as Dr Sun's ideas should be best seen as a tool to motivate the people. When it came down to policy implementation, pragmatism would prevail over ideology.

The state's treatment of a selected clientele is another factor explaining welfare development. Not long after its landing on the island, the KMT poured in money to upgrade the living conditions of the members of the military forces. Naturally, military servicemen were crucial to the survival of the KMT in face of the Communist challenge. Likewise, two other constituencies of the ruling party – civil servants and teachers – were well cared for. After 1987 the state, weakened internally by factions and externally by opposition parties, began to structure a better society for

its people. Still, it was a social insurance state, with benefits tied to employment, while the vulnerable and weak were still marginalised.

Thirdly, the Taiwanese case demonstrates how the democratisation movement would spur social welfare spending and lead to expanded social welfare. Since 1987, when the political system was liberalised, there has been a marked rise in the number of autonomous civic organisations. The emergence of new political parties has posed a challenge to the ruling KMT. Democratisation reduced the power of a strong state by severely limiting its capability and making it more responsive to social needs and social problems. The opposition party was a critical player, in that it prodded the ruling party into action by promising itself that social welfare would be extended once it was in power. In the 1990s, various academics have commented that social welfare spending rose, which reflected the ruling party's attempt to appease the electorate. Not surprisingly, the opposition party proposed a number of welfare programmes to win popular support. Such action, unfortunately, was often short-lived because other public issues came to the fore.

Since the late 1980s, some factors have emerged which could shape the course of the welfare development in Taiwan. We would argue that business influence is growing. Another factor, social protest movements, could only force the state to take some short-term measures to deal with immediate social issues. Finally, the major opposition party would probably not pose a strong challenge to the state on social welfare issues.

Social protest movements

The mid-1980s witnessed a number of social movements in Taiwan. It was a decade of rising social consciousness (Leng, 1996). Various mass movements arose, including the feminism, consumer protectionism, environmentalism, and labour protests. One such movement, 'Homeless Solidarity', tried to promote affordable housing. It organised a mass protest on 26 August 1989, and successfully brought out 10,000 people to protest rapidly rising rental and housing prices (Lin, 1991b). Soon afterwards, the state responded by promising more housing loans and the construction of public housing. While the gains were very modest, the momentum had been established: these movements would heighten people's awareness of the social issues and forced the state to review its existing policies for marginal groups (Tsao, 1995).

These movements have had other impacts. For instance, anti-pollution activists targeting large businesses launched a total of 108 protest campaigns between 1980 and 1988. This had the effect of provoking

businesses into participation in the policy-making process. As Leng (1996: 85) observes, 'Getting involved in politics was the most direct way to protect their corporate interests.'

The Democratic Progressive Party

To many (including small businesses), the rise of the DPP has provided a welcome alternative to the ruling KMT because it has been able to project a democratic, clean image. It also poses as a party that calls for more social spending. This in some ways explains why it was able to seize top positions in lower-level government from the KMT within only 10 years. The party has tried to be populist. However, when it comes to power at the national level, voters are unsure about the DPP's trustworthiness. The problem is that the party has stagnated after its meteoric rise, which was well exemplified by its defeat in the 1999 election of the Taipei mayor. At one time, the DPP's relationship with business was soured by its anti-business stance. The so called 'Bayer Affair' was a good example of the growing importance of environmental problem: the chemical producer was forced to cancel its investment plan because of anti-business sentiment in a DPP-ruled county where the investment was to be located. However, much has been done since then to improve the party's relations with the business world. It would be unrealistic to see this party as a full champion of the cause of social welfare in Taiwan. For one thing, it has to tackle a number of more important political issues. Second, with the KMT's change of stance toward expanding social welfare, the DPP's stand on welfare is unlikely to capture more voters.

The state–business alliance

The state–business relationship in the authoritarian era was that of patron and client. There was an absence of institutional linkages between them whereby big business could articulate its interests; they could only influence at local level. This situation changed after 1987, when political reform opened up the political system (Leng, 1996). While small- and medium-sized businesses lacked the necessary resources and skills for organising and lobbying for change, the influence of big business has become increasingly important after the political reforms. They could influence policies by providing financial support for lawmakers, allying with KMT enterprises, and maintaining close contacts with officials. State–business alliances are based on personal relations. Undoubtedly, the business–legislature linkage has become closer since democratisation. With the ascent of business as a key factor in policy-making, state autonomy has been much reduced. In this context, and given the

dwindling political control, the ruling party has to react to crises, or to a new political reality, and grant welfare concessions whenever needed.

Inherently, this alliance is conservative, supporting the status quo. Chu (1994: 136) comments that this state–business alliance shares some common views: 'both put economic growth before environmental considerations; both favour a slow growth in social welfare spending; and both support a state-orchestrated exclusion of organized labour from economic policy-making.'

A recapitalution

There are some signs that the Taiwanese state is under great pressure in several important respects. Democratisation, increasingly open and competitive markets, high joblessness, a greying population, and disillusion about corruption among the elite are putting the state under intense strain. The Taiwanese state has been weakened after the process of democratisation began. The KMT still remains the most powerful institution: it controls the presidency, a majority of seats in the legislature, and the local government of Taipei by defeating its main rival, the DPP. But the KMT and the state are no longer identical (Cooney, 1996). It has been weakened by the formation of the New Party, which mainly consists of former members of the KMT. Coercive and corporatist methods of rule are no longer appropriate, and a more consensual approach incorporating the views of various opposition parties would be needed for some important issues.

Financially, the creation of new social programmes has put the developmental state in the spotlight. This in turn triggers intense party rivalries. A case in point is the NHI. Not long after its implementation, the state has had to look for new sources of funding for this universal health programme. This has sparked rivalries between the state and its opposition party. A controversial amendment to the Charity Lottery Act, giving the central government the sole right to run lotteries, was introduced in June 1999. It was blocked by the main opposition, the DPP. Public lotteries were suspended in 1987 to curb gambling. But recently the Ministry of Finance, short of funds to finance the national insurance scheme, found them a ready source of revenue. A centrally run lottery was expected to generate an extra NT$15 billion a year. However, the introduction of this bill created rivalry between central government and local authorities because the latter also wanted a share of the pie. Kaohsiung mayor Frank Hsieh, a DPP member, defied the central government's warnings by launching another lottery on 14 June, which

netted NT$24 million. He preempted the legislative session, which was expected to pass the amendment giving the central government the sole right to run lotteries. With 13 of the 21 county and municipal seats in DPP hands, by centralising this power the KMT was simply trying to undermine the effectiveness of the opposition party at the local level (*Straits Times*, 25 June 1999).

As Taiwan becomes more and more industrialised, people are going to rely on economic gains as a major source for personal needs and daily living. Economic development along with full employment has no doubt contributed to improvement in living standards, but it has also led to a growing demand for services and social support. On the other hand, a more educated population leads to more scrutiny of issues and policies. In other words, the actions of the state need to be well conceived and to appeal to the masses.

Nevertheless, the developmental state is not always responsive to social needs and problems, as demonstrated in the case of social services for women. There was no estimate of how many home caregivers (mostly female) there are in Taiwan. To take the example of an advanced industrialising country, it has been found that family members provide more than 80 per cent of Canada's home care, but that their tasks grow heavier day by day. It is expected that the same thing applies to Taiwan. Traditionally, most Chinese families care for their own members. Caring for faltering spouses, ageing parents, recuperating family members, or disabled children, many of these unpaid caregivers have been overwhelmed. For a long time, the system has exploited them providing them with no support. Nor does it value what people are doing for their families. But such a diffuse group of people in need would not induce the strong Taiwanese state to action.