

What Has Democratization Done to Taiwan's Economy?

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I. Introduction

The decade of democratic transition in Taiwan started in 1986 when her ruling party, the Nationalist Party or Kuomintang (KMT), committed to the lifting of martial law decree and the ban on new parties as well as new press. With political decompression, independent unions emerged, social protest spread, new parties emerged, and many economic issues suddenly became very salient in political arenas. In altering the rule of political game, democratic transition may have created externalities in Taiwan's economy. This paper elaborates on three aspects of Taiwan's economy where democratization has conspicuous impacts, namely, environmental regulation, industrial relations and budget management. Democratic transition has left its imprints in many issue areas, but these three have worried government economic planners and private sector most (Su 1994).

Upon political decontrol, "self-relief" protests staged by pollution victims and labor disputes became most prominent "new born things" in the landscape of Taiwan's political economy through the second half of the 1980s. These two movements, climaxed in 1989, however, have been subsiding. In contrast, the politics of welfare state and budget deficits, though slow to start, has intensified since the turn of the 1990s and appears to be a permanent fixture in newly democratized Taiwan. In the first two issue areas covered in this paper, economic impacts of democratic are more transitional while in the third area, they appear to be more enduring.

Our comparative static study attempts to identify behavioral changes in the wake of significant institutional change, namely the transformation from an authoritarian regime to a democratic one. But democracies are obviously not all alike. Variations in democratic institutions, be they constitutional forms of government, electoral systems or party systems, may have different economic implications. Taiwan is one of the few semi-presidential systems on earth and is the only polity still using the unique SNTV (single, non-transferable vote in multiple-seat districts) electoral system. As a result of democratic transition, an uneven three-party system is also emerging. We shall try to ascertain whether these distinct features reinforce or attenuate the presumed impacts of democratic transition on the economy. Where possible, we shall refer to the case of Korea, as it is the keenest economic competitor of Taiwan.

These two newly industrializing countries lend well to most similar comparable case study, as so many factors — for example, size, culture, historical settings, and stages of development — can be held constant (Cheng 1990; Schive 1990; Fields 1995). While no systematic comparison is attempted here, Korea will serve as the referent society in our sketch of the case of Taiwan.

II. Environmental Movements

Environmental movements in Taiwan slightly predated the lift of martial law decree but gained momentum afterwards (Hsu et al., 1987). These movements unfolded along two tracks. One is preventive environmental movement organized by political entrepreneurs from “above”. The other is popular protest staged by pollution victims for remedial purpose. The former has a long-lasting and largely salutary effect of balancing the goal of environmental protection with that of economic development, while the latter has the immediate effects of scaling down or even terminating operations in several industrial sectors.

Triggered by a Du Pont’s project for a huge chemical complex in central Taiwan in early 1986, preventive environmental movements proliferated after the onset of democratic transition. This sort of social movement poses severe collective action problems as both its benefits and costs are diffuse. Well-preserved environment is a public good available to contributors and free riders alike. Political entrepreneurship is an effective way to alleviate collective action problem (Moe 1980). The activist-leader as a political entrepreneur acts on behalf of, rather than at the behest of, the public, champions the altruistic cause, mobilizes the popular support, and in so doing, gains reputation, social trust and other political assets. Democratic transition unleashes political entrepreneurship in Taiwan’s environmental movements (Cheng & Hsu 1996b). As the ruling party claims to be instrumental to economic growth in the past, it is perfectly rational for the opposition parties to expose the seamy side of development, including environmental degradation. The principal opposition party, the Democratic Progressive Party (DPP), has indeed used environmental movements as a vehicle for party building. The government party, in response, attempts to portray itself as a honest broker between industries and environmentalists.

As in western democracies, the environmental movement in Taiwan is a manifestation of post-materialism in a society of prosperity: the new middle class values quality of life more than living standard (Inglehart 1977). Political expression of this movement in Taiwan, however, does not fit the pattern observed in western democracies. In western democracy with an electoral system of proportional representation or PR system as in the case of Germany, this movement often crystallizes into the Green Party, a single-issue party that turns out to be a decisive player in coalitional government as well as an effective advocate for heavy regulations on environmental protection.

Under the first-past-the-post (ie., plurality), single-member district system, such as that in United Kingdom and United States, the environmentalists do not form their own party, but rather manage to sell their cause, as other interest groups do, to existing political parties in a largely two party system. Taiwan's unique electoral system is more like a PR system than plurality system (Cox 1981) — note that district magnitude in Taiwan is usually two or three times larger than their counterparts in the pre-1993 Japanese SNTV system. However, her environmental movements did not develop into a significant Green Party.

One reason for this “anomaly” is that the party building of DPP synchronized with the rise of environmental movements. The DPP elite was able to co-opt the issue and subsequently subordinated it to the hegemonic issue of ethnic cleavage and national identity (Cheng & Hsu 1996a). After successfully forcing the KMT to dismantle the authoritarian institutions and open up various political offices for partisan competition, the DPP transformed itself from a democratic movement party to a nation-building party, making every effort to include both environmentalists and pro-development supporters. As the political cleavage is forged along the ethnic and identity faultline, the environmentalist movement is “de-radicalized”. The leading and most active environmental group came to be a close ally of DPP while other groups remain non-partisan and often inactive (Lee 1992: 23-24). In contrast with the preservationist movement, pollution victims rarely suffer from acute collective action problems, for the costs and benefits are highly concentrated. Popular protests of this nature, which thanks to democratic opening, are now permitted in Taiwan, can be very spontaneous. Table 1 shows that major disputes arising from pollution and waste disposal increased

Table 1: Cases of Disputes on Industrial Pollution

| | Industrial Pollution | Waste | Disposal Others | Total |
|--------------|----------------------|-----------|-----------------|------------|
| 1985 | | | | 1 |
| 1986 | | | | 0 |
| 1987 | 5 | | 1 | 6 |
| 1988 | 30 | 5 | 10 | 45 |
| 1989 | 61 | 14 | 26 | 101 |
| 1990 | 26 | 5 | 7 | 38 |
| 1991 | 23 | 14 | 7 | 44 |
| 1992 | 15 | 6 | 3 | 24 |
| 1993 | 13 | 10 | 1 | 24 |
| 1994 | 6 | 4 | 2 | 12 |
| 1995 | - | - | - | 11 |
| Total | 179 | 58 | 58 | 295 |

Source: Environmental Protection Agency.

drastically in the second half of the 1980s, with 1989 as the peak year. Instead of opting for judiciary and political solutions, the residents of the polluted area directly confronted with polluting factories, giving rise to waves of the so-called self-relief or self-help movement. Several factors help fan this kind of movement, including lack of information and expertise on pollution among all parties concerned, lack of adequate avenues for petition, high litigation costs, and grievance arising from the loss of property rights yet inability to bear the burden of proof. However, it seems Taiwan's electoral system — single and non-transferable vote, multiple seats district — for the legislature has also contributed to the surge of environmental protests. Under this electoral system, a candidate can win a legislative seat if he or she can collect the support of a fraction, as versus the majority, of voters in a district, but this fraction of voters should adhere to this particular candidate rather than other candidates from the same party. Candidates for legislative election in short can triumph simply by appealing to niche voters rather than medium voters. Pollution victims, real or potential, foreseeing no legitimate remedy from the government, are perfect niche voters. Thus wherever one sees a self-help protest, one finds one (and only one) politician taking part in it.

Self-help protest movements call attention to unduly overlooked problems of environmental degradation. Without the explosion of these protests, the state and business probably would have let the law of inertia govern the problem. However, in the absence of regulations, the disputes between pollution victims and the industrial firms often degenerate into physical violence and protracted confrontation. Moreover, without a guideline to follow, various parties concerned interact on a case-by-case basis. Until 1994, about 100 out of 179 cases of environmental disputes listed in Table 1 were "resolved." The settlements differ widely from case to case. In about 9 cases, firms involved in the disputes promised to shut down or relocate the polluting factories. In about 5 cases, firms decided to search new sites for their new factories. In about 56 cases, firms compensated or subsidized local communities or residents. In about 32 cases, firms agreed to improve production facilities (EPA forthcoming). Self-help protests sent conflicting signals to industries, heightening the degree of uncertainty in investment environments, making it difficult for industry to do rational planning. The outcome of dispute makes sense in some cases. For example, in the well known case of Jen Da chemical, local residents negotiated with firms which then promised to subsidize the infrastructural improvement of the whole community, notably, the creation of greenbelt, noise-proof and explosion-proof walls as well as other buffers. In addition, the industrial firms also agree to install pollution monitoring devices. But in other cases, the result of dispute can be very absurd. For example, in the case of the Lin Yuan petrochemical complex, the pollutant victim laid siege to industrial estate, leading to violent clash and the foreclosure of factories, eventually ending up with huge compensations made by corporations to individuals participating in the siege. In short, pecuniary

payoffs were traded for con-tinuing pollution.

Most of pollution cases affect individual firms, but several cases have impinged on the development of industrial sectors. Two aspects of industrywide effects can be identified. First, self-help protests by local residents slowed down the expansion and upgrading of two industries, petrochemical and electric power. Most of the cases of major disputes are in petrochemical industry. Two prominent cases of dispute are the fifth naphtha cracker by China Petroleum Corporation and the sixth naphtha cracker by Formosa Plastics. The plan for construction of the fifth naphtha cracker was delayed by three years from 1992 to 1995, with the expected cost implication increasing from NT\$15.3 billion to 19.9 billion. Taiwan quickly dropped in its world ranking of the ethylene production and the downstream factories suffered tremendously. The sixth naphtha cracker fared even worse, originally planning to be constructed between 1988 and 1993, but forced to delay for 6 years and now expected to complete in 1999. This new cracker is not just for the expansion of ethylene production, but for the upgrading of the whole industry as well, and the project is highly valued with a total investment of NT\$200 billion. Aside from petrochemical industry, self-help protests also took its tolls in electric power industry, as vividly illustrated by the cases of Suao fuel-based power plant and the fourth nuclear power plant in Gongliao. Due to bitter and violent resistance by local residents, the construction of fuel-based power plant was shelved, while the fourth nuclear power plant — a subject of continuous referenda — is unlikely to be built. Signs of inadequate power supply for industry have loomed large.

Second, protests by local residents have also led firms to exit from copper smelting and metal recycling industries. Copper smelting by Taiwan Power was not economical as there was an oversupply of copper in the world market. Without the clash between the Taiwan Power and fishermen over the effects of sulfur acid effluents on fish catch, the copper factory might not have been closed. Similarly, the labor-intensive and unsustainable metal recycling would have continued had not it been for environmental hazards it created to the local residents. Guest unskilled labor might have been used to prolong the life of this primitive industry — which uses rudimentary techniques, such as acid cleaning and simply burning, to retrieve reusable metals. A fire broke out in the compound of this industry, leading to the seizure of estate by residents and the total closure of the operation.

Self-relief protests staged by pollution victims, like wildcat strikes, would have been unthinkable in the past. They spread like wild fire after democratic transition. Disruptive as they might be, they did highlight the problem of environmental degradation. More recently, environmental groups grew to become more organized and had tried hard to establish their independence and had won their social credibility. Such groups as Shih-Bao (China Times) Foundation, Consumers Foundation, and Nature Preservation Foundation, have contributed positively to Taiwan's environmentalist movement

by playing a mutual middleman role between the government administration, the business sector, and the majority of victims, and by setting examples to the society. Moreover, as soon as the Environmental Protection Agency was formed, and a legal framework for environmental regulation was promulgated, the cases of self-relief protests dwindled and ceased to be a political issue. The issue has become "bureaucratized," no longer handled by politicians.

III. Labor

Democratic transition did not leave deep marks on labor-management relations as it did on environment regulations. With political decontrol, the level of unionization went up, independent unions came into being, and cases of labor disputes increased significantly. Moreover, coinciding with democratic transition, the condition of labor surplus has turned into one of labor shortage, thereby seemingly giving workers higher political clout and more bargaining power. However, political decompression did not detonate the conflict between labor and management as it did in Korea.

After the onset of democratic transition, the union density — the ratio of union members in total work force — leaped from about 20% in 1985 to 35% in 1992, albeit it dipped a bit after 1993. Such a lift was impressive, considering extremely low growth rates in the past: the union density rose quite slowly from less than 4% to about 9% in the 1950s, dropped a little bit in the first half of 1960s, then gradually climbed to 20% by mid-1980s. Similarly beginning in the second half of 1980s, cases of labor dispute increased drastically to nearly 2000 cases per year, while the number of persons involved in disputes reached a record high in 1989 (see Table 2). However, higher union density and more cases of labor dispute in democratizing Taiwan did not result in massive labor-management confrontation, large scale wage increment, and high unit labor cost as in the case of Korea (Cheng 1997; Mo 1996).

Union density is not a good guide for our understanding of labor activities in Taiwan. A most comprehensive survey of union membership shows that only about 40% of total union members in the 1980s and about 60% in the 1990s are bona fide members, joining unions out of their own convictions for the cause of labor solidarity; the rest acquires membership primarily for benefits such as labor insurance (Lee 1994: 3, 14). Moreover, union membership grew in the 1980s in part due to government's promotion and employers' encouragement, as a low level of unionization had been construed as a manifestation of labor suppression, a negative factor in Taiwan's negotiation with her trade partners in the west. Furthermore, since only company unions are allowed under current Trade Union Law, and since most firms in Taiwan are small, most unions are therefore very small (Deyo 1989, ch.5; Frenkel et al. 1993). And yet smallness does not mean ineffectiveness in collective bargaining; small unions usually present requests at a most auspicious timing and win concessions without resorting to strike or stoppage (Lee

Table 2: Labor Activities in Taiwan

| Year | Cases of dispute | Persons involved |
|------|------------------|------------------|
| 1963 | 20 | 550 |
| 1964 | 7 | 42 |
| 1965 | 15 | 259 |
| 1966 | 3 | 101 |
| 1967 | 6 | 369 |
| 1968 | 30 | 721 |
| 1969 | 92 | 1168 |
| 1970 | 92 | 920 |
| 1971 | 157 | 2329 |
| 1972 | 217 | 2774 |
| 1973 | 262 | 29498 |
| 1974 | 494 | 17456 |
| 1975 | 458 | 16809 |
| 1976 | 371 | 12817 |
| 1977 | 380 | 4047 |
| 1978 | 506 | 4084 |
| 1979 | 503 | 11529 |
| 1980 | 626 | 6305 |
| 1981 | 891 | 7053 |
| 1982 | 1153 | 9501 |
| 1983 | 921 | 12344 |
| 1984 | 907 | 9069 |
| 1985 | 1443 | 15486 |
| 1986 | 1485 | 11307 |
| 1987 | 1609 | 15654 |
| 1988 | 1314 | 24237 |
| 1989 | 1943 | 62391 |
| 1990 | 1860 | 34089 |
| 1991 | 1810 | 12696 |
| 1992 | 1803 | 12394 |
| 1993 | 1878 | 37949 |
| 1994 | 2061 | 30890 |
| 1995 | 2271 | 27342 |

Sources: 1. Statistical Yearbook of the Republic of China 1993.
 2. Council of Labor Affairs.

1994: 8). Table 3 shows that the wage-productivity gap was not widening in Taiwan prior to democratic transition. With the exception of two years, real wages surpassed productivity hike in Taiwan prior to 1987 and the real wage-productivity gap in favor of wage was extremely small after 1987. Wages have

Table 3: Real Wage and Labor Productivity in Taiwan's Manufacturing Sector (annual growth rate)

| year | real wage (A) | productivity (B) | gap (A-B) | unit | labor cost |
|------|---------------|------------------|-----------|------|------------|
| 1980 | 3.72 | 2.06 | 1.66 | | 20.1 |
| 1981 | 2.58 | 6.57 | -3.99 | | 17.0 |
| 1982 | 6.48 | 0.93 | 5.55 | | 8.7 |
| 1983 | 5.03 | 7.68 | -2.65 | | -1.6 |
| 1984 | 9.32 | -0.25 | 9.57 | | 8.3 |
| 1985 | 4.47 | 2.27 | 2.20 | | 5.1 |
| 1986 | 9.43 | 7.35 | 2.08 | | 0.3 |
| 1987 | 9.30 | 6.70 | 2.60 | | 2.4 |
| 1988 | 9.49 | 5.25 | 4.24 | | 6.8 |
| 1989 | 10.00 | 9.12 | -0.88 | | 6.5 |
| 1990 | 9.16 | 7.53 | 1.63 | | 6.6 |
| 1991 | 7.37 | 9.58 | -2.21 | | 1.2 |
| 1992 | 5.76 | 3.80 | 1.96 | | 6.4 |
| 1993 | 3.94 | 3.24 | 0.70 | | 3.7 |
| 1994 | 2.39 | 3.62 | -1.23 | | 2.5 |
| 1995 | 1.76 | 6.81 | -5.05 | | -0.6 |
| 1996 | 1.04 | 5.16 | -4.12 | | -0.7 |

Sources: 1. Computed from Council on Economic Planning and Development, Taiwan Statistical Data Book, 1996

2.

not really been repressed all along. Moreover, the 1984 Labor Standard Law, a legislation sponsored by the authoritarian KMT regime, much to the dismay of the management, has also significantly enhanced workers' benefits, including pension, severance pay, and paid leave.

The passage of the 1984 Labor Standard Law did continuously heighten the expectation of labor, leading to sporadic action undertaken by labor after the lift of the martial law decree. As Table 2 show, there was an impulse in labor unrest in 1989 and 1990. And in some cases, labor-management conflict was so tense that the management resorted to lockout, demotion and transfer to contain unions' influences (Wu and Liao 1991). But while the cases of disputes remain high, the number of persons involved in them has dropped sharply in the 1990s. Moreover, labor disputes were mostly limited to big enterprises, both private and state-owned, all along.

Union density in large firms is much higher than that in small firms, for the former have a greater influence on the product market, thus appear to have more economic rent for the unions to capture (Lee 1994: 6). Unions are especially active in big firms that are in non-competitive markets and are reaping economic rent. Mostly in competitive market, small firms suffer very

little from the newly formed labor unions, as there is little to bargain for, no rent to share. Two most prominent cases of intensive and enduring labor disputes after the lift of martial law decree were all related to rent distribution in the height of bubble economy. Chung Hsing textile shut off its factory and transformed its industrial estate into a new boom town, creating windfall profits which prodded laid-off workers to take collective action to bargain for higher dispatch compensation. The second case is Chung-Mei-Ho Chemical, a private-public-KMT joint venture in the lucrative, and protected upstream production of petrochemical industry. Seeing their company's stock skyrocketing, workers demand to have a share of its grossly appreciated assets.

State-owned enterprises (SOEs), mostly in non-competitive markets, are even more vulnerable to labor militarism than are private big firms. Assets are state owned and rents are frequently created, hence workers want to claim a share. Unions in SOEs demand not only for high compensation but for job security as well, even though the demand is, more often than not, not matched by performance. Managers also tend to give in to their demand as the assets are state owned anyway. Indeed as workers can deliver votes en bloc, political parties even compete for their support.

Labor movements in the process of democratic transition thus did have impacts on big enterprises in Taiwan. But labor disputes were not related to wage disputes or labor rights, but rather were primarily motivated by rent-seeking in the bubble economy. As the bubble burst at the turn of the 1990s, labor militancy slackened, though it still manifests in the case of privatization of SOEs over the issue of job security. Labor disputes have not been a significant problem for small and medium enterprises (SMEs) which are the mainstay of Taiwanese economy. Labor movement among SMEs did gain momentum in the wake of democratic change. But somehow akin to student movements in Taiwan, labor movements came and went rapidly. As soon as the right to form unions was secured and exercised, workers became reticent again. After all, many workers are not proletarians as they often quit the shop floor to set up their own shops. Class cleavages are often blurred and to the extent they exist, not politically as salient as ethnic cleavages. It is little wonder that two labor parties that came into being after democratic transition evaporated quickly.

IV. Welfare Politics and Budget Deficits

Democracy tends to overspend (Crain & Ekelund 1978). Nearly all Organization for Economic Cooperation and Development or OECD countries, which are all rich and democratic, have chronic problems of budget deficits. On the revenue side, tax increase is rarely popular (*viz.*, "don't tax me, don't tax you, tax some one behind the tree") and often politically suicidal. On the expenditure side, at least three causal arguments have been advanced. Each one of these factors is a sufficient condition for overspending. The first

one is that, under democracy, distributional coalitions tend to prevail over developmental coalitions for a variety of reasons, including majority rule, the imperative of re-election, and voters' myopia (Olson 1982). Second, modern democracy is a mass democracy; tax payers and beneficiaries do not overlap substantially, even if they do, the link between them is tenuous and indirect, mediated by politicians (Buchanan et al. 1971). Only the propertied class had representation in the parliament in the past and votes were used to restrain the fiscal power of the state. With the advent of mass democracy, every adult is franchised. More voters have vested interests in government spending. Third, with the rise of welfare state and the popularization of the concept of entitlement, the big government is inevitable (Buchanan et al. 1986; Masson and Mussa 1995). Big government is of course not unique to democracies; former socialist regimes in East Europe also hinged on the provision of profuse welfare for their legitimacy. Big government in democracy, however, does not control or allocate the bulk of resources as did that in former socialist regimes.

With democratic transition, Taiwan seems to be contracting democratic disease of overspending. The condition of budget deficits can be seen from Table 4. This is a mirror image of fiscal austerity in the past under the authoritarian regime. Four major factors have contributed to growing budget deficits, including slower increase of tax revenue, increased spending for projects of public construction, debt payments and the expansion of welfare programs. Several causes have slowed down the growth of government revenue, including slower economic growth rates (which came down from an average 10% per annum between the early 1960s and mid-1980s to typically 6-7% per annum from the mid-1980s on), economic liberalization (which reduces government incomes based on custom duty and monopoly sale) and tax cuts (which were used to stimulate economic recovery since 1977). Tax cuts have been most noteworthy here. One calculation puts foregone tax revenue at 30.45% of government budget deficits in 1995 (Tsai 1995).

More important than slower pace of revenue growth has been the sharp increase of government expenditures. As per capita income increase, the demand for government expenditure goes further up, a trend that the Wagner's law predicts. And the demand for impure or locality-specific public goods, such as road, education and recreation facilities tends to be higher than that for pure public goods such as defense (this is because impure public goods are consumed by few rather than many). Like other East Asian NICs, such as Korea, Taiwan is ill-prepared for this demand for public services, having pursued export-led growth and overlooked domestic demand and public construction for three good decades. The overhauling of infrastructure in the 1970s proved to be utterly inadequate. Land acquisition for new public construction was far behind schedule. Worse, since democratic transition, land acquisition had become even more difficult than in the past. Politically enfranchised, land holders often took to the streets to demand higher and higher amount of compensations. The government finally was determined to

Table 4: Budget Deficits of All Levels of Government (units: NT\$ billion unless specified)

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|------|---------|-------------|--------|-----------|--------|------------------|--------------|---------|-------|-------|-------|
| | revenue | expenditure | bond | borrowing | 3+4 | outstanding debt | debt service | GNP | 5/1 | 6/8 | 3/2 |
| | | | | | | | | | % | % | % |
| 1971 | 52.84 | 51.94 | 2.80 | 0.46 | 3.26 | | | 263.55 | 6.18 | | 5.39 |
| 1972 | 63.37 | 60.93 | 1.90 | 0.71 | 2.60 | | | 316.24 | 4.10 | | 3.12 |
| 1973 | 82.28 | 76.87 | 2.90 | 1.22 | 4.12 | | | 410.28 | 5.01 | | 3.77 |
| 1974 | 110.05 | 87.04 | 0.90 | 0.74 | 1.64 | | | 549.40 | 1.49 | | 1.03 |
| 1975 | 126.31 | 123.55 | 0.40 | 1.00 | 1.40 | | | 586.30 | 1.11 | | 0.32 |
| 1976 | 156.12 | 146.59 | 4.60 | 1.91 | 6.51 | | | 702.69 | 4.17 | | 3.14 |
| 1977 | 180.22 | 187.66 | 3.10 | 1.52 | 4.63 | | | 823.87 | 2.57 | | 1.66 |
| 1978 | 216.16 | 221.48 | 6.51 | 5.86 | 12.37 | | | 989.27 | 5.72 | | 2.94 |
| 1979 | 276.55 | 246.88 | 5.60 | 2.89 | 8.49 | | | 1196.23 | 3.07 | | 2.27 |
| 1980 | 340.71 | 340.36 | — | 4.61 | 4.61 | | | 1488.95 | 1.35 | | 0.00 |
| 1981 | 411.71 | 425.73 | 4.00 | 7.71 | 7.71 | | | 1764.27 | 1.87 | | 0.94 |
| 1982 | 454.46 | 487.25 | 13.38 | 6.80 | 20.18 | | | 1899.28 | 4.44 | | 2.75 |
| 1983 | 461.11 | 489.89 | 22.30 | 7.77 | 30.07 | | | 2103.26 | 6.52 | | 4.55 |
| 1984 | 515.91 | 506.22 | 9.77 | 5.98 | 15.76 | | | 2368.47 | 3.05 | | 1.93 |
| 1985 | 542.60 | 546.33 | 24.08 | 7.10 | 31.19 | | | 2515.04 | 5.75 | | 4.41 |
| 1986 | 584.83 | 616.71 | 28.80 | 7.44 | 36.24 | | | 2925.77 | 6.20 | 4.54 | 4.67 |
| 1987 | 650.20 | 641.91 | 48.33 | 8.45 | 56.79 | 150.0 | | 3303.03 | 8.74 | 5.78 | 7.53 |
| 1988 | 765.43 | 726.46 | 76.54 | 9.50 | 86.04 | 208.9 | | 3611.53 | 11.24 | 14.52 | 10.54 |
| 1989 | 921.57 | 1207.35 | 117.39 | 313.13 | 430.53 | 585.1 | | 4029.80 | 46.72 | 14.52 | 9.72 |
| 1990 | 1092.40 | 1097.51 | 15.83 | 72.88 | 88.71 | 603.3 | 86.33 | 4411.99 | 8.12 | 13.67 | 1.44 |
| 1991 | 1049.93 | 1275.61 | 145.00 | 136.60 | 281.60 | 804.2 | 174.24 | 4927.80 | 26.82 | 16.31 | 11.37 |
| 1992 | 1257.56 | 1561.93 | 312.90 | 89.13 | 402.03 | 1169.3 | 167.46 | 5440.94 | 31.97 | 21.49 | 20.23 |
| 1993 | 1416.33 | 1756.30 | 340.88 | 99.60 | 440.49 | 1523.0 | 167.17 | 5970.54 | 31.10 | 25.50 | 19.41 |
| 1994 | 1502.75 | 1826.36 | 108.32 | 231.13 | 339.46 | 1901.1 | 259.05 | 6454.50 | 22.59 | 29.45 | 5.93 |
| 1995 | 1559.52 | 1910.06 | 75.10 | 389.43 | 464.53 | 1841.1 | 173.67 | 6982.35 | 29.78 | 26.75 | 3.93 |
| 1996 | 1564.66 | 1762.82 | 160.50 | 93.85 | 254.35 | 2242.6 | 242.92 | — | 16.25 | — | 9.10 |

Sources: Taiwan Statistical Data Book; Fiscal Yearbooks of Ministry of Finance; director-General of Budget, Accounting and Statistics.

Notes: 1. Debt service includes repayment and interest payment.

2. The data for FY1996 are budget figures.

complete the acquisition of land reserved for public purpose in 1989 and 1990. The provision of public goods and the acquisition of land led to huge borrowing and the drastic increase in the issuance of bonds. According to Tsai (1995), these public spendings accounted for 38.9% of government total outstanding debts between 1989 and 1995.

The growing expenditures for social welfare programs have aggravated budget deficits. As Tables 5a & 5b show, welfare outlays are the fastest growing spending category for the government, thanks to the advent of democracy in Taiwan and distinct features of her democratic institutions, as we shall explain below. In 1995, the government accounted for 28% of total spending for national health plan and this government spending contributed to 27.79% of budget deficits of that year. To be sure, expansion of welfare programs should not be held solely responsible for budget deficits which had

Table 5a: Net Government Expenditures at All Levels (unit:%)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | average | change |
|---------------|-------|-------|-------|-------|-------|-------|-------|---------|--------|
| Categories | | | | | | | | | |
| welfare | 14.7 | 14.5 | 13.6 | 13.3 | 14.1 | 16.9 | 22.0 | 15.6 | +7.3 |
| social prog | 8.2 | 8.3 | 8.0 | 7.8 | 8.31 | 1.2 | 14.6 | 9.5 | +6.4 |
| pension | 6.5 | 6.2 | 5.6 | 5.5 | 5.8 | 5.7 | 7.4 | 6.1 | +0.9 |
| general admin | 0.8 | 10.8 | 11.7 | 11.2 | 11.3 | 10.7 | 13.0 | 11.4 | +2.2 |
| defense | 18.1 | 16.0 | 14.1 | 13.6 | 16.8 | 13.0 | 13.0 | 14.9 | -5.1 |
| edu-sci-cul | 19.5 | 20.4 | 19.1 | 18.9 | 20.0 | 17.2 | 21.7 | 19.5 | -2.3 |
| economic | 25.9 | 22.8 | 27.3 | 29.4 | 24.5 | 21.1 | 13.2 | 23.5 | -12.7 |
| community | 2.7 | 2.3 | 3.7 | 3.9 | 4.3 | 3.1 | 3.7 | 3.4 | +1.0 |
| debt | 7.4 | 12.3 | 9.9 | 9.0 | 8.5 | 17.3 | 12.0 | 10.9 | +4.6 |
| other | 0.9 | 0.9 | 0.6 | 0.7 | 0.5 | 1.4 | 0.8 | +0.5 | |
| Subtotal | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Sources and notes: MOF, Fiscal Statistical Yearbook. The figures for 1996 fiscal year are budget, while the rest are net actual expenditures.

Table 5b: Net Welfare Spending of All Levels of Government

| fiscal year government | amount (NT\$ billion) | (%) | growth rate | share in total outlays (%) |
|---------------------------|--------------------------|-----|-------------|-------------------------------|
| 1992 | 230.0 | | — | 13.6 |
| 1993 | 247.8 | | 7.7 | 13.3 |
| 1994 | 269.8 | | 8.9 | 14.1 |
| 1995 | 349.9 | | 29.7 | 16.9 |
| 1996 | 418.0 | | 19.5 | 22.0 |

Sources and note: Ministry of Finance, Fiscal Statistical Yearbook. Data for FY 1996 are budget figures, while the rest are actual net expenditures.

preexisted the growth of welfare spending. Public construction projects have contributed more to fiscal difficulty. However, while we can argue that public construction is not as efficient as private construction, it is still a kind of investment and the debt so incurred is of asset-type. While we can argue that welfare programs is desirable for an equitable and passionate society, it is no denying that too fast an expansion of welfare spending will have potentially negative impacts on the economy.

The increasing demand for welfare program long pre-existed democratic transition. A rapidly aging population and the declining welfare function of the family led to increasing demand for social welfare programs. Senior citizens now account for more than 7% of population in 1995, putting Taiwan in the category of aging societies as defined by the United Nations (by 2010, the ratio will increase to 10%). One retiree could depend on 20 working people for support in 1970. The dependency ratio has deteriorated to 1 on 10 in the 1990s and will dwindle to 1 on 3 in 2035. There were in average 4.66 persons per household in 1980, the family size has shrunk to 3.82 in the early 1990s. And the ratio of three-generation households — where grandparents stay with and care grandchildren — has declined from 70.2% in 1986 to 62.2% in 1993, while the divorce rates have gone up steadily, resulting in more single parent families, now one in every twenty five families.

The widening income disparity, both real and perceived, reinforces the demand for welfare spending and income transfer. Income distribution in Taiwan had been improving since 1964, her economic takeoff year in which her industrial exports surpassed agricultural exports. Income inequality hit the lowest level in 1980. Income distribution deteriorated quite significantly from 1986 on after national currency began to appreciate, financial liberalization accelerated, and the economy began to bubble. Numerous fixed income earners without expertise in financial management suffered from securitization and financial liberalization of the economy (note that Taiwan has the highest per capita individual accounts for stock market). By 1993, income inequality has approached the 1964 level. As Table 6 shows, quintile ratio (income for top 20% household bracket versus that for bottom 20%) has gradually increased from its lowest point in 1980 at 4.17 to 5.42 in 1993, the highest point since mid-1960s. Gini coefficients reveal a similar trend. Furthermore, wealth and asset distribution is even worse than income distribution, as the quintile ratio is 16.83 for the former. Surely, even the current distributive record in Taiwan is quite good by international comparison. However, in political arena, the trend probably matters more than the level, and perception is probably more important than reality. In the discourse on income distribution, the public probably are more attentive to national performance in the past than current national standing in international community. After the bubble economy bursted at the turn of the 1990s (the spectacular fall of stock and real estate markets), the imagery of new rich and new poor has replaced the good old perception that Taiwan was a middle class society.

Table 6: Inequality of Household Disposable Income

| | Rural/Urban | Top 20%/bottom 20% | Gini index |
|------|-------------|--------------------|------------|
| 1964 | 96.59 | 5.33 | 0.321 |
| 1966 | 92.99 | 5.25 | 0.323 |
| 1968 | 71.18 | 5.28 | 0.326 |
| 1970 | 67.09 | 4.58 | 0.294 |
| 1972 | 75.55 | 4.49 | 0.291 |
| 1974 | 77.75 | 4.37 | 0.287 |
| 1976 | 82.08 | 4.18 | 0.280 |
| 1978 | 79.02 | 4.18 | 0.287 |
| 1980 | 81.57 | 4.17 | 0.277 |
| 1981 | 78.48 | 4.21 | 0.281 |
| 1982 | 81.00 | 4.29 | 0.283 |
| 1983 | 80.02 | 4.36 | 0.287 |
| 1984 | 79.96 | 4.40 | 0.287 |
| 1985 | 81.45 | 4.50 | 0.290 |
| 1986 | 83.32 | 4.60 | 0.296 |
| 1987 | 83.10 | 4.69 | 0.299 |
| 1988 | 80.77 | 4.85 | 0.303 |
| 1989 | 79.93 | 4.94 | 0.303 |
| 1990 | 78.70 | 5.18 | 0.312 |
| 1991 | 79.95 | 4.97 | 0.308 |
| 1992 | 78.71 | 5.24 | 0.312 |
| 1993 | 82.54 | 5.42 | 0.316 |
| 1994 | 82.10 | 5.38 | 0.318 |
| 1995 | 86.43 | 5.34 | 0.317 |

Sources: Report on the Survey of Personal Income Distribution in Taiwan Area of Republic of China, Director General of Budget, Accounting and Statistics, Executive Yuan, R.O.C., 1996.

Demand does not create its own supply, however. Societal demand for welfare program might not be politically articulated. Before 1986, some scholars and opposition elites had advocated the making of welfare state, but their voices were weak and opposition elites were more concerned with the rights to dissent than anything else. With the onset of democratic transition, the KMT as a government party began to work on a plan for an incremental expansion of welfare programs. However, the issue of social welfare remained a backburner to a DPP that was totally immersed in the battle of democratic reform, using ethnic cleavage and Formosan nationalism as the principal vehicle of political mobilization. It was in the early 1990s that welfare provision became the focal point of bidding war among political parties.

Several welfare programs have pre-existed democratic transition. The government initiated insurance program for accidents and the loss of life for

labor as early as 1950. Then the fishermen, military and civil servants were also included in the scheme in 1953 and 1958 respectively. In 1964 the KMT promulgated a guideline for socialist development which laid down a blueprint for incremental expansion of social program. Subsequently, the government set forth to revise and expand the meager social programs. The insurance net for accidental death was extended to civil servants' family members, students, private school teachers. A modest social relief program was also introduced. And various health insurance programs were also designed and gradually implemented. All these welfare programs adopted before democratic transition displayed three distinct features: they were initiated from above by the ruling elite, used to support economic growth, and were limited in scale and coverage, benefiting primarily civil and military services.

The expansion of welfare programs picked up some speed after the onset of democratic transition in 1987 but began to accelerate only after the turn of the 1990s. In 1987, in committing itself to democratic change, the KMT regime set out a goal to make a welfare state by the turn of the century. The government inaugurated a heavily subsidized health insurance for farmers in 1989, a fully supported program for low income households in 1990, and a separate health program for the handicapped in 1991. In 1992, the DPP turned its attention to public policy, campaigning hard for pension for farmers, and in 1993 for the reduction of health premium for labor, and in its 1994 electoral campaign, universal pension for senior citizens, to which the government party responded by drafting a policy guideline for social welfare and the promise to accelerate the adoption of a national health program. In 1995, the national health plan was implemented, five years ahead of schedule. Moreover, the government also adopted old age farmer allowance, expanded civil service pension and experimented with a means-tested old age pension. For its campaign in the December 1995 legislative election, the DPP again reiterated its proposal for the reduction of insurance premium for workers. Meanwhile, the New Party joined the bandwagon, publishing a white paper on welfare, advocating a number of new welfare programs including unemployment pension and national retirement pension plans.

Why did welfare policy emerge as a focal point in electoral politics and why have political parties been entrapped in the bidding war for the supply of welfare programs? Surely, the pre-existing welfare system, ad hoc and eclectic rather than comprehensive and well-planned, left much to be desired and the flawed welfare policy was an issue awaiting discovery. Pre-existing welfare policy was biased for state sector, raising the issue of fairness, and previous social spending was over-estimated as the bulk of it was used to support pension of the military personnel. Since the KMT used incremental approach to the expansion of welfare policy, there had not been any overarching legal framework for social welfare prior to 1993. The KMT's gradualist approach to social welfare, in short, allowed opposition parties to propose and, wherever they control local governments to pioneer, welfare

programs. The opposition parties enjoy much freedom in laying out generous programs that may cause fiscal strain and crowd out other welfare programs. Some programs, such as old-age and old-farmer allowances, originally designed to win votes, had been discontinued after a few months of their implementation due to financial stress.

What really triggered the cut-throat competition in the provision of welfare programs, however, is the ever intensifying partisan competition in a condition of frequent elections. As Table 7 shows, there have been 8 major elections in the decade of transition, of which 4 are legislative elections. The main opposition party embraced public policy issues, notably welfare and clean politics, after it got burned in pushing the national identity issue too far in the 1991 national assembly election. The December 1992 legislative election demonstrated political utility of DPP's proposals for new welfare programs, as DPP, campaigning hard on this issue, broke the barrier of the 30% of total votes for the first time and commanded a solid 51 seats out of 161 in the Legislative Yuan. But it was after many KMT legislators bolted to form a third party in the name of New Party (NP) in the summer of 1993 that the KMT reversed the course and fully embraced the issue of social welfare and entered a bidding war with the DPP for the provision of welfare program. The formation of the NP as a solid third party took heavy tolls, threatening to dislodge the KMT from power. Had the NP not split from the KMT, one party dominant system could have been maintained (Cheng & Hsu 1996a) and KMT's incremental approach to welfare expansion would have been maintained. In short, a fragmented party system and intensified partisan competition have been driving the welfare politics.

Observing how new welfare programs have been proposed and injected into political agenda, we can also submit that a SNTV-type of electoral system and semi-presidentialism added fuel to fire of welfare politics. New welfare programs were first proposed by individual DPP candidates for assembly-type of elections before they were eventually adopted by their party. New proposals were often a surprise to the party. Moreover, as soon as new pro-

Table 7: Elections in Newly Democratized Taiwan

| | |
|------|--|
| 1986 | more "supplementary" seats created for legislative and national assembly elections |
| 1989 | more supplementary" seats created for legislative election |
| 1991 | first full election for national assembly |
| 1992 | first full election for legislative yuan |
| 1993 | county-level election (under new local self-government law) |
| 1994 | first direct gubernatorial election |
| 1995 | second full election for legislative yuan |
| 1996 | second full election for national assembly & the first direct presidential election in March |

posals were advanced, some KMT candidates would depart from their party's stand to echo them. The elan shown here by individuals in initiating new program can be attributable to the electoral imperative under the SNTV system, a system made worse by presidentialism. SNTV system is one in which a voter can only cast one vote and therefore a candidate competes not only with opposition parties but with fellow candidates from his/her own party. Party label does not help a candidate while personal reputation and support base are required to ensure that votes from party supporters do not go to other candidates of the same party. It is little wonder that candidates will do everything to take initiatives, often irrespective of party platform, to build up reputation so as to distinguish themselves from one another. The party functioning in a SNTV system thus faces tremendous problem of enforcing party discipline, a problem that may be alleviated by parliamentarism, a form of government that Taiwan has moved further away from. Under parliamentary system, the cabinet and backbenchers share the same fate; a vote of no-confidence will send everybody home for re-election battle. Members of parliament are also more compliant with the party whip as they are queuing up for cabinet appointments. Lacking tight party discipline and facing fratricidal electoral battle, legislators or legislative candidates thus show little hesitance to initiate new policy or invent new spending category.

As a result of competitive welfare politics, the content and level of social spendings have undergone a qualitative change. Pension outlays for civil and military services were the biggest item of welfare expenditure, but since 1993, they were surpassed by social insurance expenditure. Welfare programs are no longer biased for state sector, but have reached out to other sectors of the society. From 1991 fiscal year on, government welfare expenditure has expanded at a rate of 14.7% a year, and in the current 1996 fiscal year, it accounts for 18.1% of total government spending and 5.4% of GDP (see Tables 4 & 10). Notice that most welfare programs are status-oriented rather than means-tested, premiums for health insurance for most citizens are subsidized (see Table 8) and they cannot be adjusted without legislative approval. Hence the government continues to subsidize various programs which are or will be running deficits. Farmers health insurance which started in 1990 has a deficit of NT\$67 billion while the accumulated shortfall for civil service health program stands at NT\$40 billion, and the anticipated deficit for workers health program was NT\$100 billion. If the proposed pension plan for senior citizen were carried out at a rate of US\$200 per month per person, then the government would spend 50% more than what it did for national health plan (excluding retired civil service, public school teachers and military personnel who together accounted for one tenth of the total and who are already receiving pension, there are about 1.50 million senior citizens who would cost government NT\$99 billion a year to sustain the old age allowance program).

What are likely economic impacts of social welfare spendings? In summarizing both the theoretical and empirical literature based on the experience

Table 8: Premium of National Health Plan (percentage share)

| Categories | the Insured | Employers | Government |
|---|-------------|-----------|------------|
| Low income households | 0 | 0 | 100 |
| Soldiers & dependents | 40 | 60a | 0 |
| Veterans | 0 | 0 | 100 |
| Dependents of veterans | 30 | 0 | 70 |
| Farmers, fishermen, members of irrigation associations, & dependents | 30 | 0 | 70 |
| Employees in private or public enterprises & institutions (mil and white-collar), & dependents | 30 | 60a | 10 |
| Civil servants, public school teachers, & dependents | 40 | 60a | 0 |
| Private school teachers & dependents | 40 | 30 | 30 |
| Occupational workers, seamen overseas, & dependents | 60 | 0 | 40 |
| Employers, self-employed, & dependents | 100 | 0 | 0 |
| Others | 60 | 0 | 40 |

Note: a For employees in state-owned enterprises, statutory board, and public schools of all levels, their employers' contributions eventually come from government budgetary allocation.

of advanced western welfare nations, a comprehensive study released in mid-April 1996 by the Council of Economic Planning and Development in Taipei adumbrates four possible impacts. First, welfare spending enhances private demand and consumption, decreases government savings, and as national savings drop, interest rates go up. Pension program may decrease (that is, substitute for) asset-type savings, but it may also encourage savings now that early retirement is possible and that one may be savings more in order to keep up same living standard for long post-retirement period. Hence the impact of pension on savings is uncertain. Recent empirical studies however

show that if direct taxes are used to finance the pension program, then the impacts are negative. Second, welfare spending decrease propensity for work and labor participation ratio, thereby weakens national output, creating inflationary pressure. Recent empirical studies show that expansion of pension program is negatively correlated with labor participation ratio and pension did induce early retirement (for people between 55 and 64). As to the propensity for work, unemployment rates and welfare spendings were positively related in the 1980s, though not so in the 1970s. Third, welfare spending often cuts into government current account surplus, undermining its ability to do capital investment, forcing it to issue public bonds for economic construction, thereby competing with private sector for capital and raising interest rates. Fourth, social welfare spending as well as debt service easily crowd out expenditure for economic development. Adding all these effects up, one is inclined to say that growth rates may decrease as a result of increasing welfare spending. Empirical studies do not show strong correlations for the periods of 1960s and 1970s, but the correlation coefficient is very strong for the 1980s at around 0.85. In brief, welfare spending has the following effects: in the short run, private sector spending goes up, contributing to economic growth; in the long run, however, national savings come down, government fiscal burden goes up, pulling up interest rates, which will then have dampening effects on investment and capital formation.

What is the situation in Taiwan, then? This CEPD study shows that welfare spending and debt services are beginning to crowd out funds for economic development. It also points out that economies competing with Taiwan are not as burdened by welfare spending. Welfare programs in Singapore, which cover medical care, public housing and retirement pension, are not based on mutual assistance and social insurance, but rather on forced savings and self help. For the government in Korea, welfare programs entail only some administrative costs, with very small subsidies (Cheng 1995). Finally, this study warns that if tax increase is not likely in the foreseeable future, then welfare spending cannot increase by more than 13% a year, otherwise, by 2000, economic growth rates will decrease to below 6% level while inflation rate will go beyond 4% level.

The growth rate of welfare spendings probably cannot be capped at 13% level. Is tax increase a way out? Partisan competition under newly introduced democracy has led Taiwan to build a welfare state. While welfare spending is rising fast, tax burden is still low. Taiwan may have to impose social security or payroll tax, as in developed countries (see Table 9) where high welfare spendings are covered by high tax, to pay for it in order to avoid fiscal crisis, which may be coming up soon, as most public bonds mature in 7 and 8 years in Taiwan and in 1998 outstanding debts for the government will bulge. But is tax hike viable? Tax reform in 1986, the adoption of VAT, was a success, increasing the tax revenue from the corporate sector by some 60% that year, which is why the government was so blunt in completing acquisition

Table 9: Social Security & Welfare Outlay (SSWO), Tax Burden and Welfare Premiums (WP) in Selected Countries in 1992

| | SSWO/Govt Exp | SSWO/GDP | Tax/GDP | WP/GDP | (Tax+WP)/GDP |
|-------------|---------------|----------|---------|--------|--------------|
| Sweden | 36.2 | 24.5 | 36 | 14 | 50 |
| France | 38.2 | 18.2 | 34 | 10 | 44 |
| Germany | 38.7 | 15.5 | 24 | 16 | 40 |
| UK | 31.3 | 16.0 | 30 | 5 | 35 |
| Japan | 34.8 | 11.7 | 20 | 9 | 29 |
| US | 34.7 | 13.4 | 21 | 8 | 29 |
| Singapore | 2.3* | 0.5 | 17 | 11 | 28 |
| Taiwan (93) | 19.9* | 3.7 | 19 | 3 | 22 |
| Taiwan (94) | 25.6* | 4.0 | | | |
| Korea | 10.2**a | 1.9a | 17 | 3 | 20 |
| Dcs | 38.2**b | 15.3b | | | |
| LDCs-high | 14.8**c | 4.0c | | | |
| LDCs-med | 5.9**d | 1.5d | | | |
| LDCs-low | 3.9**e | 0.9e | | | |

*Central government's expenditures only.

a. 1994

b. 1984-1994

c. 1986-1993

d. 1988-1993

e. 1977-1992

Table 10: Fiscal Conditions of Government at All Levels

| | Social security spending as a share | Obligation as share of net expenditures | Bonds as a share of net revenue |
|------|--|--|------------------------------------|
| 1955 | 6.7 | 1.9 | |
| 1960 | 6.9 | 1.0 | |
| 1965 | 7.6 | 4.3 | 5.1 |
| 1966 | 4.7 | 3.3 | 8.3 |
| 1967 | 7.2 | 5.0 | 8.8 |
| 1968 | 7.8 | 4.8 | 8.5 |
| 1969 | 8.9 | 7.2 | 4.7 |
| 1970 | 9.6 | 5.4 | 4.9 |
| 1971 | 10.4 | 7.0 | 4.9 |
| 1972 | 12.7 | 5.9 | 2.9 |
| 1973 | 10.9 | 5.1 | 3.2 |
| 1974 | 10.8 | 4.3 | 0.8 |
| 1975 | 10.0 | 3.0 | 0.3 |
| 1976 | 11.3 | 2.8 | 2.8 |
| 1977 | 10.6 | 2.5 | 1.6 |
| 1978 | 10.8 | 2.5 | 2.8 |
| 1979 | 11.4 | 3.2 | 1.9 |
| 1980 | 11.1 | 2.0 | 0.0 |
| 1981 | 11.8 | 2.1 | 0.9 |
| 1982 | 14.5 | 1.8 | 2.7 |
| 1983 | 15.2 | 2.5 | 4.4 |
| 1984 | 15.8 | 3.6 | 1.8 |
| 1985 | 15.7 | 4.2 | 4.2 |
| 1986 | 15.6 | 3.4 | 4.5 |
| 1987 | 15.5 | 4.1 | 6.8 |
| 1988 | 17.5 | 4.5 | 9.0 |
| 1989 | 12.2 | 3.5 | 8.5 |
| 1990 | 17.1 | 7.4 | 1.3 |
| 1991 | 16.5 | 12.3 | 10.1 |
| 1992 | 16.9 | 9.9 | 18.3 |
| 1993 | 16.7 | 9.0 | 18.0 |
| 1994 | 18.3 | 8.5 | 5.6 |
| 1995 | 20.0 | 17.4 | 3.6 |

Source: Council for Economic Planning and Development, Taiwan Statistical Data Book, 1996, pp. 154, 156.

of land for public purpose in 1989. Ordinance on tax reduction and preference for industrial activities will expire in 1999. Yet democratic transition makes it impossible to reimpose tax previously reduced to stimulate economy. In pushing for welfare state, the principal opposition party, the DPP, claims that

tax hike is unnecessary if defense expenditure can be trimmed and welfare system can be rationalized. The NP, following the DPP's lead, recently argues that eliminating corruption can save one half to one third of expenditure in public construction and that the savings could be used to finance welfare. Given that public sector is always less efficient than private sector, and that corruption does occur (as in any country), the opposition's argument is politically palatable. Welfare tax can be imposed only at the peril of KMT's power.

VI. Conclusion

We have seen spurts of labor and environmental movements right after political decompression. But a more enduring problem entailed by democratic transition lies in budget management. Both private economic agents and state elites in charge of economic planning often argues that industrial policy in Taiwan is no longer so much a matter of tax break and custom duty rebates, but rather one of assisting private sector in coping with societal demand for quality of life and possible labor unrest (Su 1994). This study shows that labor and environmental politics has moderated and labor disputes are more transient than entrenched. Welfare politics is however quite intractable. And it will remain so, given the increasingly fragmented party system and intensifying partisan competition.

Notes

1. Social security spending as a percentage of government total expenditure shrank drastically in 1989 primarily due to the record budget slated for economic development. Between 1955 and 1970, the share of social security spending in government spending increased slowly from around 6% to 10% level, and remained roughly at that level since 1987. Since the ending of economic aid from the US in 1965, public bonds were issued to covered deficit. Between 1969 and 1986, proceeds from bonds constituted not more than 5% of total revenue; yet the ratio began to swell after 1987 and hit 18% in 1992.

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