Managing Social Change and Social Policy in Greater China

Welfare regimes in transition

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Ka Ho Mok and Maggie K. W. Lau

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Chung-Yang Yeh and Shih-Jiunn Shi

Introduction

Over the past decades, pension privatisation has been a central issue in comparative studies of the welfare state because pensions have become the predominant social insurance programmes of almost all OECD countries and other newly industrialising countries (Béland and Shinkawa, 2007; Häusermann, 2010; Orenstein, 2008; Rein and Schmähl, 2004; Vangunsteren and Rein, 1985). Countries with earning-related public pension schemes tend to restrict the role of the private sector in pension provision regarding multi-pillar pension systems (Vangunsteren and Rein, 1985). In a multi-pillar system, universal flat-rate public pension schemes provide minimum economic security while private pensions play a more crucial role than public pensions but require more state regulation for implementation (Ebbinghaus and Gronwald, 2011; Leisering, 2010; Myles and Pierson, 2001).

In contrast to the European reform experiences, pension reforms in East Asia have gained unusual momentum with the broadened coverage of current pension schemes and increased levels of pension benefits to provide basic income security for all citizens. Rapid population ageing and globalisation have placed substantial financial pressures on the current pension systems, rendering pension privatisation a suitable option in future reform repertoires. The pension systems of Japan and South Korea, which are traditionally based on the social insurance principle, have a long history of incorporating private pensions on top of public pensions at the beginning of welfare state development (Estévez-Abe, 2008; Yi, 2007). This distances them from European social insurance states where occupational pensions play a minor role in pension provision (Bonoli and Shinkawa, 2005). By contrast, Taiwan is a latecomer in this respect, and initiated occupational pension schemes in the mid-1980s, and subsequently reformed them in 2004 from defined-benefit to defined-contribution schemes. East Asian countries have redefined the boundary between public and private responsibilities for old-age security, and recalibrated their governance modes in the changing political-economic and demographic contexts.

Recent research has demonstrated that the paths towards a public-private pension mix and governance modes are embedded in specific welfare production regimes (Ebbinghaus and Gronwald, 2011; Ebbinghaus and Wiß, 2011; Rein and

Turner, 2004), and the influences of globalisation on pension systems are also filtered by national-specific institutions (Huber and Stephens, 2001; Swank, 2002). However, except for Japan, the nexus between pension policy and capitalist production in other East Asian countries has not been investigated (Choi, 2008). Conventionally conceived as the developmental welfare states, East Asian countries have used specific approaches towards modernisation and created distinctive welfare systems that differ from their Western counterparts. Japan has well-developed occupational and private pension schemes embedded in the Keiretsu-dominated (corporate conglomerate) welfare production regime, which provides opportunities for private insurance companies and the possibility of contract-out for the second-tier occupational pension schemes. By contrast, in Taiwan, the limited role of private companies as providers of occupational pensions is mainly the result of the economic structures in which small and medium enterprises (SMEs) constitute the majority of businesses that are sensitive to high non-wage labour costs. This difference is crucial to the role of the state in the dimension of governing pension mix, because strong occupational pensions in Japan require regulation of the pension funds and financial markets, whereas in Taiwan the state remains the main public pension provider and is hesitant to shift financial responsibility of old-age security onto private pensions.

In the contexts of East Asian welfare capitalism, the differences in the public-private pension mix in East Asia are more significant than previously assumed. Taiwan and Japan are selected as two contrasting cases in the models of pension privatisation and pension governance. It is against this context that the present chapter sets out to compare pension mix in Japan and Taiwan. This comparison should reveal crucial features of the political economy in East Asian pension reform experiences, which may influence the evolutionary paths of pension institutions in this region. Further investigation of the political and economic structures is essential to identifying the intricacies of state activities in merging public and private welfare provision in old-age security.

Political economy of pension reforms in East Asia

Social policy in East Asian countries used to play a subsidiary role in overall developments before the 1990s. The state deliberately maintained social expenditures at a low level and provided social security only to privileged groups, such as the military, civil servants and teachers. By contrast, workers in private enterprises had moderate social benefits; other population groups such as farmers and self-employed people were excluded from social security schemes. Pension systems in this region were mostly fragmentally structured to include specific occupational groups, with considerable variety in entitlements among the various schemes. The preoccupation with economic "catch-up" at the expense of social welfare has led scholars to label East Asian countries as "developmental" welfare states (Kwon, 2005; Lee and Ku, 2007). Family welfare, status-segregated social insurance systems and corporate occupational plans for core workers are crucial in East Asian welfare states (Goodman *et al.*, 1998; Gough, 2000; Kwon, 1997).

Although the developmental welfare state thesis offers an explanation of the reason why social policy was underdeveloped in East Asia, the various manners in which private welfare functioned in the respective architectures of social provision remain unclear (Holliday, 2000; Holliday and Wilding, 2003; Pempel, 2002; Tang, 2000). The preoccupation with public social provision has obscured the hidden domain of private welfare regarding active state regulations (Kim, 2010). The developmental state thesis neglected the differences within the East Asian region because of its aim to identify an East Asian welfare regime by focusing on similarities (Pempel, 2002). The cross-national variation in economic systems has been largely ignored because of the emphasis on the manner in which social policy is embedded in capitalist production (Holliday, 2000; Lee and Ku, 2003). Although recent studies have been consistent in this regard and explored the specific historical evolution of welfare regimes in several countries, such as Japan, South Korea and Taiwan) (Choi, 2009; Lee, 2011), the issue of cross-national variation in the public-private pension mix within East Asia remains underexplored.

The varieties of capitalism approach (VoC) provides theoretical insights to comprehend the changing public–private mix in East Asian pension reforms. The VoC emphasises the complementary institutional coupling between welfare regimes and capitalist production, and highlights the influences of capitalist structures and business on social policy development (Ebbinghaus and Manow, 2001; Iversen, 2005; Manow, 2001b; Schröder, 2009). Two models of capitalism stand out, that is, liberal market economies (LMEs) and coordinated market economies (CMEs) that emanate from the ideas of elective affinities and institutional complementarity, as follows: "within a given country, different aspects of the welfare state 'fit' together and 'fit' with different aspects of the production regimes" (Huber and Stephens, 2001: 109). Maintaining the regime-specific institutional complementarities implies that the LMEs are compatible with the liberal welfare state regime, whereas the CMEs fit with the conservative and social democratic welfare regimes.

Pension policy is linked to capitalist production in two ways. It can be used to solve the dilemma of skill formation between employers and employees as a crucial policy instrument of human resource management. According to Iversen (2005), the type of social protection schemes is closely related to the degree of skill specificity. Economies that rely on low-portability skill types, such as industry- or company-specific skills, tend to provide higher levels of social protection for employment and unemployment to enhance the likelihood of specific skill formation. In this respect, a defined-benefit (DB) pension scheme with back-loaded final-pay formulas may be used by economies that rely on industrial- or company-specific skills, because it provides strong incentives for the workers to invest in low-portability skill types, and sustains their efforts to achieve high career-end salaries. By contrast, in countries where general skill formation prevails, employers do not have sufficient incentives to extract the loyalty of employees with replaceable skills. Therefore, a defined-contribution (DC) pension scheme is often used because it can effectively reduce the costs of corporate pension schemes by shifting the risk to employees (Conrad, 2011; Dulebohn *et al.*, 2009). This implies that a DB pension scheme is preferable as a policy instrument of skill formation in Japan, because firm-specific skill is crucial to its economic structure (Busemeyer, 2009; Estévez-Abe *et al.*, 2001). The economy in Taiwan is known for the domination of SMEs that have relatively short corporate lives, and lack sufficient financial resources to sustain DB pension schemes. This specific capitalist structure as characterised by high labour mobility tends to favour the formation of general skills, and prefers DC pension schemes as the main financial method.

The other linkage between pension policy and capitalist production is the financial system. Jackson and Vitols (2001) contend that policy choice and institutional design affect the supply side of national savings, and the regulations of private pension shape the manner in which financial capitals are channelled into capital markets. This aspect is crucial for the developmental state in East Asia, because financial systems often function as an effective conduit for the state to channel financial resources into particular strategic sectors (Choi, 2009; Woo-Cumings, 1999). Apart from other financial sources (such as foreign venture capital), pension funds are often regarded as one of the essential sources of working capital for both government and private companies (Choi, 2009; Estévez-Abe, 2001; Manow, 2001a, 2001c). This is vital in CMEs in which capital is not dominated by the stock market, but is credit based. In Japan, the financial capital of pension funds, from public pension or private pension, is often redirected into strategic sectors. A strong link exists between pension policy (financial system) and industrial development. However, the pattern differs in Taiwan. Although state-owned and party-owned enterprises can receive preferential treatment from financial institutions, SMEs must rely on family or informal curb market loans. Public and private pension schemes have not been mobilised for capital accumulation in Taiwan.

This institutional complementarity entails the issue of financial regulation and pension governance. The multitude of pension fund assets reflects the differences in the design and operation of various pension systems (Ebbinghaus and Wiß, 2011). Prevailing private pensions tend to play a vital role in both old-age security and financial regulation to achieve the goals of the state. The combination of public and private pensions is often more complex than the simple purpose of income protection for senior citizens.

The different logic of institutional coherence between pension policy and capitalist production is not only about how institutions work together, but also about reform paths, argued by the VoC (Ebbinghaus and Gronwald, 2011; Huber and Stephens, 2001; Manow, 2001a; Myles and Pierson, 2001). Without sudden crash, institutional reform cannot contradict to the existing path, as the institutional coherence is forged. Economic integration, arguably, has caused the loss of autonomy of states to tax and finance social protection. Constrained by institutional contexts, yet we can expect that the reform paths of pension systems in Japan and Taiwan would be different in the age of new socio-economic environment.

The following discussion of the Japanese and Taiwanese cases advances the understanding of the transformations of the public–private mix in the respective pension systems, and presents an analysis of the link between the economic system and pension policy. The comparative study of the two contrasting cases helps identify the specific political and economic contexts that have shaped the role of private pensions in both old-age security and industrial development.

Japan

Social protection in Japan served as a policy instrument to manage the political problem of coordination (Thelen and Kume, 2006) and a part of the overall developmental strategy (Takahashi, 1974, cited in Manow, 2001c). The function of the pension system in Japan was to collect funding that offered patient capital to key industries through the Ministry of Finance (MoF) (Choi, 2009; Manow, 2001c; Park, 2004).[1] Conversely, it was also institutionalised to address labour scarcity, particularly in the pre-war period (Manow, 2001c; Shinkawa and Pempel, 1996), and most importantly, to solve economic coordination of skill formation (Estévez-Abe, 2001, 2008). These institutional legacies have shaped the public-private pension mix and its governance, and the trajectory of subsequent pension reforms.

The institutionalisation of public–private pension mix before the 2000s

Japan is considered a hybrid regime that combines occupationally fragmented public pension schemes based on a social insurance principle, and well-developed corporate pension schemes (Esping-Andersen, 1997). Three corporate pension schemes were used before the introduction of the two new corporate pension laws in 2001.[2] The Retirement Allowance (RA), a DB plan, was initiated in 1905 at the firm level, followed by nationwide legislation in 1936, and subsequently merged into the Employee's Pension Insurance of 1944 (Kimura, 1997). In 1952, the government provided tax deductions on RA, and offered substantial incentives for employers to introduce corporate pension schemes and provide lump-sum retirement payments. Initially, it was implemented to manage the problem of the collective dilemma of skill formation and as book reserves for financial mobilisation (Conrad, 2012; Estévez-Abe, 2008).

The private pension system in Japan underwent formal institutionalisation in the post-war period with two private pension schemes, including Tax-Qualified Pension Schemes (TQPSs) and Employee Pension Funds (EPFs).[3] The TQPSs were introduced in 1962 and allowed firms with more than 15 employees to set up corporate pension funds, with tax exemptions for their contributions to the funds and capital gains. The government, under the Liberal Democratic Party, mandated the life insurance industry to manage all TQPSs. The EPFs were introduced in

1965 as a new 'opting out' scheme of EPI. This scheme turned part of public pensions into occupational pensions (Estévez-Abe, 2008). The initial purpose of the EPFs was to set up a pension fund as working capital. However, the pension funds, by law, were managed by life insurance companies or trust banks.

The TQPSs and EPFs constituted two prominent private pension schemes for the creation of patient capital. Before the 1990s, the financial market was restricted under the supervision of the MoF, which offered the life insurance industry exclusive access to a market with enormous growth potential, under the condition to comply with the investment priorities set by the government (Estévez-Abe, 2001). In this manner, the pension funds were channelled into vital industries, such as electricity, steel, maritime and coal, through the Japan Development Bank and the Export-Import Bank of Japan (Park, 2004; Shinkawa and Pempel, 1996; Vogel, 2006). In addition, statutory regulations also protected the life insurance industry from market speculations, further consolidating the stable long-term investments of the welfare funds. Park (2004) identified two features of the private pension system in Japan. First, the state controlled the pension funds, indicating that the problem of pension investment returns and pension liabilities was beyond the control of firms. Second, the longstanding book reserve system ensured that pension liabilities could be managed as an off-balance-sheet by the old corporate accounting system. Although book reserve plans were used for capital accumulation, these funds were managed by the trust banks and life insurance companies, which provided insurance companies with a unique opportunity to become the most influential shareholders of the large banks in Japan (Estévez-Abe, 2001). The preferential status granted the banks considerable freedom to concentrate on creating patient capital through this cross-shareholding mechanism. This particular institutional combination of pension and financial systems with the state regulation of pension funds contributed to the consolidation of a banking-based finanical system and a stable stockholding pattern (Estévez-Abe, 2001).

Furthermore, firm-specific skills are crucial to the Japanese skill formation system (Busemeyer, 2009; Thelen, 2004). Therefore, DB pension schemes play a vital role in binding the employees to the firms and enhancing the coorperation of workers. The RA, TQPSs and EPFs are DB pensions, and effectively play this role. However, the hiring-to-retirement pensions and occupational welfare policies created an internal labour market and led to strong segmentalism and dualism in the labour market and welfare state (Busemeyer, 2009). Thus, substantial public pensions were prevented because of the predominance of corporate pensions.

Public pensions in Japan consist of three components: Mutual Pension Schemes (MPSs), Employee's Pension Insurance (EPI) and National Pension Insurance (NPI). The Japanese government instituted public pension schemes for civil servants and the military in the late nineteenth century, and employees in state-owned enterprises in the early twentieth century, which were revised to become MPSs. The EPI was instituted during the war, mainly for private employees. The NPI was introduced in 1961 to include those who had been excluded from the EPI and MPSs. The public pension system in Japan was a partially funded system, with the funds from the NPI and EPI transferred to the Trust Fund Bureau and overseen by the MoF. These funds, including pension and postal saving funds, were directed to strategic industries or construction of infrastructure through the Fiscal Investment Loan Programme.[4] Returns on the pension fund investments were a lower priority than the industrialisation-related activities (Park, 2004). This link has been the prominent nexus between the public pension scheme and economic development in Japan.

In summary, the Japanese pension system was governed as economically oriented, but state-led (Leisering, 2010). Public pension schemes were constituted beyond the goal of retirement income security, and further devised as a policy instrument to mobilise financial resources for key strategic industries during the industrialisation period. This instrumental character was more pronounced in non-state pension schemes that managed the problem of economic coordination and skill formation, and worked as patient capital to support enterprises through inter-locking shareholdings. The assets accumulated from pension funds were internal-ised and organisationally embedded into the Japanese political economic regime (Jackson and Vitols, 2001).

The new era of public–private pension mix

Japan encountered several internal and external challenges in the 1990s. The transformation of demographic structure, with an increase in the percentage of the ageing population, and a decline of the fertility rate, resulted in the increasing financial burden of the public pension system. The economic crisis in the 1990s undermined the fiscal capacities of providing corporate pension schemes. Externally, globalisation exerted pressures on the Japanese welfare state towards liberalisation, particularly regarding occupational welfare. A substantial influence was the introduction of the new International Accounting System in 2001, which stipulated that the future obligation of the corporate pension schemes must be included in corporate accounting under the Project Benefit Obligation (Katsumata, 2004; Vogel, 2006). Under this new regulation, the book-reserve pension schemes that provided firms with patient capital and reinforced solidarity of *keiretsu* ties to foster industrial development became considerable liabilities in the balance sheets of companies. This initiative raised concerns about corporate performance because of its direct negative effects. Consequently, it strengthened the incentive to focus on pension returns rather than hold cross-holdings (Park, 2004).

An immediate effect of these changes was the increase in the financial burdens of the pension system. Since the 1980s, the Japanese government successively introduced pension reforms to reduce financial burdens, such as the increase in retirement age and the introduction of the macroeconomic factor. With respect to corporate pension schemes, the Japanese government loosened its regulation of EPFs by reducing the officially required rate of return from 5.5 to 4.5 per cent, and reducing the amount of fund reserves (Shinkawa, 2005). However, these initia-tives were insufficient to ameliorate the financial problem of public and private pension schemes. The number of TQPSs and EPFS did not decline considerably. Hence, further radical reforms were required.

Two new corporate pension schemes introduced in 2001, including the Defined-Contribution Corporate Pension Plan Act (DC plan) and the Defined-Benefit Corporate Pension Plan Act (DB plan), had substantial effects on the public-private pension mix. The DB plan included two types of pension scheme: the contract type plan and the fund type plan. The contract type plan was similar to the TQPSs and replaced them in 2012. It required employers to maintain assets at specific levels, although they may be transferred easily to other plans. By contrast, the fund type plan attempted to replace the EPFs; however, it only applied to firms with more than 300 employees. By introducing the hybrid/cash-balance model, the risk and responsibility of pension management was reduced, while the benefit levels depended on the performance of the investment and the minimum benefits remained guaranteed (Shinkawa, 2005).

Despite concern about the effects on income security after retirement, the government launched a DC plan in 2001 to transfer the responsibility of pension management from the employers to the employees and provide full portability of pension assets to deregulate the financial markets and revitalise the stock market (Katsumata, 2004; Shinkawa, 2005). The plan, described as the "Japanese 401k plan", included the corporate type pension and the individual type pension. The individual type pension is designed for insured category No. 1 (self-employed) and those insured under EPI who are less than 60 years of age and excluded by other corporate pension plans. The total contributions are borne by the insured. The National Pension Fund Federation administers the provision of the individual type pension benefits. By contrast, the corporate type pension is provided for the insured of category No. 2, who are mainly covered by the EPI, yet whose contributions are paid for by their employers. In 2010, a total of 3,705 corporate type pension plans were initiated to cover the total number of insured employees (approximately 3.7 million). Obviously, the financial risk is shifted from corporations to individuals, regardless of the types of DC pension plan. However, the contract-out pension schemes enhanced the power of individuals in the selection of pension fund investments, and increased the stakes for any of their choices. Meanwhile, it has weakened the function of the corporate pension system as internal patient capital, which functions now as a supplementary retirement income security for retired people.

The role of DB pension plans is more important than that of DC pension plans in the Japanese corporate pension system, because Japanese firms require the former as a policy instrument to solve the problem of firm-specific skill formation, which is regarded as the main source of their comparative institutional advantage in the global market (Conrad, 2011, 2012; Estévez-Abe, 2008; Estévez-Abe *et al.*, 2001; Vogel, 2006). Vogel (2006) points out that Japanese firms did not support a pension cut as pensions help to maintain labour-management cooperation and provide a critical source of patient capital. However, this leads to the dualisation of social protection: core workers with specific skills are covered by DB pension plans, while marginalised workers in the small firms or services sector usually rely on less generous DC pension plans (Peng, 2012). Figure 10.1 shows the current constitution of the Japanese pension system.

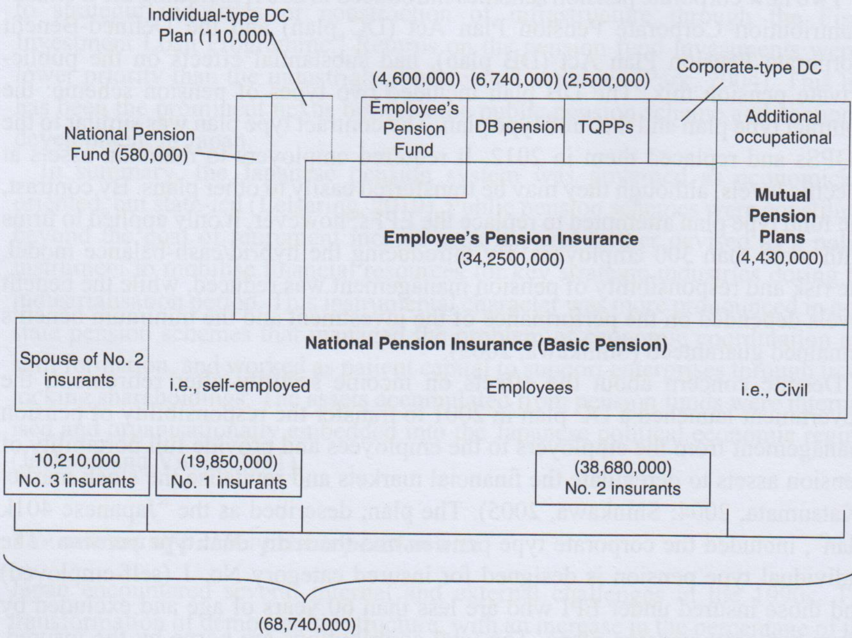

Figure 10.1 Pension system in Japan (the number in brackets means the number of scheme members).

Source: Ministry of Health, Labour and Welfare.

Although the influences of globalisation on the Japanese financial system and corporate governance are significant, through the enforcement of the new International Accounting System (Vogel, 2006) and the DC pension schemes are popular under the worldwide wave of neoliberalism, DB pension schemes dominate the Japanese pension system (see Table 10.1) because of its particular structure of capitalist production, within which comparative institutional advantages are derived from firm-specific skills. Consequently, Japanese firms require DB pension plans as part of human resource management to solve the dilemma of skill formation in the core sectors, even though the importance of DC pension schemes is increasing. However, this precipitates the aforementioned dualisation of the pension system (Peng, 2012).

Yet, paradoxically, the deregulation of the financial market has led to the rise of socially oriented pension governance in Japan. Instead of implementing neoliberal pension governance with an emphasis on the market-based financial regime or uncoordinated regulatory regime, the Japanese reform experiences have resulted in a welfare market in which the government has used the financial market and non-state welfare provisions as a specific object of social policy regulation (Leisering, 2010). During the reforms of non-state pension schemes, economic goals (as part of economic developmental strategy) have been replaced by social goals (as objects of social policy). The current non-state pension schemes in Japan are regarded as a supplementary pension system rather than a policy instrument to facilitate economic development, even though DB pensions continue to play a crucial role in skill formation. The state plays a more vital role in the regulation of non-state pension schemes through state regulation of the operation of pension funds. Although neoliberalism has influenced the Japanese pension system, its effect is filtered by the Japanese economic structure.

Table 10.1 Indicators of major Japanese occupational pension plans

Name of plan	*Nature of plan*	*Year*		*Number of plans*		*Number of members (million)*	*Amount of assets (trillion yen)*
Employee Pension Fund (EPF)	DB	1968		305		1.28	0.015
		1978		945		5.44	2.54
		1988		1,194		7.65	17.16
		1998		1,858		12.00	53.3
		2003		1,357		8.35	48.6
		2008		617		4.39	16.1
		2009		608		4.31	18.3
		2010		588		4.30	17.6
Tax-Qualified Pension Schemes (TQPSs)	DB	1963		161		0.04	–
		1968		34,737		2.35	0.078
		1978		57,001		4.90	1.63
		1988		74,423		8.21	9.43
		1997		88,312		10.43	19.15
		1998		85,047		10.30	20.0
		2003		59,162		7.78	20.7
		2008		25,441		3.49	–
		2009		17,184		2.50	–
		2010		8,051		1.26	–
DB Pension Plans	DB		Contract-type DB plan		Fund-type DB plan		
		2002	15		0	0.03	–
		2005	834		596	3.84	21.7
		2008	4,395		611	5.70	–
		2009	6,797		610	6.47	–
		2010	9,436		608	7.27	–
Corporate DC Plan	DC	2001		70		0.088	–
		2005		1,866		1.733	22.8
		2008		3,043		3.110	–
		2009		3,301		3.404	–
		2010		3,705		3.713	–

Source: Pension Fund Association (http://www.pfa.or.jp/); Ministry of Health, Labour and Welfare (http://www.mhlw.go.jp/); Conrad (2012: Table 1).

Taiwan

Welfare developments in Taiwan after World War II were influenced by the tension between the state and society. As a regime émigré, the Kuomintang was eager to consolidate its political rule over the native Taiwanese civil society. The authoritarian Kuomintang regime enforced martial law to tighten military and political control, and successively established generous social insurance schemes for specific groups, such as military servicemen, civil servants and teachers, to ensure their political loyalties (Ku, 1997; Lin, 2005; Lin, 1994; Wong, 2004: 43–61). Social policy exhibited an instrumental characteristic, that is, the regime intentionally devised social security institutions targeted at certain pivotal occupational groups in exchange for their political support. Public old-age security was the privilege of certain occupational groups, whereas the majority of the population had insufficient support from the state. Labour Insurance was established in March 1950 to cover the workers in enterprises with at least 20 employees. By 1953, the Labour Insurance programme was extended to small firms with over 10 employees and fishermen, and to those working in smaller firms with less than 10 employees on a voluntary basis. As the single social insurance bearer for the workers, Labour Insurance provided a package of benefits for work injury, old age, medical care, disability, death and maternity. In the same year, the Military Servicemen Insurance Programme was introduced, followed by the introduction of the Government Employee Insurance Programme in 1958.[5] Apart from the social insurance schemes for these occupational groups, the state did not address the requirements of the remainder of the population (such as the farmers and the unemployed). Old-age security was the responsibility of the individuals and their families.

The institutionalisation of public pensions before the 1990s[6]

Before the 1990s, pension provision was the sole responsibility of the public, and occupational pensions have long been an unfamiliar concept in Taiwan's pension system. The dominant role of public old-age security systems originated from the dual industrial structures of Taiwan in the post-war era, with the Kuomintang regime controlling and protecting the business of large state-owned enterprises in upstream industrial sectors, while leaving the downstream sectors to the SMEs, mostly established by indigenous Taiwanese people (Wu, 2004). Exposure to international competition has compelled the SMEs to swiftly react to turbulence in the markets, training them to evolve as the main thrust of Taiwan's economic growth since the 1970s. The demand for flexible business operations and strict cost control led the SMEs to resist any additional labour costs, especially those associated with the establishment of pension schemes within the corporate structures. Occupational pension schemes were generally underdeveloped within such industrial structures, even less with the introduction of funded social pension insurance (Choi, 2008). The lack of interest in the accumulated social insurance funds was also attributed to the various methods of corporate finance, as state-owned banks strategically favoured large state-owned enterprises, pressing the disadvantaged SMEs to secure funding through informal conduits of financial loans (Lee and Chen, 2011). There was little imperative for the state to mobilise additional funding capital through social insurance because state-owned banks already played this role.

This dual industrial structure fitted the dual corporate welfare system, as employees in large state-owned enterprises had generous fringe benefits granted by the state. Because the statutory regulations endowed these firms with the monopolistic status in crucial upstream fields (like petro-chemistry, electricity and public transport), they had abundant financial resources to reward their workers with occupational pensions, even in the absence of relevant statutory guidelines. This preferential status of employees in large state-owned enterprises was unmatched by their colleagues in private SMEs, which prioritised flexible competitiveness and cost containment. Under these circumstances, workers of SMEs could barely expect occupational pensions, and the only option for them remained the modest old-age benefits as stipulated by the Labour Insurance.

Moreover, before the 1990s, public pensions played such a predominant role that little room remained for the growth of private pensions. This is clearly shown in the earlier pension reforms that focused only on the gradual expansion of the Labour Insurance programme without paying much attention to the role of occupational pensions. Since its inception, the Labour Insurance programme has undergone several revisions to adjust the eligibility criteria and improve benefits. In the 1980s, workers in small firms (more than five employees) gained access to the programme, and the government increased subsidies for the monthly contribution of self-employed people from 30 to 40 per cent. In 1984, the government further promulgated the Labour Standard Act as an amendment to the programme. The complicated part was the regulation that required employers to make contributions for their employees to accumulate occupationasl pensions upon retirement. However, this new labour legislation did not improve much of the old-age security for the workers (Control Yuan, 2002; Council of Economic Planning and Development, 2000). To earn those entitlements, the employees had to work in the same company for at least 25 years, or 15 years when reaching the age of 55. This was a considerable obstacle for most workers because the majority of their employers were medium and small firms that operated for an average period of 12 years (Wu, 1997). The lack of any possibility for the portability of the entitlement to occupational pensions further disadvantaged the workers in case of employment changes. The targeted groups were initially confined to the manufacturing industry; even in this case, the problem of non-compliance prevailed because of the failure of the government to enforce the regulation effectively. This regulatory gap resulted in further political reforms that led to a series of new legislations to create a more comprehensive pension system.

Recalibrating the public-private pension mix and governance in the new era

The democratisation process essentially altered the nature of pension politics in the 1990s. Although the KMT remained the ruling party during this period, its main opposition, the Democratic Progressive Party (DPP), gradually rose to political prominence and created competitive pressure for the KMT to renew its pension policy (Fu, 2000; Lin, 2005). Pension politics has been complicated by the participation of diverse political and social interest groups, leading to a protracted process for over a decade (Shi, 2010; Tsai, 2008). The main concerns related to the lack of basic public pensions for the marginalised population groups, such as farmers, the unemployed and housewives, and adequate institutional design to provide old-age security for all workers. During the policy-making process, almost all conceivable institutional frameworks were discussed, including the fusion of all current pension schemes as a universal pension insurance programme, a defined-benefit basic pension design in which the overall pension expenses would be funded solely by tax revenues, and the establishment of defined-contribution individual accounts instead of the current pension insurance programmes (Council of Economic Planning and Development, 2000; Tsai, 2008). The ideational contestations behind the various policy proposals revealed diverse, yet contradictory, approaches towards the public-private mix for old-age security, that is, whether the state should bear the financial responsibility, or whether the individuals should be responsible for their own old-age security without any wealth redistribution and risk sharing among different population groups.

The National Social Welfare Conference held in May 2002 marked a turning point, in that the social activist groups garnered support for an institutional design in favour of social solidarity. During the session, almost all participants from the social activist groups and academia unequivocally criticised the option of individual accounts, and advocated social insurance as the suitable option for sustaining old-age security. This created an impetus towards social insurance, with the remaining question concerned about whether the current pension insurance schemes for various occupational groups should (could) be integrated as a universal scheme. To maintain the transitional cost as low as possible, the government envisaged the establishment of a separate social insurance scheme only for those excluded from any current pension schemes.

With the idea of establishing a separate pension insurance scheme solely for these population groups taking hold, the ensuing political efforts brought the draft proposal of introducing a National Pension Insurance programme into the legislature, and finally won wide support to become a statutory law in July 2007. Although the new scheme was entitled "National Pension Insurance", it covered only peasants and socially disadvantaged groups.[7] The new pension scheme set the contribution rate at 6 per cent, and scheduled its successive rise in the following years. The insured people shared 60 per cent of the payable contributions, and the government subsidised the remaining 40 per cent. However, the insured person was entitled to a minimum pension benefit of NT$3000, regardless of the term selected by the beneficiary.[8]

Meanwhile, the revision of the Labour Standard Act to ameliorate the prospect of old-age security for the workers has received equal recognition. Political discussions were concerned with the question of how to revise it towards a more feasible framework, as well as the proportion of the financial responsibility between employers and employees (Yeh, 2006). After several months of disputes, the government introduced the new supplementary pension scheme (Labour Pension Act) in June 2004. The new regulation stipulates that all employers must transfer 6 per cent (or more) of the monthly payrolls of each employee into an individual pension account to be managed by the Bureau of Labour Insurance (Council of Labour Affairs, 2004). In addition to the mandatory employer contributions, workers may voluntarily make contributions of another 6 per cent of their monthly payrolls to their accounts, with corresponding tax concessions made for these contributions. During the policy-making process of the Labour Pension Act, however, the issue of globalisation did not play any explicit role. The only probable factor might be the transition from defined-benefit to defined-contribution out of the consideration to promote labour market flexibility (Yeh, 2006). Figure 10.2 shows the current constitution of the Taiwanese pension system.

The new supplementary pension scheme has improved the prospect of old-age security for workers as the individual account is now portable with a change of occupation, and a minimum pension is guaranteed. However, there was also the ambiguous character of pension privatisation in Taiwan. The 2004 reform to introduce individual accounts is only practised in the social insurance schemes for

<table>
<tr><td>3rd pillar</td><td colspan="7">Private savings and commercial insurance</td></tr>
<tr><td>2nd pillar</td><td colspan="5">Labour Pension Act (individual account)</td><td colspan="2" rowspan="2">Social insurance for military personnel, civil servants and teachers</td></tr>
<tr><td>1st pillar</td><td>Old Farmer's Allowance</td><td>National Pension Insurance</td><td colspan="3">Labour Insurance</td></tr>
<tr><td rowspan="4">Occupational group categories</td><td>Farmers</td><td>Others (e.g. housewives and unemployed)</td><td>Self-employed</td><td>Employed workers</td><td>State enterprise workers</td><td>Civil servants</td><td>Military personnel</td></tr>
<tr><td colspan="4" rowspan="2"></td><td>State enterprises</td><td>Civil service</td><td rowspan="2">Army</td></tr>
<tr><td colspan="2">Employed</td></tr>
<tr><td colspan="4">Private sector</td><td colspan="3">Public sector</td></tr>
</table>

Figure 10.2 Pension system in Taiwan.

Source: Compiled by authors

the workers, whereas the schemes for the other occupational groups (such as National Pension Insurance and the Farmers Insurance) remain unchanged. Even for the working population, public social insurance schemes function as the major bearer of their well-being, including income security in their old age. Moreover, although the Labour Insurance scheme incorporates the individual account as the second tier of old-age security, the government plays a dominant role, with the Labour Insurance Bureau acting as the exclusive administrator and custodian of the scheme. The government will close the gap with public finance should any investment loss occur. After decade-long pension reforms, the responsibility for old-age security in Taiwan still rests with public pensions, implying heavy burdens of the state in view of the ageing population. The subsequent theme of pension politics may change the manner in which to empower the role of private pensions.

Conclusion

East Asian welfare states have long been regarded as the prototype of intransigent developmentalism. Features of low social expenditures and the emphasis on family and individual responsibility were commonly associated with the political quest to "catch-up" in modernisation. In this regard, social policy has exhibited a strong productivist character that depressed consumptive welfare requirements in favour of economic growth. However, the preceding analysis indicates that, although the developmental state thesis captured the gist of East Asian welfare states, it did not sufficiently address the specific national diversity in welfare provision, particularly by private agencies. The lopsided stress on low public social expenditures has led to the negligence of private welfare where state involvements are equally active (Kim, 2010). Perceiving this hidden aspect of state regulation is crucial to understanding the developments of social welfare in this region. Related literature on East Asian welfare states indicated the strong regulatory role of the state in welfare provision; however, they failed to explore various roles of the state in diverse dimensions, especially in the private domain (Goodman *et al.*, 1998; Kwon, 2005; Lee and Ku, 2007).

The interplay of the public-private pension mix is of particular interest to the state in its efforts to weave a safety net for old-age security. Although Japan and Taiwan were regarded as two East Asian societies with similar institutional features in social protection, the manner in which public and private pensions are managed demonstrates considerable differences. The institutionalisation of non-state pension schemes in Japan was initially implemented to manage the problem of economic coordination, such as skill formation, and as patient capital for long-term investment in key industries. Non-state pension schemes served as a part of the economic developmental strategy. This state-led development encountered pressures to deregulate the financial markets in the era of globalisation, leading to new modes of governance that regarded non-state pension schemes more from the viewpoint of old-age security than economic development. This has substantial implications for state activities in financial markets because the main goal is to include pension markets in the overall regulatory framework of old-age security.

By contrast, private pensions in Taiwan played a minor role in the post-war era. The authoritarian regime concentrated key resources and capital in state-owned enterprises in upstream sectors, resulting in the emergence of SMEs in downstream sectors, which have become the major body of the Taiwanese economy. In such a dual economy, private pensions did not rise to political and economic prominence because large industries in key sectors secured the funding through bank loans, as dictated (and owned) by the government. The disadvantaged SMEs learned to manage on their own when encountering fierce international competition. Under these circumstances, both government and employers had insufficient incentives to encourage the growth of private pensions because this option yielded few economic gains and administrative burdens. Moreover, providing old-age security to the workers of SMEs, and all workers in general, was not a political imperative until democratisation unleashed a strong demand for this direction. Even at this stage, the new pension politics since the 1990s demonstrates a statist approach that emphasises the expansion of public pension schemes and encourages the incremental growth of occupational pensions.

The comparative study of Japanese and Taiwanese approaches toward pension provision in this chapter has highlighted a crucial aspect of welfare state transformation in East Asia, particularly regarding the manner in which the state recalibrates the scope and extent of its regulation in the interplay of public and private welfare provision. The rationales and directions of recent pension reforms in East Asia can be further understood only by considering the historical contexts of political and economic structures. In the quest to "modernise" pension systems in response to the foreseeable demographic pressure, Japan has an effective leverage to construct a multi-pillar pension system with its fully fledged occupational pension schemes. By contrast, the predominant industrial structures and the instinctive statist doctrine in Taiwan may limit the extent of future private pension provision, as public pensions still assume greater responsibilities for old-age security. However, with the impending demographic ageing and fiscal constraints in the near future, it becomes likely that the next pension reforms will introduce state regulation in favour of occupational pensions and private savings.

Notes

1 In post-war Japan, Postal Saving and Postal Life Insurance were two policy instruments for channelling financial resources to strategic industries to stimulate economic growth.

2 In 1991, the Japanese government launched the National Pension Fund that benefited population groups such as peasants or the self-employed who remained excluded from any corporate pension schemes. Because of its subsidiary features, the following analysis sets aside discussion of this scheme.

3 The EPFs is open to large firms with more than 1,000 employees, aiming to reduce the financial burdens of employers.

4 Two public banks, the Japan Development Bank and Exported, were founded in the 1950s, serving as key institutions in the developmental strategy to steer capital into key industries.

5 These two social insurance schemes also covered major risks as the Labour Insurance programme, albeit with much more lavish benefit levels.

6 The following analysis is a revised version of previous article written by Shi (2010).

7 Yet, this policy direction was reversed again in 2008 by the KMT's president Ying-jeou Ma, who decoupled the allowances for elderly peasants from the National Pension Insurance to quench their anger at possible benefit cutbacks.

8 The calculation of pension benefits would be based on two methods: either a basic pension of NT\$3000 + number of pensionable years × monthly contribution × 0.55 per cent; or a pension benefit calculated in accordance with the number of pensionable years x monthly contribution x 1.1 per cent. The insured person could choose the better one of the two calculation terms.

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