Chapter Six

Democracy, Growth and the Evolution of Social Contracts in East Asia, 1980-2005

The turn to democratic rule in the middle-income countries of Asia began in the Philippines with the "people power" uprising against the Marcos dictatorship in early 1986; Figure 6.1, using standard Polity scores, tracks the subsequent process of political change in the region. In Korea, the presidential elections of 1987 are typically considered the transition point, although an opposition candidate did not ascend to the office until 1993. Two other transitions occurred more gradually. In Thailand, the military slowly yielded its veto power over elected politicians during the 1980s before a brief military interlude in 1991-92. Since 1992, however, the country has been continually democratic. In Taiwan, as in Mexico, the ruling KMT gradually exposed itself to political competition at the national level from the mid-1980s. Although the presidency was not held by an opposition politician until 2000, politics in the country was solidly democratic by the early 1990s. As of 2005, only Malaysia and Singapore remained less than fully democratic, although both systems had competitive elements.

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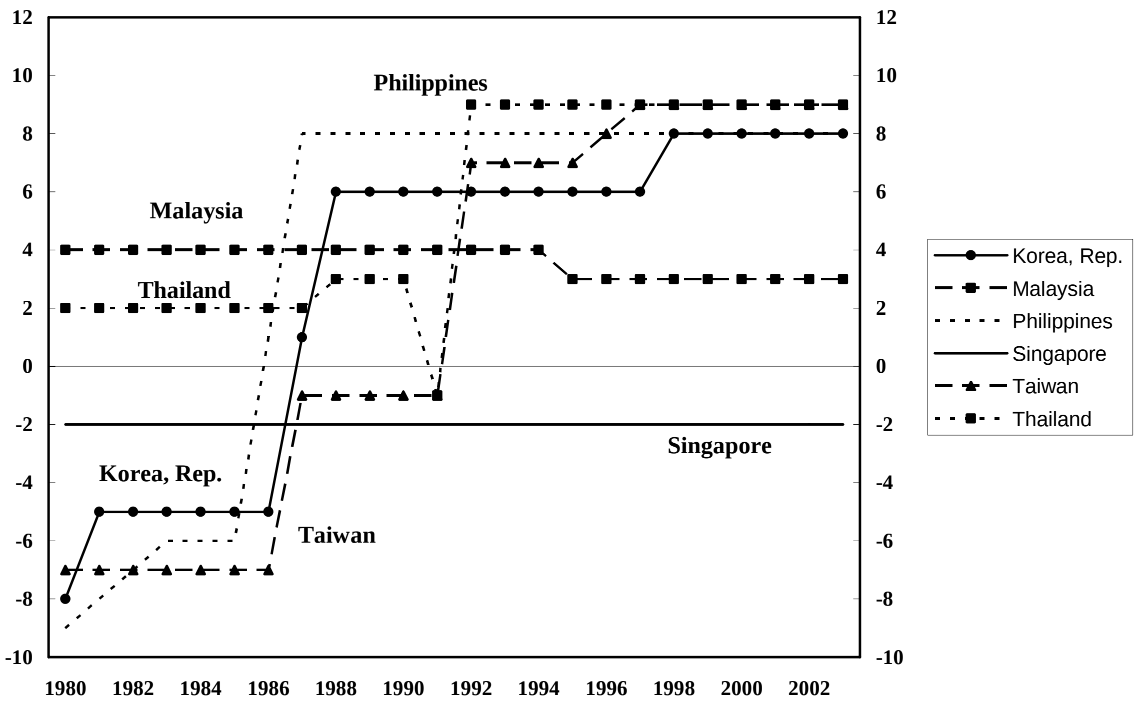
Figure 6.3: Polity Values for East Asia: 1980-2003



Source: Polity IV Database

The politics of social policy in the new democracies of East Asia took place against a very different economic backdrop than in the Latin American and Eastern European cases that we discuss in Chapters Seven and Eight respectively. With the important exception of the Philippines, growth in Korea, Taiwan and Thailand was robust until the Asian financial crisis of 1997-98 (Figure 6.2). As a result, these countries did not initially undergo the fundamental debates about development strategy visible in Latin America and Eastern Europe nor did they undertake the same kinds of wrenching macroeconomic adjustments or market-oriented reforms. Governments did liberalize trade and investment. But the increase in economic openness occurred from an already-high base and was itself partly a product of the region's continued high growth. Other reforms were gradual in design.

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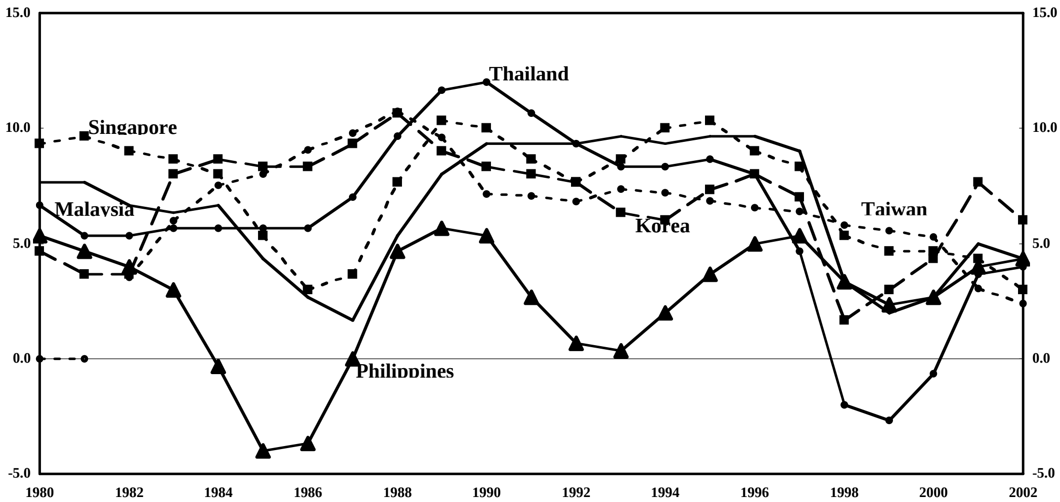
Figure 6.2
GDP Growth in East Asia, 1982-2002
(Three-year moving average)



Strong growth in the new democracies was associated with favorable fiscal circumstances (Figure 6.3). In Taiwan, budget deficits averaged less than one percent a year from 1980 through 1988, before widening temporarily due to the political processes we will describe. In Korea, the fiscal position of the government remained broadly in balance through the democratic transition until the financial crisis hit in 1997. In Thailand, the 1980s began with fiscal deficits larger than those in the Philippines but major adjustments taken in the early-1980s reversed them and the transition to more democratic politics took place in the context of extraordinarily large fiscal surpluses.

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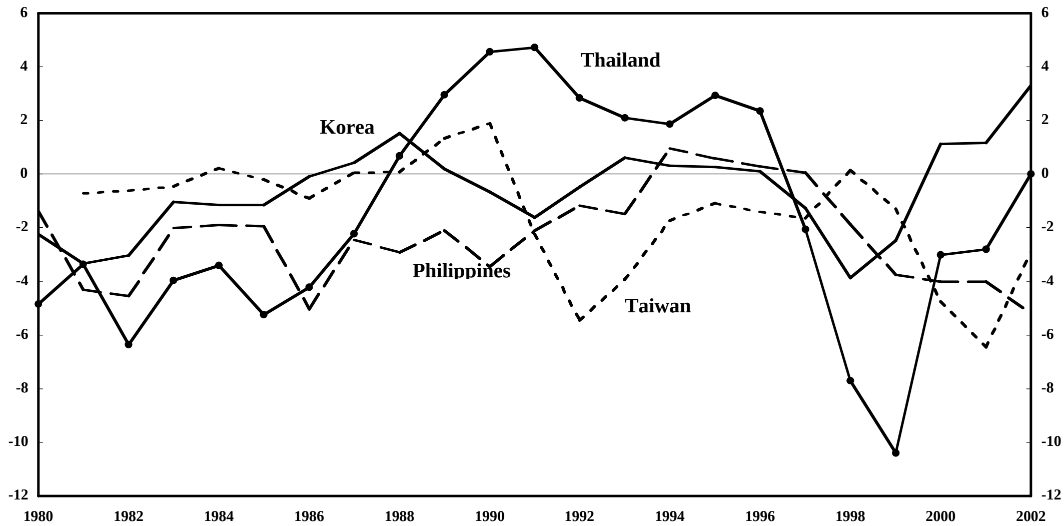
Figure 6.3
Budget Balance as a Percent of GDP:
Korea, Philippines, Taiwan, and Thailand 1980-2002



Strong growth and favorable fiscal circumstances were coupled with a very particular social policy legacy (Chapter Three). Education received substantial attention in most of the cases we consider here, with the partial exception of Thailand as did basic public health measures. However, authoritarian governments generally eschewed redistributive social policies—again, with an exception in Malaysia's pro-bumiputra policies. They took a relatively minimalist approach to the provision of social insurance, or did so through purely defined-contribution systems, and provided the space for private provision, particularly with respect to health care but in some cases such as Korea with respect to education as well.

This combination of economic, fiscal and policy circumstances strengthened the hand of political actors arguing for an expansion of the state's social policy role, whether by adding beneficiaries to existing programs, increasing spending on them, or through altogether new initiatives that covered new groups and risks. Conversely, strong growth and the absence of fiscal constraints diluted the force of arguments that the public sector, employers and employees could not afford new entitlements and weakened the case for liberalizing social policy reforms. Even when new social insurance programs were revealed to be financially unsustainable over the long-run, or when they ran into immediate financial difficulty, reformers inside and outside the government found it extremely difficult to roll them back.

These broad generalizations about the politics of social policy require a number of qualifications. First, it is important to underline that new social policy commitments in the region were not necessarily targeted at the poorest and most vulnerable segments of the population, nor to those most affected by economic reforms or increasing openness; to the contrary, politicians had incentives to spread benefits widely across the electorate or to target politically consequential constituencies. Second, the course of social policy was affected by a variety of other political factors including the partisan orientation of government and its regional and sectoral bases of support, the strength of labor and NGOs, and institutional features of the new democracies; we review these contending hypotheses in more detail in the case studies and by way of conclusion. But even when these factors operated, they did so in a context in which the combination of democratization, permissive fiscal conditions and a minimalist welfare legacy created strong incentives for a larger state role in social provision.

Singapore and Malaysia provide an opportunity to test these propositions by comparing the evolution of social policy in the new democracies with semi-democratic and semi-authoritarian systems. Economic circumstances in these two cases were broadly comparable. Except for a short, sharp downturn in the mid-1980s, these two countries also experienced robust growth until the financial crisis of 1997-98. Political circumstances, however, differed markedly. Dominant parties in Singapore and Malaysia did subject themselves to regular electoral competition and independent interest groups had at least some room to operate. But electoral and other rules guaranteed the hegemony of dominant parties and governments placed clear limits on the opposition and on independent NGOs and unions in particular. As we would expect, we do not see the same changes in social policy in these countries that we do in the democracies; rather, we see greater continuity with past policy and greater attention to reforms that limited public commitments and emphasized individual responsibility.

The Asian financial crisis fundamentally changed the economic parameters under which social policy was formulated across the region (Haggard 2000; MacIntyre 2002). As in Latin America and Eastern Europe, crises generated sharply conflicting pressures on governments. On the one hand, governments came under pressure to alleviate distress and to institutionalize more permanent protections against insecurity. On the other hand, crises placed both short-run and medium-run fiscal constraints on governments and spurred wide-ranging economic reforms, including further liberalization of trade and investment and extensive corporate and financial restructuring. These reforms had a direct effect on government and corporate social policy commitments. Crises also changed the politics of economic policymaking. As in Latin America and Central Europe, the crisis strengthened the hand of technocrats and the international financial institutions.

But the Asian financial crisis did not generate either a significant retrenchment of social policy commitments nor an effort to reform them; to the contrary, social policy commitments conditioned to expand. As in Latin America and Eastern Europe, democracy mattered: the pressures of democratic competition and interest-group organization served to limit the extent of reform and retrenchment. But the nature of the crisis, underlying fiscal circumstances and the welfare legacy also differed in East Asia. Outside the Philippines, the crisis did not take place in the context of structural budget deficits or long-standing and highly elaborated social insurance commitments. Recovery was also relatively swift compared to the decade-long recessions in Latin America and the prolonged transitional crises in Eastern Europe. As a result, social policy debates shifted relatively quickly from short-term ameliorative policy measures to the scope of more permanent commitments.

We build our discussion around a number of structured comparisons. We begin with a consideration of the four countries that underwent democratic transitions in the 1980s, highlighting the effect of a more competitive political environment on social policymaking prior to the crisis. The Philippines is used to suggest the effects of more adverse economic circumstances and persistent fiscal constraints. We then turn to a consideration of social policy developments in the single-party dominant systems of Singapore and Malaysia, which permits a consideration of the effects of regime type.

The third section considers the political economy of the Asian financial crisis. Both Taiwan and the Philippines were adversely affected by the crisis, but did not experience the distress visible in the most seriously-affected countries: Korea, Thailand, and Malaysia (as well as Indonesia). In the two democracies in our sample, Korea and Thailand, the crisis contributed to an expansion of social welfare commitments and an effort to institutionalize a more permanent social safety net; this was not the case in Malaysia. The conclusion returns to a number of other political and institutional explanations of social policy outcomes and draws some comparisons with the findings from other regions.

With respect to the policy agenda, we pay primary attention to social insurance in the higher-income Asian cases--pensions, health and unemployment insurance—although we also note more briefly a new interest in social assistance and poverty alleviation. In Korea, Taiwan and Singapore, universal primary and secondary schooling had already been achieved by 1980, and the education debate shifted to other issues--quality, accountability, decentralization and above all tertiary education—that are largely beyond the scope of this study. Yet we note that in the two higher-income democracies, Korea and Taiwan, not only did spending on education go up when compared to Singapore (see Appendix Five) but educational reform also meant weakening the “developmentalist” aspects of educational planning and the central role of the state in determining educational opportunities; the state continued to play this role to a much greater extent in party-dominant Singapore. Thailand, the Philippines and Malaysia—in that order—were more rural and agricultural (see Table 6.1). We would thus expect democratization in the first two cases to be associated with greater attention to the countryside. Although many such policies, again, fall outside of our ambit, access to basic health care, the expansion of primary and secondary education and various anti-poverty schemes were politically salient features aspects of the debate over the democratic social contract.

Democratic Transitions and Social Policy: Taiwan, Korea, Thailand and the Philippines

Underlying structural and demographic factors influence the agenda of social policy reform and it is therefore important to control for them to the extent possible (Table 6.1). Singapore was clearly the most advanced of the six countries at the onset of the period of interest to us here, and by the end of the period was no longer even a developing country. With a very high share of the workforce in industry, no agricultural sector to speak of, and little if any absolute poverty (although relatively high inequality), its social problems were overwhelmingly urban ones. The two “first-generation” newly industrializing countries, Taiwan and Korea are broadly comparable. Although Taiwan had higher per capita income in 1985, both countries had relatively large industrial sectors, still-significant but rapidly-declining agricultural sectors, and relatively egalitarian income distributions with low levels of absolute poverty.

Like Taiwan and Korea, Thailand and the Philippines also share a number of features that make a pair-wise comparison plausible. Thailand and the Philippines had a nearly identical share of employment in industry, and while Thailand had a much larger share of the workforce in agriculture (68 percent) nearly half of all employment in the Philippines was in agriculture in 1985 as well. Both countries fell at the more unequal end of the Asian cases and had comparable levels of $1-a-day poverty. In addition to the effect of these structural factors on domestic politics, level of development also affected the influence of external actors as well. Their somewhat lower level of development when compared to Korea and Taiwan meant more intense engagement on the part of the international financial institutions and the donor community more generally, even prior to the Asian financial crisis.

Table 6.1
Development, Economic Structure, Inequality and Poverty
(1985)

	GDP per capita (Constant)	GDP per capita (PPP)	Share of workforce in industry	Share of workforce in agriculture	GINI	$1 dollar a day poverty, 1985
Korea	5,322	5,750	29.5	24.9	34.5	< 5 (1984)
Malaysia	2,587	4,359	23.8	30.4	48.1	16 (1984)
Philippines	974	3,266	13.8	49.6	46.1	23 (1984)
Singapore	13,332	9,965	35.7	0.7	41.6	< 1 (est.)
Taiwan	7,530*	8,000**	41.6	17.5	29.2	< 2 (est.)
Thailand	1,329	2,751	12.1	68.4	47.4 (1986)	25 (1988)

*1996 dollars
** 1997 dollars, estimate

An important determinant of the demand for both pensions and healthcare is the demographic profile (Table 6.2). The more advanced countries in the region do show a more marked aging trend. But it is important to note that at the starting point for this study—roughly the mid-1980s—the current share of the aged did not differ substantially across countries and therefore would not, on its own, constitute an obvious explanation for policy differences with respect to pensions and health.

Table 6.2
Aging in Asia:
Share of Population over 65

	1985	1995	2005	2015	2025
Korea	4.3	5.7	8.5	11.5	17.3
Philippines	3.4	3.5	4.0	4.9	6.7
Taiwan	5.1	7.2	8.9	10.3	15.9
Thailand	4.3	5.4	7.5	9.8	13.9
Malaysia	3.7	3.9	4.6	5.9	8.1
Singapore	5.3	6.3	8.1	11.4	19.5

Taiwan

Taiwan shows clearly how electoral competition can push even conservative parties to expand social commitments. Taiwan differed from the other East Asian cases in developing a social insurance program that in principle covered a wide range of contingencies through an occupationally-based, contributory system (the Labor Insurance program). In fact, coverage and benefits were relatively limited and in the first half of the 1980s, prior to the political opening, the KMT's social insurance initiatives were directed primarily to expanding the benefits already enjoyed by core KMT constituents under separate, more generous schemes: civil servants, the military, private teachers and their dependents (Son 2001, 47; Aspalter 2002a, 51-63).

The period from 1985 to 1991 was a crucial one in Taiwan's transition; not coincidentally, social spending began to rise sharply (see Appendix 5).[1] The government allowed an opposition party to form and moved toward truly competitive elections at the national level. In anticipation of these developments, the KMT introduced a pilot program in 1985 to extend health insurance to farmers, an electorally-important group excluded from the Labor Insurance scheme (Ku 1995, 82; Son 2001); this program expanded dramatically in following years. The government also formed an executive task force in 1988 to investigate the creation of a single-payer national health insurance system that would centralize financing, administration and efforts at cost control under a newly-formed Bureau of National Health Insurance (BNHI) (see Lin 1997; Son 2001; Aspalter 2002a; Wong 2003, 2004).

As these proposals were being developed, the political system underwent both important institutional changes and partisan realignments. In 1988 Lee Teng Hui lifted martial law and allowed national level electoral competition. In the 1991 National Assembly elections, the opposition DPP fared poorly by campaigning on a Taiwan independence platform (Rigger 2001, 125). Prior to the 1992 Legislative Yuan elections, the first direct elections for all seats of the major legislative body, more centrist factions of the party sought to rectify this mistake by turning attention toward public policy issues, including social welfare. The 1993 DPP White Paper on social welfare promised an extensive array of entitlements, including universal health insurance and pensions, subsidized housing, government-guaranteed retirement income for the elderly, and expanded social assistance (Ku 2002, 159-160; Fell 2001).

The KMT drafted its own policy guidelines for social welfare in 1994, pressured not only by the DPP but by a fissure within the party that resulted in the formation of the New Party in 1993.[2] The guidelines struck a more conservative tone than the DPP White Paper (Ku 2002, 161) but the KMT accelerated the introduction of its national health program in anticipation of the 1995 legislative elections. Subsequent efforts to address emerging fiscal problems in the new system through the introduction of private insurers quickly fell victim to divisions within the bureaucracy, pressures from KMT legislators, and aggressive action by a broad social coalition of over 200 NGOs (Wong 1993, 1994). Both the KMT government and its DPP successor delayed even minor adjustments in premiums until September 2002, and the KMT—now in opposition—

sought to mobilize legislative, public and labor opposition to the move (for example, *Taipei Times*, August 28, 2002). In a very short period of time, the KMT had initiated a national health insurance system that expanded coverage from 57 percent of the population on the eve of its introduction to over 95 percent within two years of its initiation. Despite typical problems of insuring the quality of care, the system enjoyed widespread public support.

The national debate over pensions unfolded more slowly. The labor insurance system provided for a modest lump-sum pension payment (again, core KMT constituents such as civil servants and the military were covered under separate and much more generous systems). Coverage increased gradually over the 1980s and 1990s but the maximum payout was extremely modest. Surveys of the elderly conducted in the mid-1990s found that only 18 percent of total income came from occupational pensions (Ku 2002, 156), and fully a quarter of all people over 65 had no retirement income (Chow 2002, 29; Chen 2004a).[3]

In the 1993 elections for mayors and county commissioners, several DPP candidates catapulted the pension issue onto the national stage by promising old-age allowances, in effect, a universal, non-contributory pension system. The KMT leadership berated the DPP proposal as blatant vote buying, but responded with two "temporary" means tested allowance schemes for elderly farmers and the low-income elderly and the promise to devise a national pension system (Ku 1998; 2002, 160; Chiu 2004, 3-4). In 1997, the KMT's candidate for country commissioner of Taipei introduced an old-age allowance proposal backed publicly by President Lee Teng-hui. As Aspalter (2002, 99) argues, "Lee Teng-hui's proposal triggered a chain reaction in local politics. Other KMT candidates were forced by their voters to either propose similar plans…or to advocate a nation-wide old-age allowance system…," which the president ultimately did.

In 2000, the DPP presidential candidate Chen Shui Bien ran successfully on a social welfare platform (the "333 plan") that included elderly allowances (of NT$3000 a month), subsidized mortgages to first-time buyers (at 3%), and government-sponsored health care for children under three. The DPP also promised a national pension system after the KMT failed to legislate its own proposal.

Consideration of these initiatives took place under quite different political and economic circumstances than those of the past. The new president faced a legislature controlled by a non-cooperative opposition alliance (the so-called "pan-blues") and the DPP was itself divided on the pension issue between more conservative and more progressive factions. Deadlock ensued. Economic conditions also changed. Taiwan survived the Asian financial crisis relatively unscathed but experienced a sharp recession in 2001, a continual erosion of revenues and widening budget deficits. These economic conditions empowered conservatives and technocrats to speak against further social spending (for example, *United Daily News*, April 17, 2001). The Chen government was forced to make overtures to the private sector, back away from its more ambitious national pension proposals, and seek hybrid formulas that would lessen the government's fiscal commitments.

Despite these setbacks the commitment to a public pension system continued to move forward. In mid-2001, even as the recession was becoming apparent, the Chen administration forwarded legislation for a nation-wide monthly pension for those not covered under the existing system. The proposal was derided as vote buying (*Taipei Times*, July 27, 2001; December 20, 2001; March 15, 2002) but the KMT proposed an even *more* generous plan and in 2003, as elections approached, the law was amended again to expand benefits. In 2004, the government succeeded in passing a reform that shifted from an employee-specific, non-portable defined-contribution benefit plan to a portable defined-contribution scheme centrally monitored by the government. Although without the redistributive elements in traditional pay-as-you-go systems, the reform constituted an important expansion of coverage.

Reflecting their reliance on business support and the cross-class nature of their electoral base, both the DPP and KMT initially opposed unemployment insurance. But after 1996, unemployment started to increase steadily, jumping sharply in the recession of 2001 and not declining significantly thereafter. Explanations for this important labor market development focused initially on the fallout from the Asian financial crisis; although mild by comparison with the most seriously affected countries, Taiwan nonetheless felt the impact of regional developments. But the path of unemployment suggested that the problems were more structural in nature, including the "hollowing out" of the industrial structure to China and Southeast Asia and the increasing use of foreign labor. In 1998, the KMT instituted an unemployment insurance scheme. Following the change of government and in the wake of the 2001 recession, the DPP government dramatically expanded coverage of the program to include small firms and the informal sector and developed an active labor market policy that included vocational training, wage subsidies to firms, loans, and community grants (Chen 2003); the KMT, which had previously opposed these policies, embraced them in opposition. The government also introduced legislation that limited large-scale layoffs.

Korea

Democracy also had a clear and identifiable effect on the expansion of social insurance in Korea. As in Taiwan, the social insurance system inherited from the authoritarian era was a fragmented and highly unequal one. With democratization, benefits quickly extended to previously excluded groups and the government became more directly involved in the financing of entitlements. Although the initial expansion under the more conservative governments of Roh Tae Woo and Kim Young Sam was dramatic, resulting in a steady increase in social security spending in particular (see Appendix Five), remaining inequities in coverage set the stage for a second round of reforms under the Kim Dae Jung government that we take up in more detail in our consideration of the financial crisis.

The National Health Insurance (1977) was initially compulsory only for government employees, teachers and workers in the very largest firms (500 employees or more); at the outset, it covered a mere 10.5 percent of the workforce. Chun Doo Hwan expanded the system incrementally by allowing the formation of quasi-public insurance societies or health funds, typically organized on an occupational basis (Kwon S 2002, 2003). But farmers, the self-employed and the urban informal sector remained outside the system, leaving total coverage at about 50 percent. In 1986, as the political battle was joined to define the nature of the transition from authoritarian rule, the Chun administration announced an expansion of health coverage, as well as a national pension scheme and the introduction of a minimum wage. When the protests of 1987 forced direct elections of the president, Roh Tae Woo integrated these social policy initiatives into his campaign platform. After winning a narrow plurality his administration extended coverage to the rural and urban self-employed through an expansion and partial subsidization of the health funds to cover the previously uninsured (Kwon 2003, 78).[4]

As we saw in Chapter Three, the Korean pension system also began with coverage of civil servants and the military; a 1973 plan to cover private sector workers in larger firms was shelved with the onset of the oil crisis. The new pension law passed in 1988 extended coverage to all firms with ten or more workers (lowered to five workers in 1992) through a funded scheme with a mild redistributive component. The scheme required workers (and employers) to contribute for 20 years before qualifying, and thus did not involve any immediate outlay. But benefits were set at a very high level--a replacement rate of 70% after 40 years—and bargaining among the government, business and labor yielded contribution rates that were too low for the benefits extended. As a result, the program had financial weaknesses from the outset (Moon 2001).

Kim Young Sam (1993-1998) made further expansion of the pension system part of his election campaign, and in 1995 extended coverage to farmers as compensation for Korean commitments to open the rice market (Yang 2000, 115). But an appointed pension reform commission was divided between those arguing that the existing system was financially unsustainable and those arguing for more marginal changes or outright expansion. The final proposal from the commission sought to balance these contending views; an expansion of coverage and an increase in the extent of redistribution would be coupled with the introduction of a multipillar system with increased contributions, reduced benefits, and a higher retirement age. But this reform effort came very late in the Kim Young Sam presidency, did not achieve consensus within the commission, and due to the onset of the economic crisis and the lame duck status of the government did not receive serious legislative consideration; moreover, as we show in more detail below, the liberal reform proposals were ignored by Kim Young Sam's successor, Kim Dae Jung, who opted for an expansion of the system.

The final component of the new social insurance system was the introduction of unemployment insurance. The Chun administration was actively hostile to unemployment insurance on both cost and moral hazard grounds. Nonetheless, policy entrepreneurs within the social policy bureaucracy developed and promoted a program designed to win support not only from labor—which initially lacked any concrete policy proposals on the topic--but from business and the economic technocrats as well (Yoo et. al. 2002). Strategically renamed an "employment insurance" system, the proposal combined a mandatory unemployment insurance scheme with active labor market programs designed to secure wider support. All three major political parties incorporated variants of the proposal into their party platforms prior to the 1992 presidential elections and final legislation was passed easily in 1993.

Social Assistance and Education in Taiwan and Korea

Briefer mention can be made of two other policy areas that saw important reforms following the transition to democratic rule: social assistance; and education. In Korea, the democratic transition was not followed immediately by a reform of the country's minimalist social assistance program, the Livelihood Protection Act, in part because the booming economy of the transition period did not give rise to any demand to do so. When the Kim Young Sam administration did announce welfare reforms linked to his globalization (*segyehwa*) initiative late in his term, they were conservative and "productivist" in orientation, emphasizing private provision of social services through firms, NGOs and local community groups rather than a strong state role. These proposals did not find their way into legislation (Lee 1999) and the expansion of these sorts of measures had to await the coming of the Kim Dae Jung administration and the economic crisis.

In Taiwan, by contrast, the reform of social assistance and services involved more fundamental change in principles, organization and funding. Social assistance in Taiwan was historically the responsibility of local governments. Following the political crisis surrounding the US severing of diplomatic ties with Taiwan in 1979, the KMT government passed an Aged Welfare Law, a Handicapped Welfare Law and a new Social Assistance Law. But analyses of these measures generally concurs that they received limited funding and lacked administrative means for enforcement and monitoring; the country did not even have a ministry of social welfare (Chan 1985, 350-51; Ku 1997, 159; Aspalter 2002a 73-80). The reform of these laws became the focus of intense NGO activity, pioneered by particularly effective disabled and elderly movements (Hsiao 1991, 2004). In 1997 the Legislative Yuan passed amended and more expansive versions of all three acts supported under the first Chen Shui-bian administration by block grants.

Korea and Taiwan had achieved universal primary education at the outset of the period, and had made important reforms to universalize secondary education as well; as a result, the policy issues in the education sector go beyond our focus on basic social services. Nonetheless, there are parallel reforms in both countries that reflect the influence of democratization. Prior to the transition the educational systems in both countries were highly centralized. As we argued in Chapter Three, they were used as instruments both of political and ideological control and of manpower planning. Both countries ultimately undertook sweeping educational reforms through the appointment of independent commissions with wide-ranging mandates: in Taiwan, the Council for Education Reform and Review (September 1994-November 1996); in Korea, the Presidential Commissions on Education Reform (February 1994-February 1996 and April 1996-February 1998). In addition to curricular reforms, the initiatives in both countries included decentralization, greater autonomy for schools and teachers, and more scope for private provision (for example, through greater public support for private schools in Korea). In somewhat different ways, the reforms also raised the issue of school choice, still a strongly contested issue in Korea, eliminated or reduced the emphasis on centralized examinations, and reduced tracking by changing the prescribed weight given to vocational education at the secondary level. These reforms are still very much in play in both countries, but both reflect a decline in the "developmentalist" approach to educational and manpower planning that we outlined in Part One.

This comparison of Taiwan and Korea brings out differences as well as similarities in the evolution of social policy. Taiwan moved more quickly toward universal health care than Korea and moved more rapidly with respect to expanding social assistance. Taiwan moved more slowly in changing its pension system and showed a greater revealed preference for cash transfers than Korea, where the national pension scheme came earlier but did not address the problem of the elderly who lacked pensions altogether. These differences are interesting ones, and have been the subject of useful comparative research (for example, Wong 2004). It should also be underscored that the stated aim of achieving universal coverage in a number of policy areas should not necessarily be taken at face value. As Yang (2006) has argued with respect to Korea in particular, the steady growth of the informal sector resulted in a number of employers and workers evading mandated payments and as a result effectively falling outside of coverage that was based on contributions and employment status. Nonetheless, these important points should not distract attention from the core finding: democratization in the context of strong growth and public finances created incentives even for conservative politicians to expand social welfare commitments and made it difficult to retrench those commitments or to introduce liberalizing reforms.

Thailand

Despite the structural factors that make them reasonable comparators, a major difference in the context of social policymaking in Thailand and the Philippines has to do with economic circumstances during and following the transition to democratic rule. Although Thailand did experience a slowdown of growth and a major adjustments during the first half of the 1980s, it did not suffer a crisis of the magnitude of those in Latin America and the Philippines. Growth, remained positive even throughout the first half of the 1980s and exploded thereafter contributing to the accumulation of large fiscal surpluses (Figures 6.1 and 6.2). These favorable economic circumstances were matched by a variety of new social policy initiatives as well as steady increase in social spending as well (see Appendix Five).

As we saw in Chapter Three, the democratic interlude of 1973-76 in Thailand gave rise to a rush of social reform proposals including a new labor law (including a workman's compensation scheme), health care schemes for the poor, and education reforms. But the short-lived nature of the democratic experiment blocked full implementation of these initiatives. With the relatively swift end of the hardline phase of military rule and the promulgation of the 1978 constitution, the military signaled its intention to gradually liberalize the political system. The highly gradual nature of Thailand's transition made for a more cautious expansion of social insurance when compared to Korea and Taiwan. Nonetheless, social initiatives expanded as electoral competition became more meaningful during the early 1980s, as party politicians exercised greater control over the government under Chatchai (1988-1991) and again after 1992 following a brief relapse of military rule (1991-92 In Chapter Three, we emphasized the role of political liberalization in the initiation of social reforms. As in Taiwan and Korea, howefer, social initiatives were not a monopoly of opposition politicians and NGOs (Bamber 1997; Heaver 2000). As early as 1976, the military considered social security legislation as a means of pre-empting labor unrest but no legislation was forwarded to parliament except medical insurance for civil servants (Brown and Frenkel 1993 on the labor movement; Phongpaichit and Baker 2002, 210-11; Reinecke 1993, 82). But the military did sustain or initiate a number of anti-poverty programs in line with a changed strategy toward the rural insurgency (Chai-Anan, Kusuma and Suchit 1990). In addition to rural development schemes, these initiatives included a Poverty Alleviation Plan targeting poor districts in the north, northeast and southern provinces, and several primary health care initiatives (Cohen 1989; Bamber 1997). One instrument that proved important in subsequent policy developments was the Community Health Card program (1983, later the Voluntary Health Card Scheme [VHCS]): a voluntary, prepaid insurance program initially targeted at poor provinces and districts (Supasit 2000; Ramesh 2000, 104; Donaldson, Supasit and Viroj 2000, Ch. 5, 38-39). The scheme did not receive sustained attention from the government in the second half of the 1980s and coverage actually fell (Siripen 1997, 18) but it marked an expansion in coverage from the pioneering Low-Income Card Scheme (LICS) of the democratic interlude in the 1970s and provided an important template for further initiatives taken in the 1990s (Supasit et. al. 2000).

The politics of social policy changed as electoral politicians gained ground against the military in the mid-1980s. In 1983 a coalition of political parties defeated efforts by the military to maintain a number of political prerogatives, political competition became more open and an influx of office-seeking provincial elites and businessmen transformed the political parties. In early 1988, the Prem government forwarded a social security bill to the legislature; it did not pass before Prem was forced to call a general election that brought retired general Chatichai Choonhaven to office as the first, popularly-elected prime minister. Almost immediately on taking office, Chatichai's cabinet endorsed a contributory social insurance scheme that provided health insurance and maternity and death benefits for workers in firms with twenty or more employees. Parliamentary consideration of the legislation further expanded benefits, accelerated the timetable for introducing the plan, and required government contributions to the financing of the plan. The parliamentary bill also promised to introduce pensions and family allowances within six years and called on the king to introduce an unemployment scheme. The new bill set in train a constitutional conflict with the much more conservative Senate, but the parliament unanimously overrode the Senate in an important display of constitutional power in July 1990 and the program was implemented despite the coup of 1991.

It is important to underline the modesty of this social insurance scheme when compared with those introduced in Korea and Taiwan. In 1993, it covered only 2.5 percent of the population, overwhelmingly urban and therefore overwhelmingly in Bangkok. After the return to democracy in 1991, however, it continued to undergo incremental expansion by allowing the self-employed to join the system on a voluntary basis and by making contributions compulsory for firms with more than 10 employees (Supisat 2000, Table 8, 309).

The health card system underwent a much more dramatic expansion. In 1993, near the height of the government's fiscal surpluses, the government moved to directly subsidize the purchase of health cards under the VHCS scheme by paying half of the cost and by playing a more direct monitoring role in the schemeA series of initiatives in the early 1990s also expanded the scope of the Low Income Card Scheme. Since the distribution of cards was in the hands of local officials and involved targeting, it was vulnerable to patronage considerations and leakage (Donaldson, Supasit and Viroj 2000; Kuhonta 2003, 100). Yet the expansion of the LICS also included the distribution of cards to those clearly in need, beginning with a Free Medical Care for the Elderly Scheme (1992) for those not covered under any other insurance program. Similar programs followed piecemeal for other disadvantaged groups, including low-income primary and secondary school students, infants, and the handicapped. On the eve of the financial crisis, the various targeted health card schemes provided at least some coverage to about 70 percent of the population (Siripen 2000).

As with health insurance, the pension system in Thailand was highly fragmented and expanded more slowly (Niwat 2004). The major public pension development for private sector workers was the introduction of the defined-benefit pension scheme mandated by the 1990 Social Security Act.[5] As with the health insurance scheme, it is important to acknowledge the modesty of the public pension program. As late as 2004, only 22 percent of the private sector workforce was covered and only 5 percent enjoyed the private provident funds to which the public effort was presumably supplementary (Niwat 2004). However, prior to the expansion of the 1980s, only the public sector enjoyed mandated coverage.[6]

As we saw in Chapter Four, Thailand differs from the other East Asian newly industrializing countries in being a relative laggard with respect to education (for example, Nitungkorn 1988; Kuhonta 2003). Six years of primary education was not made compulsory until 1980. Despite a controversial subsidy scheme to increase secondary enrollments in rural areas introduced in 1987, education did not receive sustained attention during the early period of political liberalization. Between 1980 and 1990, both the share of the population that had attended primary schooling or completed secondary schooling actually fell (Witte 2000, 225). Education policy changed dramatically, however, following the return to democratic rule in 1991 when a confluence of political forces including politicians, the IFIs, technocrats and portions of the private sector combined to push a dramatic expansion of education spending.[7] Several wide-ranging reviews of the educational system undertaken in conjunction with the drafting of the Seventh National Economic and Social Development Plan underlined the deficiencies in the primary, secondary and vocational training systems. Thailand's gross secondary enrollment ratio increased by a half from 1993 to 1998, rising from 40 percent to nearly 75 percent. Although increased enrollment undoubtedly reflected rising incomes and increasing returns, government spending was rising as well. This process of expanding educational entitlements was capped in the 1997 Constitution, described in more detail below, which expanded compulsory education to twelve years.

Prior to the financial crisis the expansion of social services and insurance in Thailand lagged behind both Korea and Taiwan. Several programs such as poverty programs, the health card scheme and the policy framework for provident funds reflected a preference for approaches that were targeted, voluntary and either self-financing or of limited cost. The piecemeal expansion of the system implied inequality in coverage, and there is ample evidence of inequality in financing, patronage and leakage through the targeting of politically-significant constituencies (Warr and Sartinsart 2004). Nonetheless, the gradual transition to democratic rule saw a renewed attention to rural poverty, expansion of coverage of basic social services and fundamental changes in principles with respect to the financing of social insurance, most notably in expanded fiscal support for health insurance. Moreover, as we will show in more detail below, these initiatives provided the basis for a further expansion of coverage following the Asian financial crisis, particularly under the conservative-populist government of Thaksin.

The Philippines

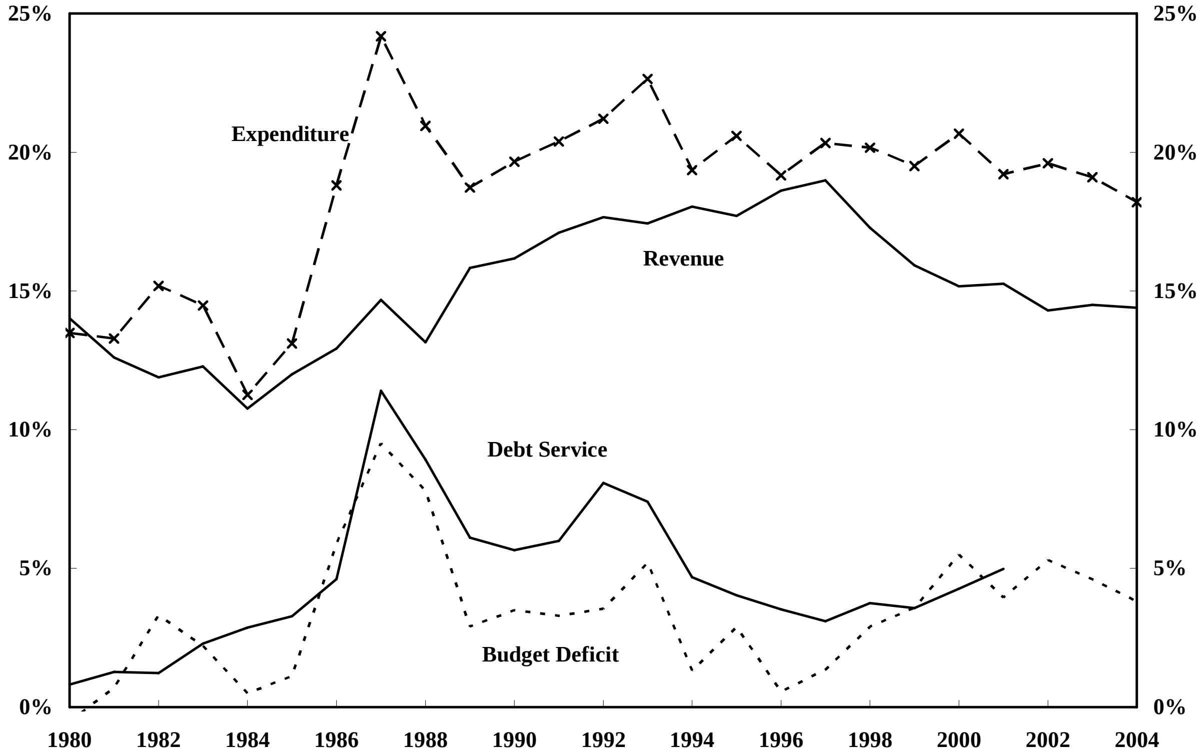
As in Taiwan, Korea and Thailand, the transition to democratic rule generated strong political incentives to address the country's pressing social problems. Each new administration—Aquino (1986-1992), Ramos (1992-1998), Estrada (1998-2001), and the first Arroyo-Macapagal government (2001-2004, when we stop our account)—came to office making social policy promises; following her election to a full term in 2004, Arroyo-Macapagal again unveiled a list of new social policy initiatives. Throughout the new democratic period, we see a number of important social policy initiatives.

However, the Philippines underwent the transition to democracy in highly adverse economic circumstances and witnessed more erratic performance than the other new democracies, both before and after the Asian financial crisis. These circumstances had cross-cutting effects. As we saw in Chapter Three, the country experienced a profound debt crisis in the late Marcos period that not only resulted in a severe recession but adversely affected social spending as well. The Aquino administration enjoyed a degree of good will from the international financial institutions and donors that provided the space for restoring social spending and taking new initiatives; throughout her administration, as well as her successors', external actors played a substantial role in shaping the social policy agenda. But the administration was also saddled with a highly controversial foreign and domestic debt burden (Figure 6.4) and growth in the last two years of Aquino's term was interrupted by another political-economic crisis, rapidly increasing fiscal deficits and another stabilization episode (1990-92).

The economic reforms and recovery of the Ramos years improved the country's fiscal circumstances. But even under Ramos, growth rates did not equal those elsewhere in Asia and the Ramos recovery was interrupted by the effects of the Asian financial crisis and a particularly a severe El Nino shock. Estrada ran on a populist platform in the midst of these difficulties in 1998, and undertook a number of social policy initiatives. But these too were interrupted by the political-cum-economic crisis of 2000-2001 that led to his ouster. Moreover, the country experienced a secular deterioration in revenues beginning in the late-1990s that continued through the administrations of his successor, Gloria Arroyo-Macapagal.

As was the case in the crisis transitions in Latin America and Central Europe, successive Philippine governments therefore faced recurrent pressures for macroeconomic stabilization, including difficult fiscal policy adjustments: in 1990-91; at the time of the Asian financial crisis in 1997-98, and again in the early 2000s. These shifts in policy emphasis were associated with recurrent limits in the capacity of both national and local governments—which played an increasing role in social service provision--to finance social policy initiatives. The path of education spending shows a steady upward trend following the transition because of explicit provisions in the new democratic constitution of 1987, albeit with mixed effects as we will see (Appendix Five). But social spending was vulnerable to crisis and increasingly to the structural constraints posed by declining revenues as well. As the following discussion detail, these trends in spending are mirrored in the history of social policy initiatives

Figure 6.5
Philippines Expenditure, Revenue, and Debt Service as a Share of GDP: 1980-2004



Aquino campaigned on economic and social as well as political issues (Villegas 1987) and the transition was followed by an explosion of socially-oriented NGO activity, encouraged by Aquino's commitment to engage the NGO sector directly in the policymaking process (Silliman and Noble1998; Bennagen 2000; on labor Magadia 2003, 67-92). Given the high incidence of rural poverty—as well as the rapid growth and spread of the armed insurgency in the mid-1980s (Kessler 1989; Riedinger 1995)—it is not surprising that Aquino placed particular emphasis on the countryside (Reyes 2002). For example, the government dismantled the agricultural monopolies that had had such an adverse impact on small farmers and launched a controversial Comprehensive Agrarian Reform Program (CARP).[8] The administration's first major social initiative was a temporary anti-poverty program, the Community Employment and Development Program (CEPD), that used local infrastructure spending to create jobs in rural areas (Balisacan 1993).

The new administration also sought to expand the provision of basic social services. Dramatically increased external funding from the international financial institutions supported a variety of basic health initiatives that carried over into subsequent administrations, such as renewed effort to achieve universal childhood immunization (Flavier 1999). However, education saw the most dramatic increases in spending. The constitution, drafted by Aquino appointees and ratified in 1987, stipulated that education should receive the largest share of the budget and made secondary education free. Primary enrollment increased steadily in the first decade following the transition and secondary enrollments jumped sharply following the constitutional initiative in 1988 and the nationalization of secondary schools, most of which had previously been run by local governments and financed by fees.

These expansion measures did not necessarily meet their underlying educational objectives. Relatively low levels of per pupil spending and legislative biases toward school-building and salary increases impeded quality improvements, failed to substantially reduce high drop out rates and resulted in relative neglect of textbooks and classroom materials (Tan 1998; Philippines Human Development Report 2000). The nationalization of secondary schools, popular as a status and pork-barrel issue with legislators but opposed by education planners, actually shifted the allocation of basic education spending away from primary toward secondary education. The Aquino government initiated a number of complementary programs to monitor and improve the quality and efficiency of primary education, including through national testing (Carino 1992) and an expansion of early childhood development programs. But these efforts were affected by both the level and allocation of spending and evaluations reveal a failure to meet targets or to substantially improve education quality.[9] These problems proved enduring ones, particularly as fiscal constraints started to reverse the gains in education spending that occurred under the Aquino and Ramos administrations. A 2006 assessment of progress toward the Millenium Development Goals (Philippine Development Forum 2006) found that a combination of underinvestment and misallocation of resources had resulted in continuing problems with respect to repeats and drop-outs in both elementary and secondary schools, persistently low test scores in both international comparisons and domestic benchmarking exercises, and significant and extensive pockets of educational disadvantage and inequality across regions.

Beginning in 1990, the Aquino administration was hit by a near perfect storm of political crises (a serious coup attempt in December 1989), a succession of natural disasters (from earthquakes, to typhoons and the eruption of Mt. Pinatubo), to the spike in oil prices associated with the first Gulf War. These problems only compounded a more basic macroeconomic dilemma visible in a number of the crisis cases (see Chapter Five). In the face of low tax collections and a large debt service overhang, the government could pursue a more expansive social agenda only at the cost of more borrowing, confrontation with lenders, or monetization of the deficits and inflation; some in the Aquino government made this case explicitly, arguing that the government should take a more militant stance with respect to debt repayment in particular. Although the government initially resorted to short-term borrowing this became unsustainable in 1991-92 when the country experienced a major deterioration in government finances and strong external and internal pressure for fiscal consolidation. During its last two years, the Aquino administration generated new rural development and targeted anti-poverty programs but they were not implemented for lack of funding (Republic of the Philippines 1990; Balisacan 1993, 9-10).

One of the most consequential reforms of the Aquino administration for subsequent social policy was the legislation of the Local Government Code (LGC) in 1991. Decentralization was enshrined in the 1987 Constitution. Although motivated primarily by the centralizing excesses of the Marcos period (Hutchcroft 2003), short-run fiscal constraints also played a role in the passage of the LGC (Capuno 1999). The LCG gradually increased the transfer of resources (through the so-called Internal Revenue Allotment or IRA) from 20 to 40 percent of collected taxes in return for a devolution of a number of functions including both health and social welfare services (although not initially education, which followed only in 2001).

Congress and the ministries diluted the extent of devolution—for example, by initially excluding education--and pressures from highly-mobilized Ministry of Health workers and local politicians also forced some recentralization in that sector under the Ramos administration. Nonetheless, the LGC granted substantial discretion to local-level governments with respect to how spending was allocated and opened up new arenas of electoral competition, NGO activity and policy innovation. Studies of LGU spending suggest that the effects of democratization were also visible at the local level: LGUs paid greater attention to social issues—controlling for the effect of devolved functions--although with somewhat different emphases than the national level government. However, the fiscal constraints operating at the national level were also mirrored at the local level. These constraints reflected in part the lack of an adequate tax base, but in part continuing presidential discretion in the transfer of funds and fiscal constraints at the national level. During the financial crisis of 1998, in particular, the president asserted his right to reduce mandated transfers in the face of fiscal exigency, a decision the local governments were unable to reverse until a Supreme Court ruling in 2004.

The Ramos administration saw a gradual return to growth, an easing of fiscal constraints and a number of important social policy initiatives. However, the initial policy focus of the new administration was rectifying the country's deteriorating fiscal position by restraining expenditures and focusing on a number of major economic policy reforms aimed at reviving economic growth. Not coincidentally, the early years of the Ramos administration were also taken up with institutional reforms designed to improve efficiency of the social ministries, including redefining the role of the Departments of Health and Social Welfare and Development in the wake of decentralization and breaking up ("trifocalization") the sprawling Department of Education, Culture and Sports into component parts that dealt with primary and secondary education, tertiary education and vocational training.

The passage of more expansive social policy legislation occurred as the economy began to recover after 1992. With the presidential elections conducted in the midst of an economic downturn, all candidates had emphasized social policy issues in their campaigns; in his inaugural, Ramos promised a "war on poverty." One of his first acts as president was the appointment of presidential commissions to fight poverty (PCFP) and on countryside development (PCCD), the latter focused on the poorest provinces; both provided important avenues for NGOs. Although NGOs pressured the government to maintain its commitment to the CARP and asset distribution (Bennagen 2000) the administration placed primary emphasis on the delivery of basic social services and "empowerment."

The flagship anti-poverty program to come out of the PCFP was the Social Reform Agenda (SRA), a complex, multi-sector program that included a variety of new initiatives. The program was supported both by a reallocation of the budgets of the line ministries and by new, dedicated sources of funding in the form of annual Poverty Alleviation Funds.[10] The conceptual core of the SRA was a "minimum basic needs" approach based on geographical targeting (poor provinces, municipalities and *barangays*) and the collection of new data on "unmet needs" by trained volunteers. A second underlying principle that reflected both Christian democratic ideas about subsidiarity and ongoing fiscal concerns was the concept of "convergence": that social initiatives should not be limited to the national or even local governments, but engage and mobilize resources from the churches, the private sector, NGOs and households themselves.

"Flagship" initiatives aimed at different vulnerable groups (the so-called "basic sectors"[11]), and included among other things a number of new credit-based livelihood programs (Economic and Social Commission for Asia and the Pacific 2001, 21-28). The most important of the flagship programs for our purposes, however, was the Comprehensive and Integrated Delivery of Social Services (CIDSS) based on geographic targeting of poor barangays within poor municipalities (Bautista 1999). CIDSS workers would in effect act as policy entrepreneurs in mobilizing public and private support for targeted interventions, from daycare centers and nutrition and health interventions, to livelihood programs and improved access to clean water and sanitary toilets (for evaluations, see Bautista 1999). At the end of his administration in 1997, and with support from both donors and NGOs, President Ramos sought to institutionalize the anti-poverty effort by consolidating the presidential commissions and consultative bodies into a National Anti-Poverty Council and enshrining the MBN approach in legislation.

The Ramos administration undertook some parametric reforms of the core social security institutions—the Social Security System (SSS) and the Government Services Insurance System—that expanded benefits and coverage and allowed workers to borrow against their accumulations. More significant, however, was a major reform of the public health insurance system. As we saw in Chapter Three, the Medicare system established during the Marcos years provided benefits for formal sector workers and government employees enrolled in the SSS and GSIS, with a strong role for private provision; prior to the reform, Medicare covered approximately one third of the population (Beringuela 1995). As in Latin America, the crisis of 1990-91, the opaque cross-subsidization between the pension and health systems and the administrative inefficiencies in the SSS and GSIS, which managed Medicare funds as well, constituted important motives for the reform. The reform would also provide some relief for both the national and local governments, which continued to provide a substantial share of all care through public hospitals and clinics; by shifting to social insurance, these costs would be born to a greater extent by employers and employees.[12]

A major difference with a number of the Latin American cases, however, was that Medicare enjoyed a substantial surplus at the time of the reform that could be used to facilitate a transition to wider coverage; bringing the better-off self-employed into the system was also seen as a plus. The final law, passed in 1995, made coverage under the renamed PhilHealth universal and mandatory, albeit with a permissive fifteen-year timetable (later extended to 2012) for doing so. Although a contributory social insurance system in principle, the legislation required the national and subnational governments to fully subsidize the contributions of the "indigent" (*Medicare para su Masa*, or Medicare for the Masses). As the indigent were ultimately defined, they accounted for no less than 25 percent of the entire population. LGU capacity to meet this requirement clearly constituted a constraint on coverage but Arroyo-Macapagal made the implementation of the commitment to universal coverage a political priority after her assumption of the presidency in 2001, with campaign promises in early 2004 that would lift enrollment to nearly 90 percent: through publicity efforts, by shifting subsidies back to the national level, through lottery earnings, and through the highly controversial distribution of health cards during the 2004 electoral campaign.

Although the Philippines did not experience the degree of economic distress of the so-called "most seriously affected" countries, the crisis nonetheless marked another swing in the policy cycle as the government was forced to make large cuts in appropriations. A World Bank

(1998) review of the social sectors argued strongly that the crisis was an opportunity to rationalize the management of social spending; the World Bank's priorities included "inefficient procurement, poor deployment of teachers, severe underfunding of textbooks and school maintenance, public health programs, and welfare institutions, creeping renationalization of devolved hospitals, [and] proliferation of low quality universities and colleges." Although core components of the SRA saw sharp declines in funding (Bautista 1999, 40), the government sought to reallocate at the margin in order to defend social spending (Pineda 2001) and even to initiate new social safety net programs, such as an increase in food subsidies, a new public employment program and an expansion of existing microfinance programs (Economic and Social Commission for Asia and the Pacific 2001).

The 1998 elections came in the midst of the Asian financial crisis, and movie actor Joseph "Erap" Estrada ran on an openly populist platform that included a lavish pro-poor agenda (Balisacan 2001). His Caring for the Poor (*Lingap Para sa Mahirap* or simply *Lingap*) program marked a sharp departure from the Ramos administration. Rather than the wider targeting of disadvantaged regions, municipalities and groups, the *Lingap* sought to identify the poorest 100 families in each province and city and to focus welfare efforts on them; by one estimate, this approach would reach only 16,000 families or 0.4 percent of all poor families (Balisacan 2001). Moreover, while the total funds devoted to the Lingap program were less than those devoted to the SRA, a higher share of those funds were under the direct control of the president or delegated to legislators rather than involving the LGUs. This change in design implied an even higher-than-normal diversion of social spending into pork-barrel activities. But changes in the poverty policy were only emblematic of much deeper management problems that plagued the Estrada administration's social policy efforts: the organizational disarray in the policymaking process (Doronilla 2001, Laquian and Laquian 2002); the weakening of various social policy institutions, including the use of social security funds for personal gain and the corruption of the national housing program through the involvement of business associates and cronies; the weakening of already-deficient program evaluation mechanisms and the steady deterioration of public finances which had fallen from 19 percent of GDP in 1995 to barely 14 percent of GDP at the time his ouster. In the end, even these problems were eclipsed by a sustained impeachment crisis and mass demonstrations that ultimately resulted in Estrada's ouster.

The transition to democracy in the Philippines was accompanied by greater attention to social issues than had been the case under the Marcos dictatorship, even prior to the crisis of the mid-1980s. The re-introduction of electoral competition, including at the subnational level, and the flourishing pro-poor NGOs and civil society groups generated strong incentives to address the social deficit. The change in regime was followed by a constitutional commitment to education spending, the initiation of a universal health insurance system, and a plethora of anti-poverty efforts centered on improving social service delivery. Evaluations of these programs are mixed. Even more than in Thailand, there is evidence of misallocation of resources to patronage and outright corruption, driven in part by distinctive features of the Philippine electoral system; we return to these in more detail in the conclusion to this chapter. However, the distinctive feature of the post-transition Philippine social policy story when compared to the pre-Asian financial crisis experience of Taiwan, Korea and Thailand is the recurrence of severe fiscal constraints: at the outset of the Aquino administration; at the end of her administration in 1990-91; during the Asian financial crisis in 1997-98; and yet again during and following the political crisis of 2000-2001. These episodes not only had direct social effects, but limited the capacity to fund new initiatives or sustain existing ones.

The Dominant-Party Cases: Singapore and Malaysia

The PAP and the UMNO achieved electoral hegemony in the 1960s, but have continuously subjected themselves to electoral contest. Nonetheless, as we argued in Chapters One and Three, a number of features of their political systems made them less than fully democratic, including controls on the opposition, and limits on civil liberties and the right to organize. Both parties also used their super-majorities to change basic constitutional arrangements, including electoral rules, to maintain their dominance and limit opportunities for robust opposition parties to operate successfully or even to form at all.

As Figure 6.1 suggests, these political conditions persisted during the period of interest to us here; indeed the two polities arguably became less competitive and open over time. This was particularly true in Malaysia, where authoritarian and ultimately personalist tendencies became pronounced under successive Mahathir governments (1981-2003, when our account ends; see Khoo 1995; Crouch 1996; Hwang 2003 for political overviews).

This continuity in political form allows us to draw some comparisons with new democracies outlined in the previous section. Social policy is not static in Singapore and Malaysia; for example, we find evidence of marginal policy adjustments aimed at addressing short-run economic distress in the mid-1980s and again during the Asian financial crisis. But social policy in the two countries exhibits greater continuity than in the countries undergoing regime change. In both cases the absence of a competitive political opposition and restraints on relevant interests groups, including labor and NGOs, limited pressures to expand social insurance and transfers or to change the fundamental principles of the social security regime. To the contrary, governments in both countries pursued liberalizing social policy reforms; such initiatives were particularly visible in Singapore. In Malaysia, UMNO governments continued to focus on their core political base in the Malay community. However, even these redistributive policies underwent shifts that made them less progressive in nature. In both cases, we find continuity in the commitment to education. Particularly in Singapore, education and training remained tightly integrated with overall economic strategy and highly "developmentalist" in orientation.

Singapore

In Chapter Three, we argued that the redistributive purposes of social policy in the politically competitive independence period in Singapore gradually gave way to a more liberal welfare model as the PAP achieved single-party dominance and adopted an export-oriented growth strategy after 1968 (Barr 2000; Ramesh 2004). Particularly during economic downturns—the mid-1980s, 1997-98, 2001—or periods of inflation opposition parties and policy intellectuals raised social issues and the government responded with new initiatives. However, these responses were often more revealing of PAP hegemony than they were of government responsiveness to electoral pressures. For example, just prior to both the 1997 and 2001 elections, the government threatened that a public housing upgrade scheme would be deferred in constituencies that voted against the PAP. Of all the Asian cases in our sample, Singapore unquestionably shows the greatest continuity with its earlier welfare model: generous, publicly funded benefits for state employees and strong support for education and vocational training coupled with minimal direct state involvement in financing of social insurance, the absence of risk-pooling, strong resistance to unemployment insurance of any sort, and a residualist system of social assistance that relies heavily on NGOs and the family.

The Central Provident Fund, which operates on nearly-pure defined-contribution principles, has remained the central social policy institution in Singapore (Asher 1994; Low and Aw 1997, 2004). The basic principles governing the CPF have not changed. The government has continued to exercise discretion over the setting of contribution rates and has dictated the purposes to which forced savings could be put. However, the PAP has made one concession to the growing middle class by gradually expanding investment options. Housing was an important component of this increased choice. In 1981, the government allowed individuals to make withdrawals not only to purchase HDB flats but other residential properties (the Residential Properties Scheme), the upgrading of existing flats (1989), and even non-residential real estate (Non-Residential Properties Scheme, 1986). A similar process of incremental liberalization occurred with respect to financial investment options after 1978, including allowing beneficiaries to invest in foreign equities (Low and Aw 1997, 70-84; Low 2004, Ch. 2). These policies shifted risk quite dramatically and had particularly adverse consequences during the financial crisis when members pursuing these outside options experienced steep losses (Asher 2004).

The high level of withdrawal for housing purchases raised concerns that retirees would be left "asset rich and cash poor" (McCarthy, Mitchell and Piggott 2001; Low and Aw 2004, 177-189). In 1977, the government created the Special Account to assure that a certain share of total contributions were reserved for retirement. In 1987, the government went farther by insisting that a certain minimum sum had to be used to buy a private annuity, left with the CPF or deposited in approved banks. The government also encouraged additional private and familial savings through a succession of "topping up" schemes that provided incentives for individuals to make additional contributions for themselves or their parents (and account for the odd spike in spending in 1996 seen in Figure 8.) Nonetheless, despite very high contribution rates—peaking at 40 percent shared between employers and employees—a combination of a high rate of pre-retirement withdrawals, technical difficulties in reverse mortgages, modest returns, and an unequal wage structure combined to produce a relatively low average replacement rate, probably in the 25-35 percent range (McCarthy, Mitchell and Piggott 2001; Asher 2004; Ramesh 2004, 73-74).

A major strand of innovation in social policy from the mid-1980s has occurred by extending the CPF model to the financing of education and particularly health, a sharp contrast with the means of expansion in Korea and Taiwan. In 1983, the government announced a National Health Plan that sought to *reduce* the share of total health expenditures born by the government, which still counted for a substantial share of service provision (Ramesh and Holliday 2001), by increasing both private responsibility for financing and private provision. One component of this effort was the creation of a compulsory Medisave account within the CPF for hospital care, an innovation that sparked a sharp international debate over the pros and cons of extending the defined contribution model to the health sector (Hsiao 1995 and 2001; Barr 2001; Pauly 2001; Lim 2004). For our purposes, the important point to note about the Medisave scheme is that it was motivated largely by an effort to reduce public health spending, that it was "explicitly designed to counter the moral hazard believed to be inherent in any third party scheme" (Lim 2004, 3), and that it follows the CPF model in not pooling risk except within the family.

Despite the attention given to Medisave, the average amount deposited was inadequate to insure against serious contingencies; recognition of this fact spawned the launch of a publicly managed, but voluntary health insurance scheme called Medishield in 1990. Again, both supporters (Lim 2004) and detractors (Barr 2001) of Medishield agree on the modesty of the scheme, which accounts for only 10 percent of total health care financing in the early 2000s.[13]

Outside of some subsidized wards in government hospitals, the only redistributive component of the health care system is a means-tested social assistance scheme introduced in 1993, Medifund, that finances full or partial waiver of expenses incurred at government hospitals and clinics.

Although the PAP government continued over the 1990s to encourage the development of both private insurance and provision, the preference for efficiency and cost control was not coupled with blind devotion to market-oriented solutions. A second major review of the health system in 1992 argued explicitly that effective cost control would require more direct intervention. These reforms included measures that have proven difficult if not impossible to introduce under more democratic auspices, where hospitals and doctors associations are more powerful: price caps and controls on the introduction of technology and specialist disciplines in government hospitals, overall control of the share of specialists in the medical profession, and even a tightened control on the supply of doctors (Barr 2001, 714).

Singapore undertook a number of important educational and training innovations from the mid-1980s and continued its very high levels of spending on the sector. From one perspective, these changes marked a departure in focus, as Sharpe and Gopinathan (2002) put it, from an "efficiency-driven" system that was "highly centralized, standardized, hierarchical, competitive, and efficient" to an "ability-driven system" designed to position Singapore in a knowledge-based economy demanding greater creativity and higher-order skills. In the 1990s, the government initiated a number of organizational reforms, such as the creation of independent secondary schools and greater devolution designed to spur curricular innovation.

But these reforms did not result from electoral pressures or demands from parents and students. Nor were they a response to fiscal exigency. Rather, reform was the result of a succession of government-led planning exercises and changing perceptions of labor market needs, and particularly the challenge of low-cost competitors and the shift toward higher value-added activities. When compared with Taiwan and Korea, Singapore's educational system exhibited a number of important continuities: a high level of government control over educational opportunity; an extraordinarily tight coupling between the education and training systems and labor market needs; and greater experimentation with market- and efficiency-oriented reforms. These features can be seen in Singapore's well-studied skill-development system, characterized by active involvement of the economic ministries and close coordination among them (Ritchie 2001; Kuruvilla, Erickson and Hwang 2002), a high degree of flexibility in matching broad labor market needs (Kuruvilla and Chua 2000) and the formation of partnerships with private actors that permit training to match not only industry but firm-level needs (Wong 1993; Ritchie 2001).

Given Lee Kuan Yew's well-known and caustic views of the welfare state, only the briefest of words need be said about social assistance and support for the unemployed in Singapore. Government departments support job training, course fee subsidization, counseling and job data bank services for the unemployed but Singapore does not provide any transfers to the unemployed per se. The unemployed can get short-term financial assistance from a number of public assistance schemes, most notably the Public Assistance Scheme. But this scheme is limited to those “who by reason of age, illness, disability or unfavourable family circumstances, are unable to work and have no means of subsistence as well as no one to depend upon.” Despite these limitations, only half of all applications are approved (Cheung 2000, Ramesh 2004, 74). Moral hazard is repeatedly cited by Singapore officials as the reason for this limited approach to social assistance and a variety of other policies—including the distribution of housing opportunities—are designed to encourage the family to take responsibility for the care of the young, elderly and disadvantaged (Chua 2004). As Asher and Nandy (2006 12) summarize succinctly in noting the absence of a redistributive component in Singapore’s pension scheme, “the fiscal constraint is not a factor…the main constraint is the current socio-political norms which do not regard provision of a floor level of income as an essential element of a good society.

Malaysia

These continuities in policy and liberalizing initiatives can also be seen in Malaysia, but in the context of a history of more explicitly redistributive policies. As we saw in Chapter Three, the New Economic Policy (NEP) sought to reduce poverty and inter-ethnic inequalities. Poverty reduction and rising wages, of course, owe a lot to the sustained growth of the period but the NEP can claim credit for the emergence of a Malay entrepreneurial class (with close ties to the UMNO) and a professional middle class spawned by preferential access to government employment and higher education. The ascent of Mahathir in 1981 and the economic downturn of the mid-1980s, however, produced a gradual shift in Malaysia’s development strategy (Jesudason 1989; Jomo 1994; Gomez and Jomo 1997). One component of this new approach was more direct support for the Malaysian private sector, including through deregulation, restraint in the growth of state-owned enterprises, and outright privatization. A second key component of the new strategy was greater openness to, and incentives for, foreign direct investment, renewed attention to exports, and renewed concern about direct and indirect labor costs; in short, changes that mirrored in some ways the earlier shifts in development strategy seen in the “first tier” of newly industrializing countries discussed in Part One. Although we see continuity in many components of Malaysia’s social policy, there is also evidence of a shift away from the redistributive aims of the NEP, particularly with respect to health care, and towards a welfare model that placed greater emphasis on individual and family responsibility and private financing and provision.

Malaysia has a somewhat more diverse menu of social insurance programs than Singapore, including an employers' liability scheme that dates to the 1950s and a contributory employment injury and invalidity program under the Employees's Social Security (known as SOCSO); interestingly, there are no precise parallels to these programs in Singapore. But as in Singapore, the social insurance system in Malaysia is also anchored by a central provident fund, the Employees Provident Fund (EPF). The EPF covers less of the workforce than Singapore's CPF, roughly half in the mid-1990s. The excluded include the self-employed, informal sector, and farmers and fishermen. Despite a guaranteed rate of return on EPF assets, generally strong financial performance prior to the Asian financial crisis, and steadily rising contribution rates, the replacement rate in Malaysia almost certainly falls below the fund's target of 50 percent and despite firm data on the question is probably close to the Singapore range (Asher 1994, 26-27; Caraher 2000; Ramesh 2000, 47; Thillainathan 2004).

The EPF shares a number of basic features of the CPF and mimicked its evolution over the 1990s. As in Singapore, the EPF started out as a pure defined-contribution retirement savings program. In 1995 members' accounts were divided into three to allow investment in housing (Account Two, 30 percent) and medical care (Account Three, 10 percent); as in Singapore, this innovation was related to broader effort to reform health care financing and control costs. In 1996, similar although more cautious changes allowed members to invest some portion of their core account in securities. As in Singapore, but with a delay (2004) and more open opposition, the government began to consider ways to guarantee income adequacy by deferring withdrawals.

Also as in Singapore, Malaysia inherited a British-style public health care sector. The UMNO initially pursued a public, equity-oriented approach to health care provision and financing as a component of the party's strategy of attending to its rural Malay base. Clinics in rural areas provided services free of charge at the point of delivery and were financed out of general revenues. Public hospitals, mostly in urban areas, levied differential user charges based on the ward chosen, but maintained a much higher share of beds with nominal fees than in Singapore (Barraclough 1999; Ramesh and Holliday 2001).

The government began to move away from this model following the economic downturn of the mid-1980s. Not all of Mahathir's liberalizing initiatives have been implemented, in part because of effective lobbying by NGOs and doctors who remain in the public sector. Most notably, the outright privatization of hospitals was quietly dropped after being mentioned in the Seventh Malaysia Plan (1996-2000) and in 1998, the Private Healthcare and Facilities Service Act established a more expansive regulatory role for the government in insuring quality care. Nonetheless, hospitals were corporatized, medical services and the country's drug distribution system were privatized and government plans continued to allude to the private sector attaining parity with the public sector in provision (Malaysia, Seventh Malaysia Plan, 1996, 540).

Briefer words can be said about education and poverty reduction. The attention given to basic education in the immediate postwar period paralleled the provision of health care in appealing to the UMNO's rural Malay electoral base and having a redistributive flavor. The National Education Policy (1961), which also established Malay as the language of primary instruction, provided for universal free education for all Malays as well as automatic promotion through grade nine. Although not explicitly discriminatory, the adoption of Malay as the medium of instruction (extended to secondary schools in 1982) and the aggressive school-building in rural schools had the effect both of dramatically increasing enrollments, steadily narrowing inter-ethnic educational attainment (Pong 1993), and favoring the poor (Meerman 1979). Although it goes beyond our focus here, the NEP also introduced affirmative action into tertiary education by establishing quotas at the highly-selective national universities and reserving scholarships for Malay students. However, the 1990s witnessed a subtle reversal of the NEP approach. This occurred in part through greater tolerance for multiculturalism, which in turn reflected in part UMNO electoral concerns about the defection of Chinese voters. However, the new policy also reflected the more general liberalizing thrust of the economy and the interest to increase private provision of education, including through support for Chinese and Indian-language primary and secondary schools and particularly a 1996 reform that expanded private tertiary education. In contrast to reform efforts in the democracies, however, reform did not reduce the high level of political control and centralization of the educational system—indeed it extended it to the regulation of private schooling (Hwang 2003 253-5)--and was strongly motivated by an effort to meet labor market needs for more skilled workers (Musa 2003, 127-150).

There are intriguing parallels between Singapore's approach to social assistance and Malaysia's approach to poverty. In 1989, the government acknowledged for the first time that it had reached the limits of employment generation as a strategy for poverty eradication and established the Development Program for the Hardcore Poor. The program did include direct financial assistance on a means-tested basis to poor households headed by the disabled or elderly, as well as housing and training. The core of the program, however, was income-generating projects such as petty trading, cottage industries and agricultural projects. As the government itself put it, "the main strategy for poverty eradication was providing employment opportunities in higher-paying jobs, while welfare handouts were reserved for the aged and disabled who could not find employment" (Government of Malaysia Economic Planning Unit 2002, 3). In an Islamic version of subsidiarity, the government expected that these programs would be complemented not only by social welfare NGOs, private corporations, and individual philanthropists but by the *zakat* system of charity managed by the religious councils of the states.

The continuities we see in the social policies of Singapore and Malyasia were arguably not the result of their distinctive political systems but of a particular social policy legacy that in fact differed from those in the other four countries in our sample. The Central Provident Funds established under the British created a pure defined contribution mechanism that proved functional for subsequent political leaderships. Yet new democratic governments in Korea and Taiwan also inherited pension and health insurance systems, and fundamentally modified them. At lower levels of income per capita than in Singapore they developed unemployment insurance and undertook both educational and anti-poverty reforms that marked a departure with past practice. These reforms also occurred through political processes that differed quite fundamentally from those in Singapore in particular, including more active roles for the electoral politics and the legislature, NGOs and interest groups.

The Asian Financial Crisis

The Asian financial crisis was a singular event in the region's economic history and the literature on it, and on the social dimensions of the crisis, is voluminous. Sophisticated monitoring work has tracked the effect of the crisis on different income groups (for reviews, see Birdsall and Haggard 2001; Fallon and Lucas 2002) and we have a number of reviews and evaluations of the short-term policy responses to the crisis, including the efforts of the international financial institutions (Economic and Social Commission for Asia and the Pacific 2001; Atinc 2003). More germane to our purposes is the debate on whether IMF prescriptions limited the ability of governments to respond to social distress through Keynsian policy measures, including greater social expenditure (contrast, for example, Lane et. al. 1999 and Stiglitz 2000). We generally expect such fiscal constraints to not only limit spending directly but also to affect the politics of social policy (Chapter Five). However, East Asia did not inherit a legacy of long-standing and extensive social commitments and those that had recently developed could not plausibly be linked to the fiscal problems governments faced in the short-run. Moreover, recovery across the region was relatively rapid, and with it came a renewal of the politics of expansion.

Korea

The presidential election that brought the Kim Dae Jung government to office in December 1997 occurred only a month following the onset of the financial crisis in Korea. The new administration faced an immediate dilemma with respect to labor. With a large share of the workforce in the formal sector, unemployment was higher than in the other countries and there were fewer opportunities for the rural and informal sectors to absorb displaced workers. Although the overall level of unionization was low, the high degree of industrial concentration had resulted in fairly strong and militant unions in the larger enterprises (*chaebol*). But the administration was also under intense pressure from the IMF, the US and creditors to increase the flexibility of labor markets in order to facilitate the corporate restructuring process.

To secure agreement to greater labor market flexibility, Kim Dae Jung resorted to a tripartite commission (Kim and Lim 1999; Kim 2001). The unions were aware from the beginning that the objective was to extract labor concessions on the issue of layoffs. Kim Dae Jung's status with labor allowed the government to bring representatives from both labor federations (FKTU and KCTU) to the table. After weeks of intense debate, the government extracted an agreement from labor to permit layoffs when "urgently" needed or in case of takeovers and to allow the formation of a manpower leasing system for both specialized professions and laborers. In return, the government made a number of political concessions to labor, including the right for civil servants to form a labor consultative body and for teachers to unionize and the reversal of a longstanding prohibition on labor involvement in political activities. More vaguely, "all parties" would work to minimize layoffs and seek alternative solutions such as work sharing. The two sides saw the agreement very differently (Song 2003). Management believed it had gained greater freedom to retrench; labor believed that the terms of the bargain were not enforced. Over the next year, the government intervened to break a number of strikes, leading the more independent KCTU to pull out of the second tripartite process in February 1999 and effectively bringing the tripartite experiment to a close.

Despite the ambiguous reviews of the tripartite experiment and the administration's stormy relations with labor, the government did honor its commitment to expand the social safety net. Some initiatives were temporary components of a gradual turn—with IMF acquiescence—to a countercyclical fiscal stance (Moon and Yang 2001). In 1998, fully 10 percent of the national budget was allocated for short-run ameliorative measures of various sorts: a public works program that supported 437,000 workers by February of 1999; labor subsidies for small and medium-sized firms; temporary extension of unemployment benefits; a temporary livelihood program that covered 750,000 people by 1999; scholarships for children of the unemployed.

But the Kim Dae Jung government’s response to the crisis was not just short-term. Rather, the government continued to expand all of the major social insurance programs--pensions, health insurance, and unemployment insurance—while fundamentally changing the principles guiding social assistance. Although initially proceeding on quite separate tracks, these reforms were bundled into a “productive welfare” initiative in August 1999 that showed some continuity with the “productivist” (Holliday 2000) approach of his predecessors (Moon and Yang 2001). But Kim also spoke of social welfare and employment as citizenship rights.

With respect to pensions, the new government explicitly rejected the liberalizing proposals of Kim Young Sam’s pension reform commission and assigned the task of drawing up a new proposal to the Ministry of Health and Welfare (Yang 2000). The Ministry proposals sought to put the pension system on a more sound financial footing through regularly-scheduled increases in both premiums and the retirement age and a new benefit formula that lowered the average replacement rate (from 60 to 55 percent). Yet the plan rejected proposals to separate the redistributive from the earnings-related portion of the scheme and took the difficult step of extending coverage to the heterogeneous urban-self employed, a sector that included professionals like doctors and lawyers as well as informal sector workers who strongly opposed the contributions inclusion in the system—and the broader pooling of risk--required. Moreover, the political process diluted the government’s efforts to rationalize the existing scheme. The National Assembly rejected the lowering of the replacement rate. The government created a new commission in conjunction with two World Bank structural adjustment loans to consider further reforms of the system, yet these belated efforts did not come to fruition during Kim Dae Jung’s term in part because of pending presidential and legislative elections.

Reforms of the health care sector proved highly contentious. Efforts to control health care costs by separating the prescription and dispensing of drugs and reforming the payment system confronted stiff and effective resistance from providers, including a succession of crippling doctors’ strikes (Kwon 2003). Despite compromises with these interests, the government consolidated the geographically-based funds covering the rural areas and self-employed. Pooling of risk in these funds had been narrow, generating different financial circumstances across the funds and ultimately forcing the government to undertake costly subsidies (Kwon 2002). Moreover, the funds were subject to patronage and high administrative expenses and did not perform any cost-control functions vis-à-vis providers. Market-oriented reformers wanted to use the funds to introduce more competition, but progressive academics, fund workers and farmers organizations pressed for a solidaristic approach based on integration of the funds and wider-risk pooling (Kwon 2002). With physicians indifferent to the reform (because regulation in any case occurred at the national level) and business in a weakened position, the latter approach won out. In October 1998, the regional insurance societies and administration of the funds for public employees and teachers were subsumed into a National Health Insurance Corporation (NHIC); the remaining company associations followed in July 2000.

With assistance from the World Bank and the Asian Development Bank, the Kim Dae

Jung government expanded eligibility and coverage of its unemployment insurance scheme from firms with 30 or more employees to effectively all firms (Korea Labor Institute 1999; Yoo et. al. 2002). Perhaps most interesting in terms of the change in principles of the new administration was reform of social assistance. The Livelihood Protection Law and Public Assistance Program that dated to 1965 provided non-pecuniary assistance for those unable to work. The legislation of a National Basic Livelihood Security Law in 1998 used an income test in order to target the poor and allowed for cash benefits in addition to non-cash assistance, resulting in a dramatic increase in eligibility for assistance and spending on it (Figure 4).

It is important to underscore that these social policy initiatives did not fully compensate for the adverse effects of the crisis, nor did they fully achieve their stated objectives with respect to coverage and generosity. Unemployment benefits, for example, were only 70 percent of the minimum wage, which was itself just 25 percent of average earnings. As in Malaysia and Thailand, modest benefits and strict work and training requirements reflected concern with incentive effects and the risks of "welfare disease" (Park 1999, 206). More importantly, these initiatives were instituted in the context of declining wages and employment, far-reaching corporate restructuring, and important policy changes that increased the flexibility of labor markets. As Jae-jin Yang (2006) and other critics have shown, the growing informalization of labor markets had important effects on the emerging social contract; these developments were even more pronounced in Latin America and Eastern Europe as we will see. As the larger *chaebol* groups restructured, they turned to the use of nonregular workers who did not enjoy corporate benefits. Corporate restructuring and deregulation of the labor market also increased the share of the self-employed and workers in smaller firms where organization is extremely low and collective bargaining limited. Yet despite these important constraints on the expansion of entitlements, the overall achievements of the Kim Dae Jung administration are striking. In the face of crisis, the government not only moved quickly to provide a social safety net but expanded social insurance coverage, changed the terms of social assistance, and allowed greater labor participation in both government and management decision-making.

Thailand

As in Korea, the crisis had powerful political consequences in Thailand (Haggard 2000; MacIntyre 2003). Not only did the economic collapse of 1997 lead directly to the fall of the Chavalit government, but it also influenced the passage of a wide-ranging constitutional revision that had important implications for subsequent social policy. Much of the new constitution was devoted to political reform: strengthening the rule of law, reforming the electoral system, instituting various mechanisms for citizen participation and accountability. But it also included important social initiatives enshrined as citizen rights: free education through 12th grade (Section 43; legislated in 1999); an "equal right" to standard health services as well as free care for the indigent (Section 52); assistance for the elderly without adequate income (Section 54); as well as more vaguely-worded commitments to maintain a public health care system and provide social security (for example, Sections 82 and 86). A sweeping commitment to decentralization also had important, though as yet unclear implications for social policy (Kuwajima 2003).

Like the Kim Dae Jung government, the Democrat government under Chuan also faced a variety of social pressures on coming to office, including from the stronghold of the opposition in the poor and rural Northeast, organized labor and grass-roots organizations; unlike Kim Dae Jung, the Chuan administration did not enjoy close ties with these groups. By the summer of 1998, however, the 4th letter of intent with the IMF codified a relaxation of fiscal policy. Some of the fiscal loosening was explicitly earmarked to protect social spending, and the government dramatically increased public works spending as a means of addressing rising unemployment. The government also completed negotiations with the World Bank and the Asian Development Bank for large social loans and further support followed from Japan through the Miyazawa initiative in 1999.

Given the weakness of the existing administrative machinery for managing social safety nets, the loans generally supported or expanded existing programs rather than launching altogether new ones (World Bank Thailand Office, 1999a, b; World Bank 2002a, Warr 2002): increased funding for the low-income health card scheme and a student loan program to keep children in school; an increase in social assistance via cash transfers targeted to the poor and elderly and disabled without other means of support; increased funding for employment services and job training; the creation of a Social Investment Fund (SIF) similar to those in Latin America to support of the decentralization process. For urban workers, the government also provided health insurance benefits to those losing their jobs and extended severance pay from six to ten months. Despite these externally-funded initiatives, Warr's (2002) analysis of the FY 1998 budget finds that the increase in spending on the poor was concentrated largely on the controversial education loan program, which was not unambiguously pro-poor. Expenditures on school lunches, housing assistance and job creation actually contracted. The World Bank (2002) concludes that the government relied on temporary employment-creation programs and informal mechanisms rather formal social safety nets. Although the Chuan government did ultimately introduce the pension and child allowance scheme contained in the 1990 social security law, the administration clearly favored "productivist" programs such as job training and placement, was openly reluctant to expand the existing social insurance system or to consider more permanent innovations such as the introduction of unemployment insurance.

This reluctance can be traced in part to fiscal constraints and the ascent of the technocrats under Chuan, but also to the broader political orientation of the Democrat Party leadership. In the words of one government official referring to short-term assistance, “the reason behind giving them such a tiny amount of money is to create an incentive for them to look for jobs; otherwise they may want to live on social security for the rest of their lives and take advantage of others (*Bangkok Post*, June 7, 1998).” This orientation, in turn, sprang in part from the perception that the benefits of formal social safety nets would be monopolized by relatively privileged segments of the working class, such as workers in the state-owned enterprise sector. Yet the government also proved cautious in approving rural projects or those passing through lower levels of government because of fears that they would be used for patronage purposes or be corrupted (*Bangkok Post*, April 3, 1999).

The important point for our purposes is not the merits or demerits of the Chuan government’s social policy, but its political vulnerability. Although the Democrat Party had initially benefited from the crisis, it gradually became associated with the IMF and austerity and ultimately spawned a political alternative in Thaksin’s Thai Rak Thai (TRT, or Thai Loves Thai) party. The TRT won a landslide victory in the 2001 elections on a platform that combined support for domestic business, opposition to a number of reforms associated with the IMF, with a populist economic platform that promised much greater attention to social welfare (Hewison 2003; Kuhonta and Mutebi 2005). A debt suspension program for farmers was introduced in 2001, and a wide-ranging “Village Fund” program combined outright transfers to village governments with the microfinance approach popular in other developing country settings. But initiatives were not limited to the countryside; in 2003, the government made the surprising announcement that it was considering the introduction of unemployment insurance.

The most important and contentious social initiative of the new administration was a dramatic expansion of health insurance in the Health Security for All program based on a 30 baht health card (Hewison 2003; Kuhonta 2003; Towse, Mills and Viroj 2004). The new scheme involved—as the name suggests—a card that granted fixed, low-fee access to contractor units designated by the province with which an individual must register. The contractors were paid on a capitation basis. In contrast to the social security system, which relied on hospitals, the new approach was anchored by public primary health care units. The system faced a number of political as well as administrative problems in implementation, including controversy over capitation rates and the long-run financial viability of the system; resistance from doctors and nurses, who complained of increased workloads and a resulting exit to private practice; and concerns about creeping socialization from private sector providers who were almost entirely excluded from the program. Yet as in Korea, the new government had taken initiatives that greatly expanded the social policy reach of the state--with respect to health and education, unemployment and rural poverty--and did so in a number of important areas on the basis of a universal rights-based approach.

Malaysia

In Malaysia, Deputy Prime Minister Anwar Ibrahim initially outlined a fisally restrictive response to the regional crisis, an “IMF program without the IMF” (Haggard 2000). But this stance was relaxed in the spring of 1998 in order to defend social spending. Initial cuts in the education budget were quickly restored as was money for fellowships; as a result, the country experienced no significant problem with respect to school dropouts (World Bank 1999a, 8; Jomo and Lee 1999, 24). Health expenditure, also in the public domain, was cut in 1998 but increased in 1999 as were expenditures by ministries involved in agriculture and rural development. Roughly half of Malaysia’s poor are concentrated in three states—Kelantan, Trengganu and Sabah—that are more predominantly rural and in the first two cases highly susceptible to appeals from the PAS as well.

A second pillar of the government’s approach was the creation of a variety of temporary special loan funds designed to lift the income of targeted groups (Abdul-Rhaman n.d.). As with Malaysia’s approach to poverty reduction in the past, these efforts sought to encourage productive activity: food production through low-interest loans to farmers (Fund for Food scheme); micro-credit programs for low-income urban entrepreneurs (Small-Scale Entrepreneur Fund, Economic Business Group Fund); the rural poor (through an expansion of the Hardcore Poverty Development Program).

A distinctive feature of Malaysia’s approach to the crisis was a strong emphasis on maintaining labor market flexibility even in the absence of pressure from the IFIs to do so. Trade unions in Malaysia have never been influential political actors because of various legal restrictions and formal and informal government controls over their organization and activities (Navamukundun 1998). In August 1998, the government undertook a number of labor market reforms that included closer links between wage settlements and productivity and encouraging management to use pay cuts, reduced working hours, temporary and voluntary lay offs rather than outright retrenchment. Politically weak unions had little choice but to go along with these initiatives, but even less able to defend themselves were foreign workers. The Malaysian government was the first in the region to announce plans to repatriate large numbers of workers. The Home Ministry estimated over 200,000 illegal foreign workers returned to their home countries between January and August 1998, and this almost certainly underestimates the number returning (Jomo and Lee 1999, p. 12, 15). However, foreign workers have returned with the recovery, continue to play an important role not only in the urban services sector but in the export-oriented enclaves as well; moreover, these workers constitute a rising share of the poor in the country (Ragayah 2004).

A final feature of the government's approach to the social contract was particularly strong resistance to the use of transfers, despite urging from the World Bank about the effects of the crisis on low-income urban self-employed. Only one poor household in ten received a government transfer at the time of the crisis, and they accounted for only about one percent of the poor's gross income (World Bank 1999a, 4). Nor, in contrast to Korea and Thailand, did the crisis result in any permanent expansion of existing programs or innovation of new social safety-nets. For example, the defined-contribution EPF remained the main social insurance scheme, and no efforts have been undertaken to expand its coverage to effectively incorporate informal sector workers (Ragayah 2004). Malaysia does have a social security system for low-income workers (the Social Security Organization or SOSCO; see Chapter Three). But benefits are limited to injury and invalidity and not other labor market risks, it is funded entirely by employer and employee contributions, and other forms of transfers are strictly limited and take a highly residualist form: means-tested social assistance is unavailable to those with families capable of supporting the claimant. Referring to social safety nets in the form of unemployment benefits, Prime Minister Mahathir argued that:

> "this method will only wreck the economy. When the unemployed is [sic] paid an allowance, then many will choose not to work. The Government will need to allocate money for dole which can only be done through raising taxes on
> the employed…Of course the production costs for goods will increase, so will the cost of living. So each time dole is raised, taxes follow suit and the cost for manufacturing goods will only reduce our competitiveness in the world market (*New Straits Times*, June 11, 1999)."

As Abdul-Rahman summarizes (n.d., 6), the government relied "on labour market flexibility and rapid adjustment combined with ad hoc public expenditures to minimize the impact of the crisis on the poor. Although this approach has generated growth it implies a greater reliance on the informal social safety net system during times of economic uncertainties."

Crisis, Expansion and Liberalization

These brief reviews of the response to the crisis in the most seriously affected countries underline several points about the politics of social policy. First, it is important to underscore the obvious: the crisis had a devastating social impact and the optimal social policy would have been to have avoided it in the first place. Second, there are some similarities in the social policy responses of the three countries, in part because of commonalities in the response of the IFIs and in Malaysia's case, other external donors such as the Japanese. All, for example, moved quickly to reverse their initially-restrictive fiscal stances in order to protect or increase social spending. All instituted a variety of short-run programs in order to absorb labor market slack, even if their precise mix differed between temporary employment programs, private income-generation programs, and training and active labor market policies (Atinc 2003).

Two differences are striking between Korea and Thailand and Malaysia, however. First, in the two democracies, government used direct transfers, even if modest, to reach vulnerable groups; Malaysia explicitly eschewed such measures. Second, in both of the democracies the crisis spurred a much wider debate on the social contract and resulted not only in an expansion of existing programs but more fundamental changes in principles of coverage; examples include the rights-based language of the Thai constitution, and the press to universalize pension and health coverage in Korea and to change the principles undergirding social insurance. We see no similar changes in Malaysia through the end of the Mahathir years in 2003; the basic outlines of the social insurance system showed surprising continuity from the early developments traced in Part One.

Conclusion: Democracy and the Expansion of Social Commitments in Asia

In Chapter Five, we emphasized the interplay of three core variables in defining the reform of social policy in the middle-income countries since the 1980s: the transition to democratic rule; the economic and particularly fiscal conditions at the time of the transition; and the nature of the social welfare legacy. Our review of the four democracies suggests a close link between political liberalization, democratization and the expansion of social entitlements in East Asia. In all four the new democracies, parties and politicians scrambled to position themselves with respect to pressing social policy issues, from pensions and health insurance to unemployment, social assistance and rural poverty. In all of the new Asian democracies, we find evidence of the extension of new entitlements and reforms that widened access to, and improved the quality of, social services.

The heterogeneous nature of Asia's political systems also allowed us to compare the course of social policy in the new democracies with developments in the party-dominant systems of Singapore and Malaysia. We see much less innovation in the two party-dominant cases, and particularly in Singapore, even efforts to roll back public commitments.

However, as we emphasized in Chapter Five, democracy is a relatively blunt instrument. The outcomes in the region, as well as the variance across the cases, may be attributable not to democracy per se but to other features of these new regimes that might have influenced the course of social policy.

Two that are particularly germane given our emphasis on political realignments in Part One are the strength of the left and labor. To what extent did democratization contribute to expansion by allowing for a reversal of the historical weakness of these political forces? It is extremely difficult to extend the standard left-right distinctions used in studies of the OECD to Asia—or elsewhere for that matter (see for example, Kaufman and Segura 2002). Yet if we define a social democratic party either in terms of the self-conscious adoption of the socialist or social democratic label, in terms of the policy commitments that are common among social democratic parties in the OECD, or in terms of parties that explicitly appeal to a labor or popular sector base, such parties are hard to find in Asia and where the do operate, they are extremely weak. Perhaps the closest to a "left" party to occupy office is the party headed by Kim Dae Jung. But it is important to emphasize that Korean parties are cross-class in nature, have relied in the first instance on a strong regional political base, and did not have direct organizational ties with labor; indeed, until the Kim Dae Jung administration they were prohibited from doing so.

The absence of a left arguably did have some effect on the nature of the expansion that occurred in East Asia. In Korea and Taiwan, for example, politicians were attracted first and foremost to broad middle-class entitlements—pensions and particularly health care—and in Thailand a number of initiatives were less redistributive in design than they might have been. When governments either initiated unemployment insurance or expanded it (for example, during the Asian financial crisis in Korea in and following the 2001 recession in Taiwan) they did so in conjunction with active labor market policies but also other initiatives designed to increase labor market flexibility.

However, these possible effects of partisanship should not obscure the more fundamental fact: given favorable economic circumstances and the minimalist welfare legacy, parties of all political stripes stood to gain by making social policy promises. In both Korea and Taiwan, the first steps toward the expansion of welfare commitments were taken by conservative political leaders who were not challenged by social democratic parties but by oppositions emphasizing political issues. In Thailand, early welfare initiatives were aimed at neutralizing a leftist insurgency but the most significant welfare legislation was initiated by a former military leader facing competition from patronage-oriented parties with little or no clear ideological orientation. As Herbert Kitschelt (2000) has argued, these apparently anomalous results can arise when conservative parties seek to neutralize challenges on some other, more salient issue, for example, along a democratic-authoritarian dimension.

Similar conclusions can be drawn about the role of labor. Democratization resulted in fundamental changes in industrial relations, but it did not lead to a noticeable increase in union membership outside of the Philippines where the non-agricultural work force was a relatively small share of total employment (Table 5.5). Moreover, we found only mixed empirical evidence that labor unions were important actors in the initiation of new social commitments in Thailand, Taiwan and particularly Korea. During these transitional periods, labor was typically more concerned with political, organizational, shop-floor and wage issues than with advancing a social policy agenda. In some cases, most notably in Korea and Thailand, organized labor in larger firms actually resisted initiatives that would have diluted existing benefits or pooled risks with other groups.

Institutional characteristics also influenced the course of social policy in the new democracies, but their influence with respect to the expansion we are trying to explain should also not be exaggerated. For example, analyses of policy reform have emphasized the difficulties posed by fragmented party systems (Haggard and Kaufman 1995; Madrid 2003; Brooks 2003). On reflection it can be seen that while stable legislative support is likely to be important in passing and sustaining liberalizing reforms, it is not likely to be a stumbling block to expanding social commitments. We did find some evidence of resistance to an expansion of new social commitments on the basis of their fiscal costs or because they mandated unwanted private expenditure in the form of payroll taxes. But the combination of rapid growth and strong fiscal positions tended to weaken such resistance. When incumbent executives, party leaders and politicians running for elected office put forth policy proposals calling for an increase in social entitlements, the problem they faced was not in securing support but in constraining the ensuing bidding war and the imposition of costs on future (unrepresented) generations.

A final institutional political factor that influenced social policy initiatives were incentives for particularism (Shugart 1992; Cox and McCubbins 2001) and outright corruption. Examples of institutional characteristics that generate such incentives include the single non-transferrable vote (Taiwan) or systems in which party leaders have limited control over party lists (open-list systems) or other political goods (both the Philippines and Thailand). In such systems, politicians have incentives to steer particularistic and easily-identifiable benefits (e.g., pork and patronage) towards electorally-relevant constituencies. Although we do not consider these propositions systematically, there is at least strong anecdotal evidence for them. On the one hand, we find evidence of presidents launching broad social insurance programs or reforms in Korea, Taiwan and the Philippines; Thaksin's health and unemployment initiatives might also be interpreted in light of the outright legislative majority his party enjoyed. On the other hand, we see strong evidence of particularism in the preferences of Taiwanese legislators for cash transfers, in the notorious Philippine pork-barrel system, which allocates portions of the social budget directly to legislators' control, and in the distribution of health cards in Thailand, which provided legislators with a a ready source of patronage for local politicians. Further research would be required to explore these differences systematically, but it is important to underline that these propositions are in no way inconsistent with the broader claim that democracies lead to an expansion of social commitments although it might change the nature of that expansion and its efficiency.

We believe that the effects of democracy in East Asia were indeed conditional, but less on partisanship, labor strength or institutional factors than on the welfare legacy and the favorable economic and fiscal environment in which democratic transitions occurred. As we showed in Part One, the welfare legacy in East Asia combined robust investment in education—particularly in Korea, Taiwan and Singapore, but also in the Philippines—and basic health services coupled with a minimalist approach to social insurance. Authoritarian regimes created special systems for government employees and for certain formal sector workers, for example in Taiwan's Labor Insurance system. Singapore and Malaysia had the distinctive inheritance of national health systems and provident funds. But the scope of coverage in this sample of Asian countries at the time of the transition to democratic rule was relatively limited even when controlling for level of income and other possible structural determinants.

These prior systems of coverage often served as the template for early efforts to expand entitlements. We see evidence of this, for example, in both Korea and Taiwan where governments initially opted to expand existing systems of social insurance by adding new groups. Once this process started, however, it generated pressures to go beyond such incremental expansion and move toward more universalistic norms. The welfare legacy in East Asia was thus a permissive one; we would expect democratization to provide substantial opportunities for an expansion of the government's role.

These opportunities could be realized, however, because of the highly favorable economic circumstances in which transitions occurred. Throughout the region, democratization occurred during periods of growth that were high even by Asian standards. Rapid growth and strong fiscal circumstances had clear political consequences, strengthening the hands of "spenders" at the expense of those arguing for restraint. We demonstrated this point in part by using the Philippines as an important point of contrast. The administrations of Aquino, Ramos and Estrada all signaled a strong commitment to social policy reforms, but the ability to carry through on those promises was adversely affected by macroeconomic shocks even prior to the region-wide crisis in 1997-98; in both 1990-92 and in 2000-2001 government finances were affected by political turmoil as well.

The region-wide meltdown of 1997-98 posed both long-run and short-run fiscal challenges to governments in the region, and there is some evidence of the liberalizing reforms that are a central theme in debates over social policy in Latin America and Central Europe. But with the exception again of the Philippines, governments in the region did not enter the crisis facing long-standing structural deficits or weak revenue bases. Nor did any of them inherit expansive social programs that were themselves a major source of fiscal drain; to the contrary, contributory programs in the Philippines enjoyed surpluses and social insurance schemes in both Korea and Thailand initially accrued surpluses due to the fact that payouts did not begin until well into the future. In contrast to Latin America and Central Europe, recovery from the crisis was relatively rapid as well. Whatever the inadequacies of the short-run social policy response to the Asian financial crisis, democratic governments—either immediately or in the aftermath of the crisis—continued to expand social commitments.

[1] . Health spending did not show the same increases as social security and education spending, but this was due to the fact that spending through the health insurance system is not captured in Taiwan's fiscal data. Health insurance spending increases dramatically with the introduction of national health insurance, discussed in more detail below.

[2] . As the party system fragmented, the New Party (and later the People First Party formed in 2000) could be counted on to support the KMT in the legislature; the "Pan-KMT" or "Pan-Blue" coalition enjoyed a relatively constant vote share and continued to dominate the legislature through 2004 (Hsieh 2002, 112-113). Nonetheless, the relationship with these new parties was still competitive.

[3] . The revised Labor Standards Law of 1984 created an additional compulsory occupational pension plan, the so-called Labor Pension, but this additional pension was neither vested nor portable; this problem was subsequently addressed in later reforms.

[4] . The president vetoed efforts by the opposition in the National Assembly to integrate the financial structure of the health insurance system to permit greater risk-pooling (Kwon 1999, 65-67); this exact reform was later undertaken by Kim Dae Jung.

[5] . As in Korea, benefits only accrued after a stipulated payment period and as a result, no benefits were payable until 2014; as a result, even though doubts were raised about the long-run viability of the scheme, the Old Age Pension Fund initially accrued substantial surpluses.

[6] . In 1996, the government system underwent a moderate reform including some reduction of benefits and the introduction of a defined-contribution second pillar. However, the government matched employee contributions in the second pillar and in combination, the replacement rate for government workers actually rose (Niwat 2004).

[7] The following is based in part on Education for All: The Year 2000 Assessment Thailand Country Report at http://www2.unesco.org/wef/countryreports/thailand/contents.html

[8] . An evaluation of the CARP goes beyond our interests here. See Putzel 1998; Reyes 2002 and particularly Riedinger 1995. Riedinger uses the CARP to argue that democratic transitions and an upsurge of reformist NGO activity will not result in redistributive reforms if reformist political parties are weak.

[9]. Education for All: the Year 2000 Assessment Philippines Country Report at http://www2.unesco.org/wef/countryreports/philippines/contents.html#cont.

[10] . PAF-1 was appropriated in 1996; PAF-2 and PAF-3 received diminished funding in 1997-98, with the last of the three in particular being a crisis mitigation measure; funding for PAF-3 was cut because of fiscal constraints, however.

[11] . The "basic sectors" were defined quite broadly to include farmers-peasants, artisanal workers, fisherfolks, workers in the formal sector and migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, the differently-abled, senior citizens, victims of calamities and disasters, youth and students, children, and urban poor.

[12] . Decentralization of health care and the expansion of public health insurance also spurred reforms of the Ministry of Health under the Estrada administration including measures such as corporatization of hospitals, more effective cost controls, and regulation of the health sector.

[13] . The remainder comes from employer benefits (35 percent), out-of-pocket expenses (25 percent), private insurance (5 percent) and subsidies (25 percent) which continue to operate through the capital expenditure of the Ministry of Health and differential user fees at public hospitals.