Democratization, Crisis and
the Changing Social Contract in East Asia

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The decade since the Asian financial crisis has seen an outpouring of scholarship on the political economy of the East Asian welfare state.1 This research was initially preoccupied with the following set of stylized facts. The middle-income Asian economies exhibited a well-documented pattern of “shared growth,” with rapidly rising real incomes, falling poverty and low to moderate levels of income inequality. An important policy component of this record was investment in human capital, both through efficient public education systems and through a variety of vocational training initiatives (albeit of varying quality). Yet governments appeared averse to the provision of social insurance and redistributive transfers. Moreover, subsequent work has shown that the low level of spending on social insurance holds even when controlling for a variety of standard

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determinants, including level of development.\(^2\) Despite rising income, public pensions and health insurance were minimal, provided on a defined contribution basis, or characterized by relatively narrow coverage. Unemployment insurance and other forms of social assistance were also small in scope and generosity or lacking altogether. This policy mix—obviously subject to important variation across the region—had a number of possible sources. Some focused on Confucian culture and its attendant extended family structure, others on structural conditions such as high growth, relative equal distributions of income, and a corresponding lack of demand for redistribution. More political explanations noted the conservative and authoritarian features of the region’s “developmental states” and the functional demands of an export-oriented growth strategy that put a high premium on competitiveness in international markets.\(^3\)

Just as this literature was reaching maturity, the region began to democratize. Four countries underwent regime changes prior to the Asian financial crisis: the Philippines (1986); Korea (1987) and Thailand and Taiwan more gradually beginning from the mid-1980s. The Suharto regime in Indonesia collapsed in the wake of the crisis in 1998. Among the middle-income countries affected by the crisis, only Singapore and Malaysia remained semi-authoritarian holdouts, although both systems had some competitive elements.

An understanding of the changing social contract in the decade after the financial crisis must take into account both this political backdrop of regime change and the economic circumstances in which it occurred. In contrast to the new democracies of Latin America or Eastern Europe, and with the important exception of the Philippines, growth in Asia was robust until the regional financial crisis of 1997-1998. Governments also enjoyed strong fiscal positions, and in some cases even budget surpluses. This combination of democratization, strong economic performance, and robust government finances combined to produce a quite dramatic expansion of social policy commitments. In the upper income democracies of Korea and Taiwan, new entitlements included an expansion of pensions and health and unemployment insurance, as well as new forms of


social assistance. In Thailand and the Philippines, governments innovated or expanded social insurance programs, and also focused new attention on persistent problems of rural poverty as well. The semi-democratic regimes saw much less innovation in this regard and thus exhibited greater continuity with the more minimalist social welfare model.

Crises have mixed effects on social policy, particularly in developing and middle-income countries. On the one hand, recession, unemployment and the informalization of labor markets generate immediate pressures on governments to alleviate distress and to institutionalize more permanent protections against insecurity. On the other hand, most developing countries lack the developed systems of social protection that served as automatic stabilizers in the advanced industrial states. As a result crises weaken the fiscal capacity of the government to respond and generate political pressures to limit—or at least refocus—spending. As a result, fiscal policy in developing countries—and its social policy component--often displays a perverse pro-cyclical pattern.

For the most part, however, the developing countries of East Asia escaped this pattern. Recovery from the crisis was relatively swift and outside of the Philippines, the crisis did not take place in the context of structural budget deficits or long-standing and highly elaborated social insurance commitments. As a result, the new democratic social contract remained largely intact and was even extended.

However, this continued development of the social contract requires one important qualification and that has to do with labor market policy. The crisis had an immediate effect on labor markets across the region, increasing unemployment and leading to an expansion of the informal sector. But these developments were not simply cyclical; particularly in the more developed countries in the region, governments came under strong pressure from the international financial institutions, foreign investors, and domestic firms to deregulate the labor market by reducing employment protections that had been extended over time to at least some formal sector workers. This occurred both in the context of privatization, ad hoc restructuring of particular enterprises, but also through a more general attack on various labor market rigidities that had accreted during the high growth era and still remain understudied and poorly understood. As a result, the unfolding of new social protections such as unemployment insurance and some forms of social assistance should not be seen as an unalloyed blessing, at least from the perspective of “insiders” who had enjoyed the benefits of such employment protections.
Rather, unemployment insurance and other compensatory programs should be interpreted as a second-best substitute—at least from the perspective of formal sector workers—to the employment protections that they had previously enjoyed.

To explore these ideas, I divide the discussion into two parts. The first outlines briefly the evolution of social policy in the four countries that underwent democratic transitions in the 1980s through the crisis of 1997-1998; two of these countries—Taiwan and the Philippines—largely escaped the Asian financial crisis, while the other two—Korea and Thailand—were considered among the most-seriously affected by it. The second section considers the political economy of the Asian financial crisis in South Korea and Thailand in more detail. It shows how the crisis spurred efforts to institutionalize a more permanent social safety net but also generated a highly contentious politics of labor market deregulation. In the conclusion, I consider the more liberal welfare models visible in Malaysia and particularly Singapore, where democratic transitions did not occur, the social contract did not change as dramatically, but similar pressures operated on labor market policy.

I. Democratic Transitions and Social Policy: Taiwan, South 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 1). The two “first-generation” newly industrializing countries, Taiwan and Korea, are broadly comparable. Both countries had relatively large industrial sectors at the outset of their political transitions, 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 share a number of features that make a pair-wise comparison plausible. The two countries 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.
An important determinant of the demand for both pensions and healthcare is the demographic profile (table 2). The more developed countries in the region show a more marked aging trend that has been a leitmotif of the social policy literature on Japan as well. At the time of their democratic transitions, however the 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.
Taiwan differed from the other cases considered below in escaping the Asian financial crisis virtually unscathed. Yet as we will see below, even when the country did experience a slowdown in the early-2000s, it did not substantially affect the dramatic expansion of the welfare state that had accompanied democratization.

Taiwan differed from the other East Asian democracies in having a long history of social insurance, but both coverage and benefits were limited. Political liberalization changed that. In anticipation of increased political competition 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. The government also formed an executive task force in 1988 to investigate the creation of a single-payer national health insurance system.

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 Democratic Progressive Party (DPP) fared poorly by campaigning on a Taiwan independence platform. 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.

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4 Ku, *Welfare Capitalism in Taiwan*, 82.
5 See Kuo-min Lin, “From Authoritarianism to Statism: The Politics of National Health Insurance” (Ph.D. diss., Yale University, 1997); Son, “Taiwan’s Path to National Health Insurance”; Aspalter, *Democratization and Welfare State Development in Taiwan*; Joseph Wong, “Resisting Reform: The Politics of Health Care in Democratizing Taiwan, *American Asian Review* 21, no.2 (Summer 2003): 25-56, and *Healthy Democracies: Welfare Politics in Taiwan and South Korea*. In addition to the benefits of a single-payer, cost control was to be achieved by a referral system that made primary care clinics important gate keepers by the gradual introduction of global budgets and by a co-pay schedule related to the cost of different procedures.
The Kuomintang (KMT) drafted its own policy guidelines for social welfare in 1994. The guidelines struck a more conservative tone than the DPP White Paper, but the KMT accelerated the introduction of its national health program in anticipation of the 1995 legislative elections. The program marked a clear expansion of coverage, which went from 57 percent of the population on the eve of its introduction to over 95 percent within two years of its initiation. Even though Taiwan did not experience substantial difficulties during the financial crisis of 1997-98, emerging fiscal problems did produce efforts to rationalize the new social insurance system through the introduction of private insurers. This effort quickly fell victim to divisions within the bureaucracy, pressures from KMT legislators, and aggressive action by a broad social coalition of over two hundred NGOs. 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.

The national debate over pensions unfolded more slowly. The labor insurance system provided for a modest lump-sum pension payment (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 but in the early 1990s, fully a quarter of all people over sixty-five had no retirement income and the maximum payout was extremely modest.

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, noncontributory pension system. The KMT leadership berated the DPP proposal as blatant vote buying. But 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 argues, “Lee Teng-hui’s proposal triggered a chain reaction in local politics. Other KMT candidates were forced by their

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9 See Joseph Wong, “Resisting Reform.”
10 For example, see the Taipei Times, August 28, 2002.
voters to either propose similar plans... or to advocate a nation-wide old-age allowance system...,” which the president ultimately did.\textsuperscript{12}

In 2000, the DPP presidential candidate, Chen Shui-bian 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 percent), and government-sponsored health care for children under three. The DPP also promised a national pension proposal 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 noncooperative opposition alliance (the so-called “Pan-Blues”) and the DPP was itself divided on the pension issue between more conservative and more progressive factions.\textsuperscript{13} Deadlock ensued.

Economic conditions also changed. Even though Taiwan had survived the Asian financial crisis relatively unscathed it 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.\textsuperscript{14} 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. Nonetheless, the expansion of commitments continued. 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.\textsuperscript{15} 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.

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

\textsuperscript{12} Aspalter, \textit{Democratization and Welfare State Development in Taiwan}, 99.

\textsuperscript{13} Groups within the DPP believed that the KMT’s social insurance approach was too conservative and proposed a variety of alternatives, from full-blown tax-financed systems to social insurance systems with greater subsidy components than those proposed by the KMT.

\textsuperscript{14} See, for example, \textit{United Daily News}, April 17, 2001.

\textsuperscript{15} The new amendment allowed those already drawing pensions—including government workers—to also avail themselves of this program, while the old-age allowances for farmers were increased 33 percent on the grounds of equalizing benefits to the military and teachers!
2001 and not declining significantly thereafter. In 1998, the KMT instituted a modest unemployment insurance scheme. In the wake of the 2001 recession, and substantial protests mobilized by the KMT (which had previously opposed it), the DPP government eased eligibility requirements and developed an active labor market policy that included vocational training, subsidies, loans, and community grants.\textsuperscript{16}

Despite its ability to navigate through the Asian financial crisis, by 2005 Taiwan was witnessing classic debates over welfare policy that were visible in Korea as well. On the one hand, the relocation of manufacturing jobs to China and other lower-wage locations was resulting in permanent job losses in manufacturing, sluggish employment and real wage growth and increasing informalization of the labor market. On the other hand, employers have used these pressures as well as rising social insurance costs and the introduction of new social insurance legislation as a reason for holding the line on hiring and wage increases.

\textit{South 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. The Chun Doo Hwan administration expanded the system incrementally by allowing the formation of quasi-public insurance societies or health funds.\textsuperscript{17} But farmers, the self-employed, and the urban informal sector remained outside the system, leaving total coverage at the end of his administration at about 50 percent.\textsuperscript{18} In 1986, as the political battle was joined to define the nature of the transition from authoritarian rule,\textsuperscript{19} the Chun administration announced an expansion of health

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\textsuperscript{18} As elsewhere, the failure to include these groups can be traced in part to the administrative difficulty of reaching such workers and monitoring their income and contributions. But reluctance to expand coverage was also related to the system’s reliance on mandated employer and employee contributions and the fiscal conservatism of the government. Farmers and informal sector workers did not have employers who could match their contributions, and the government was unwilling to use tax receipts to this end. \\
\textsuperscript{19} Chun consistently maintained that he would step down at the end of his term in 1987, but sought to control the transition by calling for the indirect election of the president by bodies under his effective control.
\end{flushleft}
coverage, as well as a national pension scheme and the introduction of a minimum wage. Roh Tae Woo integrated these social policy initiatives into his campaign platform and, after winning a narrow plurality, extended coverage to the rural and urban self-employed through an expansion and partial subsidization of the health funds to cover the previously uninsured.\(^{20}\)

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.\(^{21}\) Benefits were kept at a very high level—a replacement rate of 70 percent after forty years—and as a result, the program had financial weaknesses from the outset.\(^{22}\) 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.\(^{23}\)

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.\(^{24}\) 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 passed in 1993.

\(^{20}\) Kwon, “Pharmaceutical Reform and Physician Strikes in Korea,” 78. Efforts by the opposition in the National Assembly to integrate the financial structure of the health insurance system by merging these funds and thus permitting greater risk-pooling was vetoed by the president. See Huck-ju Kwon, “Inadequate Policy or Operational Failure? The Potential Crisis of the Korean National Pension Programme,” *Social Policy and Administration* 33, no. 1 (March 1999): 65-67.

\(^{21}\) The initial proposal and the system adopted in 1988 consisted of a basic pension not related to income history and an earnings-related benefit.

\(^{22}\) Although these rates were set to rise gradually and were to be subject to periodic review, the mandated increases would not have left the pension program financially viable even in the medium run. In effect, the political process was simply deferred.


Thailand

As in Taiwan and Korea, social initiatives in Thailand were not a monopoly of opposition politicians and NGOs. The military initiated a number of antipoverty programs in line with a changed strategy toward the rural insurgency in the early 1980s, including a health card scheme that became a template for future health insurance initiatives. Nonetheless, the politics of social policy changed quite dramatically 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. 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. The parliamentary bill also promised to introduce pensions and family allowances within six years and called on the king to introduce an unemployment scheme.

It is important to underline the modesty of this social insurance scheme when compared with those introduced in Korea and Taiwan; as a largely rural country, Thai social policy has focused largely on anti-poverty efforts targeted at the rural poor. In 1993, the social insurance system covered only 2.5 percent of the population, overwhelmingly urban and therefore overwhelmingly in Bangkok. After the return to

28 Dependents were not included except for the maternity component of the scheme. The capitation approach to reimbursement meant that those covered did not have to make co-payments, but it also required
democracy in 1991 following a brief authoritarian interlude, however, the scheme 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 ten employees. The health card system underwent a much more dramatic expansion after 1993 as the government moved to directly subsidize the purchase of health cards. A series of initiatives in the early 1990s also expanded the scope of the Low Income Card Scheme, beginning with a Free Medical Care for the Elderly Scheme (1992) for those not covered under any other insurance program. 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.

As with health insurance, the pension system in Thailand has also been highly fragmented and expanded more slowly. 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 in 1990. 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. However, prior to the expansion of the 1980s, only the public sector enjoyed mandated coverage.

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30 This subsidy was undertaken with the assumption that costs would be recovered at the point of delivery, but, in fact, the cards ran a deficit (Donaldson et al., Health Financing in Thailand, chap. 5, 39).
32 As in Korea, benefits only accrued after a stipulated payment period and as a result, no benefits were payable until 2014; consequently, even though doubts were raised about the long-run viability of the scheme, the Old Age Pension Fund initially accrued substantial surpluses.
33 Public sector workers enjoyed a generous defined-benefit pension program financed directly out of the budget, justified in part by low public sector salaries. As in several other Asian countries, teachers also operated under a preferential pension scheme. In 1996, the government system underwent a moderate rationalization. The original pension benefits were reduced somewhat, but in the context of introducing a defined-contribution second pillar, mandatory for those entering the system after 1997. However, the government matched employee contributions in the second pillar and in combination, the replacement rate for government workers actually rose. Niwat Kanjanaphoomin, “Pension Fund, Provident Fund and Social Security System in Thailand,” paper presented at the International Conference on Pensions in Asia, Hitotsubashi Collaboration Center, Tokyo, Japan, February 23-24, 2004.
Thailand differs from the other East Asian newly industrializing countries in being a relative laggard with respect to education.\textsuperscript{34} At the outset of the transition in 1980, the Primary Education Act finally made six years of primary education compulsory and in 1987 the Prem government initiated a controversial subsidy scheme to increase secondary enrollments in rural areas through tuition exemptions, scholarships, and various supports for transportation, including bicycle loans. Measured by both spending and results, however, education did not receive sustained attention during the early transition period. Between 1980 and 1990, the population without schooling actually increased (from 20 percent to 22 percent) and both the share of the population that had attended primary schooling or completed secondary schooling fell.\textsuperscript{35}

Education policy changed dramatically following the return to democratic rule in 1991, when a confluence of political forces including not only politicians but also the international financial institutions, technocrats, and portions of the private sector combined to push a dramatic expansion of education spending.\textsuperscript{36} 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. 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.\textsuperscript{37} Nonetheless, the gradual transition to democratic rule saw a renewed attention to rural


\textsuperscript{36} The following is based in part on \textit{Education for All: The Year 2000 Assessment Thailand Country Report}, http://www2.unesco.org/wef/countryreports/thailand/contents.html.

\textsuperscript{37} Warr and Sarntisart, \textit{Poverty Targeting}.
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. Between 1993 and 2000 the full panoply of poverty-oriented programs—cash transfers from the Ministry of Labor and Social Welfare, the health card schemes, income generation programs and the education loan scheme—increased from seven fold in baht terms, or from 1.1 to 4.6 of central government expenditure. 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.

The Philippines

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. Thailand went through a slowdown in growth during the first half of the 1980s but did not experience a crisis of the magnitude of those in Latin America and the Philippines. Growth, while slowing, remained positive throughout the first half of the decade and exploded thereafter contributing to the accumulation of large fiscal surpluses (figures 1 and 2). The Philippines by contrast underwent the “people power” transition to democracy under Corazon Aquino in 1986 in the aftermath of a profound debt crisis that not only forced difficult economic policy reforms on the new government but also shouldered it with a highly controversial foreign and domestic debt burden. Growth at the end of the Aquino administration was also interrupted by another political-economic crisis, rapidly increasing fiscal deficits, and another stabilization episode (1990-1992). Even under the Ramos recovery, growth rates did not equal those elsewhere in Asia and were interrupted by the effects of the Asian financial crisis and the political crisis that surrounded the ouster of President Estrada in 2000-2001. The results of this more erratic growth record were two. Economic constraints were evident in episodic shifts in overall economic policy priorities toward stabilization and structural adjustment measures—in 1990-1991, at the time of the Asian financial crisis in 1997-1998, and again in the early

38. Warr and Sarntisart, Poverty Targeting, p. 15.
2000s—and in recurrent limits in the capacity of both national and local governments to finance new initiatives.

Given the high incidence of rural poverty—as well as the rapid growth and spread of the armed insurgency in the mid-1980s\(^{39}\)—it is not surprising that the Aquino government (1986-1992) and those of her successors—Ramos (1992-1998), Estrada (1998-2000), and Arroyo-Macapagal (2000-present)—placed particular emphasis on the countryside.\(^{40}\) The Aquino administration’s first major social initiative was a temporary antipoverty program, the Community Employment and Development Program (CEPD), that used local infrastructure spending to create jobs in rural areas. The central social policy initiative of the Aquino years was the controversial Comprehensive Agrarian Reform Program (CARP), but the new administration also emphasized an expansion 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, including a renewed effort to achieve universal childhood immunization. The administration also took a number of initiatives with respect to urban housing.

Education saw a particular increase 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. Secondary enrollments jumped rapidly following this initiative in 1988. Yet, the emphasis on increasing enrollments also had significant drawbacks. 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.\(^{41}\) The Aquino government initiated a number of complementary programs to monitor and improve the quality and efficiency of primary education, including through national testing and an expansion of early childhood development programs. But these efforts, too, were affected by both the level and


\(^{41}\)Many secondary schools had previously been run by local governments and financed in part through tuition.
allocation of spending and evaluations reveal a failure to meet targets or to substantially improve the quality of education.\textsuperscript{42} 

Beginning at the close of 1989, the Aquino administration was hit by a near perfect storm of political crises: a serious coup attempt in December that year; a succession of natural disasters (from earthquakes, to typhoons and the eruption of Mt. Pinatubo), to the spike in oil prices associated with the Gulf War. These problems only compounded a more basic macroeconomic dilemma.\textsuperscript{43} 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. During its last two years, the Aquino administration generated new rural development and targeted antipoverty programs, but they were not implemented for lack of funding.

The Ramos administration saw a gradual return to growth, an easing of fiscal constraints, and a number of important social policy innovations. 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.\textsuperscript{44} Not coincidentally, the early years of the Ramos administration were also taken up with institutional rationalization designed to improve efficiency, including redefining the role of the Departments of Health and Social Welfare and Development in the wake of a decentralization under Aquino and breaking up (“trifocalization”) the sprawling Department of Education, Culture and Sports into component parts.

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

\textsuperscript{43} Emmanuel de Dios, “Philippine Economic Growth: Can It Last?” Unpublished Manuscript (n.p.: School of Economics, University of the Philippines, n.d.).  
\textsuperscript{44} These included a complete restructuring of the central bank, a number of privatization schemes, introducing competition into previously monopolized sectors, including telecomm, banking, and interisland shipping, and liberalization of both trade and foreign investment. The poverty impact of structural reforms is discussed in Arsenio Balisacan, “Anatomy of Poverty during Adjustment: The Case of the Philippines,” \textit{Economic Development and Cultural Change} 44, no. 1 (1995): 48-57.
The president was the appointment of presidential commissions to fight poverty (PCFC) and to develop the countryside (PCCD); the latter focused on the poorest provinces. The flagship antipoverty program to come out of the presidential commission was the Social Reform Agenda (SRA), a complex, multisector program that included both altogether new initiatives, such as a credit-based livelihood program, as well as the reallocation of the budgets of the line ministries around “flagship” initiatives aimed at different vulnerable groups (the so-called “basic sectors”). 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. These staff 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.

The administration undertook only marginal reforms of the core social security institutions—the Social Security System (SSS) and the Government Services Insurance System (GSIS)—but it did launch a major expansion of public health insurance. The crisis of 1990-1991 and administrative inefficiencies in the SSS and GSIS, which managed Medicare funds, provided incentives for a reform of Medicare. An expansion of the system could shift financing of health care from the cash-strapped national and local governments, which continued to provide a substantial share of all care through public hospitals and clinics, onto employers and employees. The final law made coverage universal and mandatory, albeit with a permissive fifteen-year timetable for doing so, and required the national and subnational governments to fully subsidize the contributions of the “indigent,” which as ultimately defined accounted for no less than 25 percent of the entire population.

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45 The “basic sectors” were defined quite broadly to include farmers-peasants, artisan 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.

46 For evaluations, see Victoria A. Bautista, *Combating Poverty through Comprehensive and Integrated Delivery of Social Services (CIDSS)* (Quezon City, Philippines: National College of Public Administration and Governance, University of the Philippines, 1999).

47 A major goal of the reform was to shift the management of these funds out of the top-heavy SSS and GSIS bureaucracies into a new entity, the Philippine Health Insurance Corporation (PHIC).
During the Asian financial crisis, the Philippines did not experience the degree of economic distress of the so-called “most seriously affected” countries. Nonetheless, the crisis marked another swing in the policy cycle as the government was forced to make large cuts in appropriations. A World Bank review\(^{48}\) 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.”

However, electoral and deeper political pressures pushed in a quite different direction. The 1998 elections came in the midst of the Asian financial crisis, and movie actor Joseph “Erap” Estrada ran on an openly populist platform, carrying a lavish pro-poor agenda.\(^ {49}\) 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 one hundred families in each province and city and to focus welfare efforts on them; by one estimate, this approach would reach only sixteen thousand families, or 0.4 percent of all poor families.\(^ {50}\) Moreover, while the total funds devoted to the Lingap program was less than those devoted to the SRA, a higher share of those funds was under the direct control of the president or delegated to legislators, implying an even higher-than-normal diversion of social spending into pork-barrel activities. But these issues were only emblematic of much deeper management problems that plagued the Estrada administration’s social policy efforts: the organizational disarray in the policymaking process;\(^ {51}\) the weakening of various social policy institutions, including the use of SSS 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.

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\(^{49}\) Balisacan, “Did the Estrada Administration Benefit the Poor?”

\(^{50}\) Ibid.

In the end, these problems were eclipsed by a sustained impeachment crisis and mass demonstrations that ultimately resulted in Estrada’s ouster.

In sum, the transition to democracy forced greater attention to social issues than had been the case under the Marcos dictatorship and through the core mechanisms we identify: electoral competition, including at the subnational level; and the reemergence of independent interest groups and pro-poor NGOs. The change in regime produced initiatives on basic health and health insurance, secondary education, housing, and rural poverty alleviation. However, the distinctive feature of the post-transition Philippine social policy story is the recurrence of severe fiscal constraints: at the outset of the Aquino administration; at the end of her administration in 1990-1991; during the Asian financial crisis in 1997-1998; and yet again during and following the political crisis of 2000-2001.

II. The Asian Financial Crisis and the Conduct of Social Policy

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. First, there is sophisticated monitoring work that tracked the effect of the crisis on different income groups. Second, there is debate on whether IMF prescriptions limited the ability of governments to respond to social distress through Keynesian policy measures and more targeted social expenditure. Finally, there have been reviews of the adequacy of the short-term policy responses to the crisis, including the efforts of the international financial institutions. This section poses a different question by focusing on two of the


53 Contrast, for example, Timothy Lane, Atish Ghosh, Javier Hamann, Steven Phillips, Marianne Schlze-Ghattas, and Tsidi Tsikata, IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment, Occasional Paper 178 (Washington, DC: International Monetary Fund, 1999), and Joseph E. Stiglitz, Globalization and Its Discontents (New York: W.W. Norton, 2002).

most seriously affected countries. In what way did the crisis influence the long-run policy stance with respect to social provision?

**South 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 affected by the crisis 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. But the administration was also under intense pressure from the IMF, the U.S., 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. 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 promised a number of important political reforms of the system of industrial relations: the right for civil servants to form a labor consultative body and for teachers to unionize, and reversal of a long-standing prohibition on labor involvement in political activities. More vaguely, "all parties" would work to minimize layoffs and seek alternative solutions such as work-sharing.

Management believed it had gained greater freedom to retrench; labor believed that the terms of the bargain were not being enforced. Over the next year, the government intervened to break a number of strikes, leading the more independent Korean Confederation of Trade Unions (KCTU) to pull out of the second tripartite process in February 1999, effectively bringing the tripartite experiment to a close.

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Despite the ambiguous reviews of the tripartite experiment, 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. In 1998, 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; investments and labor subsidies for small- and medium-sized firms; temporary extension of unemployment benefits; a temporary livelihood program that covered 750,000 people by 1999; and 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 expanded coverage of all of the major social insurance programs— pensions, health insurance, and unemployment insurance— while fundamentally changing the principles guiding social assistance. With respect to pensions, the new government explicitly rejected rationalizing proposals made at the end of the Kim Young Sam administration. The administration 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 a relatively high 60 percent 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 such as doctors and lawyers as well as informal sector workers.

In the health sector, the administration had a mixed record. Efforts to control health-care costs by separating prescriptions and dispensing of drugs and reforming the payment system confronted stiff and effective resistance from providers, including a

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57 Since it required the self-employed and (and unemployed) to report their average income in order to determine the level of monthly premiums, there were strong incentives to underreport income. Formal sector workers balked at their payroll taxes effectively subsidizing the self-employed. The government compromised by exempting a number of workers from paying, either because they could not pay (students, military) or because payment was deferred due to unemployment or business failures. Salaried workers, meanwhile, feared that the inclusion of a large number of new subscribers would cause the fund to run out of money. All workers were concerned about plans to raise premiums from 3 percent to 9 percent.
succession of crippling doctors’ strikes. Nonetheless, the government did manage a major consolidation of the geographically-based funds covering the rural areas and self-employed. Market-oriented economists wanted to use the funds to introduce more competition, but progressive academics, fund workers, and farmers’ organizations pressed for the integration of the funds and wider-risk pooling. 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. The administration expanded mandatory unemployment insurance from firms with thirty or more employees to effectively all firms, making it a universal program. Perhaps most interesting in terms of the change in principles of the new administration was reform of social assistance. 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 noncash assistance, resulting in a dramatic increase in eligibility for assistance and spending on it.

In sum, the Kim Dae Jung government maintained the extension of benefits that occurred prior to the crisis and moved quickly to provide a social safety net and initiate broader reforms of the social contract that expanded social insurance, changed the terms of social assistance, and allowed greater labor participation in both government and management decision-making. However, a closer examination of these initiatives by Jae-jin Yang notes that their implementation has faced a variety of constraints associated with a broader trend in the labor market toward informalization. First, the crisis allowed employers to hold the line on the generosity of benefits. Unemployment benefits, for example, were only 70 percent of the minimum wage, which was itself just 25 percent of average earnings, and claiming benefits was tied to work and training requirements.

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58 Soonman Kwon, “Pharmaceutical Reform and Physician Strikes in Korea: Separation of Drug Prescribing and Dispensing.”
59 Soonman Kwon, “Globalization and Health Policy in Korea.”
60 Korea Labor Institute, Korean Labor and Employment Laws (Seoul: Korean Labor Institute, 1999); Yoo et al., “Labor Market Trends and the Employment Insurance System in Korea.”
However, more disturbing is the fact that the deregulation of the labor market has seen a dramatic increase in the number of non-regular workers. These workers are concentrated in smaller firms, where organization is extremely low, collective bargaining limited and the effective coverage of the major social insurance programs substantially less as a result of inability or unwillingness of workers and management to make required contributions. Moreover, the larger chaebol groups that have been forced to restructure have also turned to the use of nonregular workers as a supplemental, lower-cost workforce. As in Malaysia and Thailand, these benefit levels reflected concern with incentive effects and the risks of “welfare disease.” These initiatives were instituted in the context of declining wages and employment and important policy changes that increased the flexibility of labor markets.

**Thailand**

As in Korea, the crisis had powerful political consequences in Thailand. 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 constitution is devoted to political reform but it also included important social initiatives enshrined as citizen rights: free education through twelfth 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 implications for social policy, particularly as the Thaksin government sought to dramatically expand transfers to lower levels of government.

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

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61 Jae-jin Yang, “Corporate Unionism,” p. 223.
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 fourth letter of intent with the IMF codified a relaxation of fiscal policy and loans from the World Bank, Asian Development Bank (ADB), and Japan provided the basis for an expansion of social policy commitments. 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: 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; and the creation of a Social Investment Fund (SIF) similar to those in Latin America to support of the decentralization process.

Despite these externally-funded initiatives, 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 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, and 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 relatively conservative political orientation of the Democrat Party leadership on social issues. 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

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on social security for the rest of their lives and take advantage of others.”

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 (and again in the controversial elections of 2005) on a platform that combined support for domestic business and opposition to a number of reforms associated with the IMF, with a mildly populist economic platform that promised greater attention to social welfare.

In fact, a gradual return to fiscal health permitted the government to pursue a wideranging social program with a strong populist flavor. One important and contentious social initiative was a dramatic expansion of health insurance in the Health Security for All program based on a 30 baht health card. 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. 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 increased coverage, particularly with respect to health and education, and did so, on the basis of a universal rights-based approach. A number of other initiatives were targeted more narrowly at the rural constituency that had elected him, although not necessarily in a sharply targeted way. 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 visible in other settings.

67 Kevin Hewison, “Crafting Thailand’s New Social Contract,” unpublished manuscript (Hong Kong: Southeast Asia Research Centre, City University of Hong Kong, 2003).
Yet as Fred Deyo has noted, these social policy developments were accompanied by an ongoing effort to deregulate and reform the Thai labor market. [Needs development; is this true?]

III. Conclusion

Just as a high-quality literature was developing on the nature of the East Asian welfare state, democratization changed a crucial political parameter. No doubt, many particular features of democratic rule in East Asia might have proven consequential for the precise nature of the expansion that occurred, including partisanship, the relative strength of labor, and the propensity of the political system to generate particularistic as opposed to more programmatic spending. Nonetheless, the transition to democratic rule itself marked a substantial change, creating strong incentives to expand social entitlements.

However, the overall economic and fiscal circumstances in which such transitions take place is also highly consequential. The relationship between growth and poverty reduction is well-known; high growth is associated with an expansion of employment, rising real wages and a reduction of poverty. The focus here, however, has been on the relationship between growth and social policy. In Korea, Taiwan, and Thailand, politicians had not only the incentives to expand social policy commitments but the resources to do so as well. The consequences of democratization were also visible in the Philippines, but in the context of fiscal constraints that limited government capacity. 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, compounded in 1990-1992 and in 2000-2001 and again in 2005 by political crises as well.

The region-wide crisis of 1997-1998 clearly posed both long-run and short-run fiscal challenges to governments in the region, and there is some evidence of the “rationalizing” politics visible in Latin America and Central Europe during their crises of

the 1980s and 1990s, respectively. 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. In contrast to Latin America and Central Europe, recovery from the crisis was relatively rapid as well. As a result, we do not see strong evidence of a retrenchment of newly-won social protections.

These findings would seem to suggest a very important conclusion in the debate about globalization and social protection. Despite having relatively open economies, and economies that were made more open by the crisis and subsequent reform efforts, the democracies of the region have experienced an expansion of social entitlements. This fact would seem to cut against more pessimistic assessments that “globalization” and social policy stand in necessary contradiction.

But we do see evidence of a development in labor markets that might have a longer-run effect on the actual implementation of these programs. In the wake of the crisis, governments instituted a variety of policies that had the effect of liberalizing labor markets, from the privatization of state-owned enterprises, to corporate restructuring to outright deregulation that increased the legal scope for temporary, part-time, contract and other forms of informal employ. Work on these developments remains preliminary, but we can hypothesize that they might well have a corrosive effect on the apparent trend toward wider social insurance coverage. First, despite legal mandates, small- and medium-sized enterprises that are more likely to draw on such workers are less likely to make necessary contributions nor to enforce them on their workers. Similarly in countries such as the Philippines and Thailand where the rural sector remains an important social safety net; as urban workers migrate back to the countryside during downturns they can fall outside of the urban social safety net. Moreover, the workers themselves frequently resist such taxes.

Without government incentives, such as matching or subsidized contributions, it is quite possible that workers outside the formal sector will in fact fall between the cracks of new social insurance systems or only be reached by other forms of social policy delivered through different means. One such option is tougher regulation of the

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70. See Deyo, “Reforming Labor…”
workplace and mandating corporate safeguards, yet this solution suffers from the same
disability as wider social insurance coverage. A second option would be the sort of focus
visible in Thailand, where displaced workers are effectively managed through
geographically-based schemes, such as microfinance administered at the village level.
Finally, an alternative would be pressure to slow the labor market reform process so that
those insiders that enjoy employment protections would continue to do so.

[Needs development; comparison to Singapore and Malaysia?]