

## Reform the public sector benefits

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Fri, Dec 07, 2012 - Page 8

The excessive salaries and other benefits paid to government employees — military personnel, civil servants and public-school teachers — have given rise to a number of social and psychological phenomena that warn of fiscal, economic and social disaster.

The first such phenomenon is that hidden government debt has reached NT\$22 trillion (US\$757 billion) and this has led the average person to lose confidence in the government's finances. In October, there was a rush to withdraw money from the Labor Insurance Fund, as more than 15,000 workers chose to receive their pensions in a lump sum. Withdrawals from the labor insurance fund totaled NT\$20.5 billion in October — more than 2.4 times the NT\$8.4 billion taken out in September.

The next point is that the number of people taking part in the senior and junior civil service entry examinations hit a 17-year high this year of more than 156,000 applicants. This social phenomenon of huge numbers of people trying to get government jobs, tempted by the preferential pay and benefits given government employees, makes it hard for the private sector to retain people. Since industrial and commercial companies cannot find all the workers they need, they have come to rely on foreign migrant workers to fill the gap.

Third, the Directorate-General of Budget, Accounting and Statistics predicted in September that gross national savings in Taiwan would keep growing and that the excess savings rate could top 9.3 percent. Excess savings are likely to reach NT\$1.354 trillion, making this the fourth year in a row that they have been over the NT\$1 trillion mark. National savings are forecast to rise to NT\$4.27 trillion, with the gross national savings rate reaching more than 29 percent, which is higher than most other countries.

A consumer confidence index survey for September published by the National Central University's Research Center for Taiwan Economic Development shows that, while commodity prices keep climbing, the nation's exports are performing poorly. The survey found that this has had an obvious impact on consumer confidence, which in turn has led to a social trend of putting a lot of money into savings.

Meanwhile, military personnel, civil servants and public-school teachers enjoy excessive pay and benefits. For example, retired government employees receive an 18 percent subsidized preferential interest rate on their pension deposits, while employees of state-run financial institutions enjoy a subsidized interest rate of 13 percent on their bank deposits. These subsidies add up to NT\$100 billion each year, and the trend is for this figure to keep going up. The cost of these subsidies has saddled all levels of government with nearly NT\$8 trillion in hidden debt associated with the old and new state pension schemes.

In addition, the “year-end relief payments” given to retired government employees, which have no basis in law, cost another NT\$20 billion. When you add on the approximately NT\$70 billion in subsidies given to current government employees for travel, cultural activities, fitness programs and birthdays, plus subsidies for their children's education, which also have no legal basis, and other

welfare spending, the total cost exceeds next year's NT\$170 billion budget for economic construction by several tens of billions of New Taiwan dollars.

The National Audit Office's report on the final accounts of municipalities, counties and provincial cities for last year, which was published on Nov. 22, says that local governments' expenditure on personnel expenses amounts to as much as 114 percent of their own-source revenues. So their tax revenue is not even enough to cover their manpower expenditure.

The National Audit Office has identified the hidden debt of the nation's 20 municipalities, counties and provincial cities, (excluding Kinmen County and Matsu, which come under the Republic of China's Fujian Province) as totaling NT\$313.7 billion. This figure does not include NT\$3.1681 trillion in future pensions for local government employees, or the more than NT\$32.8 billion cost of making up the difference between the preferential interest rate on retired government employees' pension funds and the commercial rate, or the more than NT\$120 billion in arrears on labor, national health and employment insurance subsidies.

These financially disastrous payments and benefits for military personnel, civil servants and public-school teachers also crowd out funding for much-needed economic construction, thus reducing the vigor of economic growth. Devoting too many state and social resources to government employees has caused central and local government expenditure on economic construction to fall year by year. Add to this the cautious attitudes and wealth management habits of retired government employees, and this has led to the phenomenon of Taiwan's national savings rate growing as the years go by, which has detracted from overall investment and consumption, and in turn has caused a loss of drive in the economy as a whole.

Excessive pay and benefits for government employees are causing a double disaster in the widening gap between rich and poor, and confrontation between different social strata. First there is the deepening conflict between the average worker and government employees. Second, the nation's legal framework does not treat the older and younger generations equally in terms of employment and opportunities, with the result that many young people are jobless and drifting. Young people are losing faith in society, and depression is much more prevalent among young people aged between 20 and 30 than other age groups.

Military personnel, civil servants and public-school teachers have the job of safeguarding the nation and society, educating people and promoting the public good, and they are legally obliged to make certain sacrifices. In accordance with the needs of the division of labor in society, giving state employees reasonable salaries, welfare benefits and retirement rights that befit their dignity and rank are necessary conditions for the normal functioning of the social system.

However, state employees today enjoy a number of excessive payments and benefits that lack any legal basis and are not truly fair, and these are leading to a major fiscal, economic and social disaster.

One remedy that the government could apply straight away would be to set the interest rate on retired government employees' pension funds at 5 percent above the consumer price index, instead of the current fixed subsidized rate of 18 percent. This step would lighten the state's financial burden considerably, and it would uphold fairness and justice. This step should be taken without hesitation or reversals. The decision should not be put off until next year, as that would cause even greater and more prolonged unrest in society.

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Translated by Julian Clegg

**Published on Taipei Times :**

<http://www.taipeitimes.com/News/editorials/archives/2012/12/07/2003549532>

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