

## **Economic Policy Recommendation Team Scholar Biography**



### **Tain-Jy Chen (Co-chair)**

#### **Current Positions**

Professor, Department of Economics, National Taiwan University

Board Member, Taipei Forum

#### **Government Experience**

Chairperson, Council for Economic Planning and Development, Executive Yuan (2008-2009)



### **Sheng-Cheng Hu (Co-chair)**

#### **Current Position**

Academician, Academia Sinica

#### **Government Experiences**

Chairperson, Council for Economic Planning and Development, Executive Yuan (2004-2007)

Chairperson, Financial Supervisory Commission, Executive Yuan (2007-2008)



### **Joseph S. Lee**

#### **Current Position**

Vice President, National Central University



**Bih Jane Liu**

**Current Position**

Professor, Department of Economics, National  
Taiwan University



**Chu-Wei Tseng**

**Current Positions**

Legislator, Legislative Yuan

Honorary Professor, Department of Public Finance, National  
Chengchi University

## **Summary: Economic Policy**

In the economic field, we identify five issue-areas to be addressed by the new administration. They are (1) tax reforms, (2) transformation of industrial structure, (3) transformation of trade structure, (4) old-age society, and (5) employment problem. The first three are short term issues, the last two long term ones.

Tax reforms are urgently needed if the current structural imbalance of the nation's public finance is to be corrected. The current tax level is too low to support an ever-increasing demand for public expenditure, which is driven by an aging society. Outstanding national debt is already approaching the legal ceiling, making future budgeting at all levels of government very difficult. Worse, the current tax structure is unevenly biased toward taxing labor income and unable to help correct the income inequality problem which has been deteriorating over time. Therefore the impending tax reforms have to achieve two goals at the same time: increasing tax revenue and improving tax equity. We propose that a comprehensive rather than partial tax reform be undertaken so that all tax categories be reviewed and adjusted at the same time. In the area of income tax, we propose an increase of tax base and an even treatment of different sources of income. In the area of property (wealth) tax, we propose a tax based on the market value. In the area of transaction tax, we propose a strengthening of consumption tax and the introduction of environmental tax.

In terms of industrial structure, two problems are outstanding. First,

value added of the average industry remains at a low level so that wage rate is stagnant. Second, major industries are grossly capital intensive so that employment opportunities are insufficient, particularly insufficient for unskilled young workers. Stagnant wages and lack of good jobs are what make the youth despaired. These problems are rooted in the imbalances of the current industrial structure: an imbalanced development between the manufacturing and the service sectors; and an imbalanced development between large firms and small and medium enterprises (SMEs). To eradicate these imbalances, more resources should be devoted to the development of services. More services should be added to the manufactures so that a higher value can be created for each good. More importantly, the service sector at large needs to be upgraded through more R&D and exports. Only when Taiwan's service industry becomes more competitive and more integrated with the manufacturing industry, more and better paid jobs will be available for the youth.

In the area of trade, structural problems also stand out. Export markets are concentrated in a few countries; export products are concentrated in intermediate goods. The feature of double concentrations reflects the nature of Taiwan's export processing trade, which was originated in the 1960s and remains intact today. Despite its remarkable success in the past, Taiwan needs to move away from this outdated trade model and move toward the trade pattern of advanced countries, that is, trade in final goods and branded goods. We need to build a capacity of exporting final products to the world, otherwise trade as an engine for economic growth will gradually lose its power. Taiwan has long lost the comparative advantage in export processing trade and this type of trade is also susceptible to business cycles,

as manifested in the recent financial crisis. To build a capacity for exporting final goods, we have to invest in brand building and to explore the domestic markets of newly emerged countries. For the latter objective, we need to accelerate bilateral trade arrangements with major trading partners and emerging countries. This calls for a reorganization of the current government apparatus for trade negotiations and an enhancement of negotiation capacity.

Taiwan's population is aging fast, reinforced by a very low birth rate. An aging population puts pressure on the job market and the social security system, including old age care, health insurance, and pension. Reforms are badly needed in each area. In the job market, the average age of retirement at the present time is too low to sustain the existing pension programs, not to mention that more pensions are needed to support those who remain uncovered today. Raising the retirement age is a must, which in turn, calls for provision of old-age job opportunities and incubation of related industries. In the meantime, education system must be restructured to enable workers to endure a longer working career. One-shot school education is obviously inadequate; job skills must be strengthened and renewed periodically during a worker's career by multiple education and training organizations. We urge the government to work out new labor market institutions to accommodate old-age workers. In the area of social security, we urge the government to establish a workable old-age care system as soon as possible, including an affordable insurance scheme, adequate facilities at all localities, and a reliable supply of service manpower that gradually reduces dependency on foreign workers. A reform in the national health insurance system should not be delayed any longer. Both

financing and management of the system must be reviewed to ensure its sustainability. In the meantime, the system's distortive forces that affect supply and deployment of medical resources should be removed. In terms of pension, a multi-layer pension system should be established to provide a comprehensive coverage for all citizens. In view of the fast aging society, public pensions should be reformed to ensure their financial soundness and social fairness.

In the area of employment, the most serious problem is an unduly high unemployment rate among the young labor force, coupled with unsatisfactory wages even if they are employed. If this problem remains unresolved, more and more young people will become NEETs. We believe the problem is rooted in the mismatch between education and industry needs. We suggest that more responsibility should be borne by higher education institutions in realigning their curriculums with the job markets. Universities and training institutions should be encouraged to offer re-education and re-training programs for those in need of new job skills. Labor market regulations should be modified to accommodate the needs for re-training. Enterprises should be encouraged to employ first-time job seekers. Subsidy can be offered to employers who provide extended pre-job training programs to new hires. For college graduates who are unable to secure a job within a reasonable period of time, resources should be provided to offer them a chance of re-education.

These five issue-areas are inter-related. Delayed solution to one problem may worsen the other problem. We suggest that the five agendas be tackled simultaneously, although some may need actions sooner than others.

