

Welfare Reform and Future Challenges in Korea: Beyond the Developmental Welfare State?

Huck-ju Kwon

UNRISD,
Palais des Nations, CH-1211
Geneva 10,
Switzerland.
kwon@unrisd.org.

Department of Public Administration
Sung Kyun Kwan University

Seoul, Korea 110-745

This paper will be presented at the ADBI Seminar on Social Protection for the Poor in Asia and Latin America, Manila, 21-25 October 2002. It will be published in the *International Social Security Review*, 4/2002.

The views expressed in this paper are the views of the authors and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source, originality, accuracy, completeness or reliability of any statement, information, data, finding, interpretation, advice, opinion, or view presented.

Abstract

Since the economic crisis of 1997-8, Korea has carried out vigorous social policy initiatives including the reform of National Pension Programme and the National Health Insurance. This paper seeks to answer whether the Korean welfare state has moved beyond the welfare developmentalism by examining the cases of those two programmes. By the reform, the coverage of the National Pension Programme was extended to all population; its financial sustainability and accountability were enhanced. Regarding National Health Insurance, efficiency reform was taken in the management structure, while the reform regarding the financing was on hold. These reforms were a clear contrast to the welfare developmentalism that used to place overwhelming emphasis on economic consideration. Despite these reforms, however, the Korean welfare state faces the issues of ineffectual implementation and financial sustainability of social policy. The National Pension Programme has failed to cover the majority of irregular workers whose number is in increase, and National Health Insurance needs to find the way to meet increasing health expenditure.

Huck-ju Kwon is Research Coordinator, UN Research Institute for Social Development (UNRISD), Geneva while on leave at Sung Kyun Kwan University, Seoul, Korea. He has published books and articles on East Asian social policy including recent paper, 'Globalization, Unemployment and Policy Responses in Korea' in *Global Social Policy*, 2001, Vol. 1, no. 2.

Acknowledgement

This paper is based on the on-going project, 'Social Policy in a Development Context' at the UN Research Institute for Social Development.

I. Introduction

The economic crisis of 1997-98 has made a profound impact on Korean society. The country that had been used to full-employment has been faced with high unemployment. The official unemployment rate was brought up to 8.6 per cent in February 1999, the highest point since the 1980s. At the end of 2001, it came down to 3.2 per cent, but people would no longer be complacent about their jobs. Many newly graduates who used to be able to choose one of the best job-offers experience a great deal of difficulties in finding their first jobs, while the elder employees are under pressure to leave the workplaces where they took it for granted that their jobs would be life-long (Kwon, 2001: 220-222). This is partly because of the labour market reform in 1998 that allowed the firms to lay off their work-force easily if necessary, and partly because of the continual structural reforms since the crisis, which left many firms to go out of business. Perhaps this story sounds familiar to many OECD countries that had carried out structural reforms throughout the 1980s and the 90s, but the social challenge imposed by such reforms was tough one for Korea since it only had the rudimentary welfare state.

Four years on after the crisis, however, Korean economy is now recovered well compared not only to the countries hit by the Asian economic crisis but also to other East Asian countries like Japan, Taiwan and Singapore. The recovery is not only stemmed from economic reforms such as the labour market, corporate governance and financial market reforms but also due to the active social policy initiatives that aimed to provide social protection to those unemployed or fallen to poverty during the economic restructuring. The Korean government vigorously implemented social policy initiatives that aimed to establish so-called the 'Productive Welfare State' (Chung, 2001; Gilbert, 2001; Kuhnle 2001). The Kim Dae-jung government, who was elected at the end of 1997 during the economic crisis, extended the Employment Insurance Programme swiftly during the period of 1998, overhauled the Public

Assistance Programme, which is now renamed as the Minimum Living Standard Guarantee. This programme is set to recognise the social rights to the decent standard of living for every citizens. The Korean government also reformed the National Pension Programme and National Health Insurance, the main contours of the Korean welfare state. Do these reforms suggest that the Korean welfare state has moved beyond the welfare developmentalism? This paper seeks to answer this question with reference to the cases of the National Pension Programme and National Health Insurance reforms since 1997. Before we proceed to the analysis of those programmes, it is necessary to trace the change in the paradigm of social policy.

II. Welfare Developmentalism and Productive Welfare

In my previous study (1999), I have argued that in the history of the contemporary Korean welfare state, economic development was the overwhelming concern, taking priority over social protection. For instance, Industrial Accident Insurance was chosen as the first social welfare programme by the government in 1961, since it could provide social protection for industrial workers and reduce employers' financial uncertainty in the wake of industrialisation. Industrial Accident Insurance did not impose so great financial burden on the government because the government simply introduced insurance as a mechanism, which would pool the risks of employers who were already liable to industrial accidents. In the case of National Health Insurance and the National Pension Programme, industrial workers employed in big business were the first group of people to be protected while more vulnerable people were left unprotected. It is also important to note that all those programmes were based on the arrangement of social insurance, in which the government did not take responsibility for financing. The government enforced the rules that made those programme compulsory. I called such role of the state in financing welfare programmes as a regulator (Kwon, 1998: 66-67).

The legitimization of authoritarian political power also explain the characteristics of the Korean welfare state. It shows why programmes like Industrial Accident Insurance, the Public Assistance Programme and the National Pension Programme were introduced at certain point in time. The first two programmes were implemented from 1964 and 1965 respectively, following the promise of military-general-turned-President Park after coup d'état in 1961. In the case of the National Pension Programme, the President first examined its feasibility in 1972 just after the so-called 'Yushin reform', which effectively granted him a lifetime presidency. Of course, social welfare initiatives were neither the sole measure nor the most salient tactics for legitimisation. For instance, President Park's main strategy of legitimation was to justify the authoritarian regime through economic development. Nevertheless, social policy played its parts in his legitimization strategy. These characteristics can be well captured by the notion of the developmental welfare state, where elite policy makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it and use social policy as an instrument for attaining that goal (Gough, 2001). Such characteristics of the welfare state, to be sure, are not confined to Korea but one can find similarities in Japan, and Taiwan, to say the least. Holliday (2000) goes further arguing that Northeast Asia comprises a fourth welfare regime of 'productivist' welfare capitalism in relation to the much discussed three welfare regimes of Esping-Andersen's.¹ Although it is a matter of debate to justify a fourth regime type, Holliday is certainly right in emphasizing that the developmental state always placed policy priority on economic development and that social policy was only considered in that context.

The welfare developmentalism has some downsides while it contributed to the incremental but steady development of the welfare state in Korea. If we note three important drawbacks among such legacies, first, redistribution took place in a way that the lion's share of the redistribution went to the high income earners, reflecting the fact that the wage earners in large scale business and state sector employees were the first groups of people covered by the social policy programmes (Kwon 1997; 2001a). Secondly,

the social policymakings were confined only to a small number of top policy makers, leaving most citizens without making their voices heard. This reflects the fact that social decisions were made under the authoritarian government. Even after the programmes were introduced, there were little effort to develop an institutional arrangement that would ensure accountability and transparency in the governance of those programmes. Thirdly, the welfare state was organised mainly for the wage and salary earners and based on the implicit assumption that unemployment could be kept to a minimum. In this system, unemployed people had to rely on their savings or private help to make their living because the social safety-net for them within the welfare system was nominal. This system proved unworkable at the time of massive unemployment.

President Kim Dea-jung, who was elected to the presidency at the end of 1997 during the economic crisis, extended the Employment Insurance Programme² swiftly and implemented the Public Works Projects to provide emergency help for those hit by the economic crisis. Of course, the Korean government vigorously carried out structural reform programmes ranging from government bureaucracy, corporate governance, and the financial market, to the labour market, which led to the high rise of unemployment (Ministry of Economy and Finance, 1998). President Kim convened the Employees-Employers-Government Committee, a tripartite committee, to carry out the structural reform with a social consensus, which proved successful at the beginning.³ These social policy measures immediately after the economic crisis were mainly to deal with social issues arising from the structural reforms. In August 1999, however, President Kim launched a new policy initiative, so called 'Productive Welfare', in his address on the National Liberation Day. This new idea, influenced by the 'Third Way' as indicated by the presidential office, placed emphasis on welfare that could be instrumental to the rise of economic productivity (Presidential Office, 1999). He claimed this approach to social policy different from those in the past, since it recognises the social rights to decent living for every citizens and acknowledges the state responsibility for delivering that goal.

The introduction of the Minimum Living Standard Guarantee (MLSG) in 2000 was one of the main agenda of the productive welfare initiatives. It became clear during the economic crisis that there was a gap in income maintenance policy in Korea. The Public Assistance Programme introduced in 1961 (implemented from 1965) was based on the idea of poor relief, and provided cash or in-kind support to the poor as officially defined, depending on the recipients' situation. In 1997, people receiving benefits from the Public Assistance Programme were 3.1 per cent of the population (Ministry of Health and Welfare 2000). The level of cash benefits was estimated at the half of the official poverty line defined in absolute terms (Kwon 2001a), and it had a strict means-test provision. The Public Assistance Programme also had a 'demographic-test', in which those aged between 18 and 65 were automatically disqualified for cash benefits. They were regarded as having earning ability and not deserving income support. The MLSG was set to change such approach to the policy against poverty. First, it changed the concept of poverty from an absolute to a relative one. This means that those who were previously not qualified would be entitled to it, since the poverty line rose significantly. It also means that the level of benefits would increase, because the MLSG would guarantee a living standard equal to the relative poverty line. Secondly, the MLSG abolished the 'demographic-test' and would provide benefits to those aged between 18 and 65 if their income fell below the poverty line. There are, however, conditions that require these people to participate in job training programmes, public works projects or community services. These are similar conditions to those welfare-to-work programmes. The Korean government implemented the MLSG from October 2000. Does the policy paradigm of productive welfare suggest that the welfare state has moved beyond the welfare developmentalism? In the following sections, we will seek to answer that question.

III. The Reform of the National Pension Programme and National Health Insurance.

The National Pension Programme

The National Pension Programme was one of the first social security programmes that the Kim Dae-jung government took on for reform. It was, however, on the reform agenda before the economic crisis of 1997-98. The previous Korean government published a discussion paper entitled *Institutional Reform of the National Pension Programme*. The paper's main purpose is to invite contributions to a social debate on how the National Pension Programme should be reformed. It acknowledged that the Programme would be faced with financial crisis without reform. According to its projections, the fund for the Programme would run out by the year 2033 (Committee for Social Security 1997: 33). In other words, either the National Pension Programme would not be able to deliver pensions as it had promised, or the Korean government would have to put money into the Pension Fund, unless the present conditions are not changed.

In my previous study (Kwon 1999), I argued that the National Pension Programme promised internal return rate too high to deliver. This projection was based on assumption that Korea's economic growth would be modest in the future compared to the past such as in the 1970s and 80s, and that the National Pension Fund would be an average institutional investor in the money market. While my study used a simulation of participants' individual life cycles, another study by Moon (1995) conducted a macro-level simulation based on certain assumptions on macro-economic indicators in the future. Moon's assumption was based on the prediction that the Korean economy would have stable interest and inflation rates. Having applied a different methodology, Moon also concluded that the level of pensions was too high to sustain.

In contrast to these studies, some of pressure groups such as the Citizens' Coalition for Participatory Democracy argued that inefficiency in the management would cause the crisis in the financing of the National Pension Programme. The group pointed out that the Korean government had borrowed more than half of the National Pension Fund by 1996. It went on arguing that it was

unconstitutional for the government to borrow capital from the National Pension Fund with a cheaper interest rate than that of the money market.⁴ However, this argument did not take into account risks involved in high yielding investment. The National Pension Fund would have lost a great deal of investment during the economic crisis, if it had put money into the money market. Nevertheless, we need to contemplate why such criticisms were raised regarding the National Pension Programme. It was largely due to the lack of accountability and transparency in operating the National Pension Programme. Many past directors of the Corporation of the National Pension Programme, quasi-governmental agency responsible for operating the Programme, were political appointees, often without proven records in the field. With respect to the investment decisions, the Minister of Finance and Economy made most decisions based on the Public Management Law without consulting parties involved. The National Assembly was not able to hold the Minister accountable effectively since the governing party had overall majority most of time.⁵

The Kim Dae-jung government made three important policy decisions for reforming the Programme. First, the level of pensions will be lowered so that the expenditure in the future will be smaller. Secondly, the Programme is to cover the self-employees, farmers and urban informal sector workers, who were previously outside the Programme. Lastly, a steering committee was set up to consult the Ministers of Finance and Economy, and Health and Social Welfare in investment decisions. This committee includes policy experts, business and trade union representatives and pressure group activists as well as the officials from the government. The new rules were implemented from December 1998.

Does this reform of the National Pension Programme suggest the change in the paradigm of social policy? It is difficult to answer the question in a conclusive manner since the reform was carried out in the midst of the crisis, long before the government launched the initiative of 'productive welfare'. Nevertheless the reform tackled difficult issues, such as lowering internal return rate, extending the coverage and enhancing accountability. What was also significant in this reform was what was not

included in this reform. The previous government wanted to privatise partially the National Pension Programme. According to this idea, the National Pension Programme would only retain the basic pension component and the earning-related component would be privatised (Kim, Yon-myung, 2001). The Kim Dae-jung government rejected this idea and maintained the structure of the National Pension Programme. Despite the reform in 1998, the financial sustainability is still in question as some provisional estimation suggested (Kim Won-sik 2001). In a nutshell, the Korean government consolidated the National Pension Programme by the 1998 reform, but it did not follow the privatisation route that was advocated by many neo-liberal experts.

National Health Insurance

National Health Insurance was introduced in Korea in 1977 and began to cover the whole population from 1988 in association with the Health Assistance Programme. In the year 2000, the fragmented health insurance funds were integrated into a National Health Insurance Fund, although the financial integration was postponed until 2003. Despite this relatively rapid development in public health care, National Health Insurance has been subject to intense political debate over the last twenty-five years.

At the beginning, National Health Insurance had the typical characteristics of the developmental welfare programme. It started with large-scale companies with more than 500 employees in 1977 and public sector workers and private school teachers in the following year. The role of the state in the financing of National Health Insurance was a regulator, which means that the government only enforced the rule but did not provide funding. Thereafter the National Health Insurance scheme rapidly expanded its coverage to the salaried and wage earners employed in smaller companies. In contrast, those who had no recognised employers such as farmers, the self-employed and informal sector employees and the unemployed, remained outside the scheme. This was partly because of the arrangement for contribution, under which the employers and employees each paid half of the contributions to National Health

Insurance. (In 1980, the average contribution rate was 1.9 per cent of wages and 2.62 percent in 1999⁶.) The above-mentioned groups of people did not have employers who would have paid their half of the contributions, and the government was not prepared to pay the equivalent share for those without formal employers. There were also other reasons for this, as Mills (1985: 80) explained. “Social Insurance schemes are concentrated in the industrial sector in developing countries not least because wages and profits are high enough for compulsory levies to be paid, and the structure of wage employment makes collection of the levies feasible.”

It was the 1988 presidential election that gave a rise to a change in the developmental characteristics in National Health Insurance. The 1987 presidential election was held under the democratic constitution, and no candidate could ignore the grievance of people left outside National Health Insurance in a very competitive election. All candidates, including Mr Rho who eventually won the election, promised that National Health Insurance would cover all citizens. After this change, the state began to play the role of provider for the regional members in the financing of National Health Insurance, while it maintained the role of regulator with regard to various employees’ insurance funds.

Table 1 Coverage of National Health Insurance 1977-1989 (percentage against the whole population)

| | Industrial | Public | Occupational | Regional | Others | Total |
|------|------------|--------|--------------|----------|--------|---------|
| 1977 | 10.33 | -- | -- | -- | -- | 10.33 |
| 1978 | 10.34 | 10.15 | -- | -- | -- | 20.49 |
| 1981 | 18.70 | 10.27 | 0.06 | 0.47 | 0.19 | 2010.69 |
| 1984 | 28.75 | 10.11 | 2.02 | 0.97 | 0.53 | 2026.38 |
| 1987 | 36.01 | 10.50 | 3.17 | 0.76 | 0.69 | 2038.13 |
| 1988 | 38.76 | 9.67 | 2.58 | 16.15 | 0.64 | 2055.8 |
| 1989 | 38.96 | 10.55 | 0.00 | 44.69 | 0.00 | 2083.2 |

Note: per cent of members and their families respectively.

Source: National Health Insurance Agency, Health Insurance Statistical Yearbook (1990).

Even after National Health Insurance became universal, the health funds within National Health

Insurance were managed separately in terms of collecting contributions and paying hospitals for treatment of their members. There were 409 health funds at its highest point, and their financial situations varied considerably. For example, the health fund for public employees and private school teachers was in a good shape since the levies were deducted directly through their salaries. Compared to this, the regional health funds, which covered the self-employed, informal sector workers and the elderly, had difficulties in collecting levies, which in turn made their financial situations precarious, despite the low spending of their members compared to other groups (see Table 2).

Table 2 The relative health expenditure of National Health Insurance by groups

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------------|------|------|------|------|------|------|
| Public employees | 100 | 100 | 100 | 100 | 100 | 100 |
| Industrial workers | 83.6 | 86.0 | 82.6 | 83.9 | 82.4 | 88.2 |
| Regional members | 86.4 | 86.7 | 83.8 | 86.4 | 77.6 | 82.6 |

Source: National Health Insurance Statistical Yearbook, 2000.

After the 1988 general election for the National Assembly, the opposition parties passed the bill for unifying all health funds into a national fund, taking advantage of the unusual situation in which the opposition parties had more seats in total than the governing party. A national health fund would have paved the way for financial transfers between different categories of people. Industrial workers and public employees made clear their strong objection to the merger of health funds since they would lose out. In the end, this attempt was defeated by a presidential veto.

This situation was ended only in 2000 by the Kim Dae-jung government, elected in the middle of the economic crisis of 1997-98. The government decided to merge all health funds into a National Health Insurance Fund, which had long been Kim's policy while in opposition. A central agency, the National Health Insurance Corporation, was set up to manage the national fund and administer the insurance process. Despite the merger, three separate financial accounts for public employees, industrial

workers and regional members respectively have been maintained.

In short, National Health Insurance started with typical characteristics of welfare developmentalism, but it has evolved to become a universal programme with wider pooling of risk. The state has also taken more responsibility for financing. The Kim government played an important role in this process, but National Health Insurance is faced with many problems as we shall see in the following section.

IV. Future challenges for the welfare state

Since the economic crisis, Korea has witnessed a rapid expansion of the welfare system following a series of economic reforms. Such an active policy, however, led to a number of challenges for the Korean welfare systems, which should be addressed in the near future. First, it is necessary to consolidate the welfare programmes that were expanded or introduced during the economic crisis. In particular, the Employment Insurance Programme was extended to cover the almost entire employees. It is so in theory, but does it really cover them all? The National Health Insurance scheme and the National Pension Programme are faced with similar challenges in enforcing programmes effectively. National Health Insurance became a universal programme in 1989 and the National Pension Programme was extended in 1999 to cover the entire working population except those in other statutory pension programmes such as the Public Employees' Pension Programme and the Private School Teachers' Pension Programme. Since these programmes are the insurance programmes, people need to pay contribution to be eligible to benefits. There are number of citizens who have not been paying contributions for some time, and in consequence they are not actually entitled to benefits. Table 3 shows the proportion of people who are paying for social insurance among the employed. It shows that most regular employees who are by and large employed in large-scale firms are paying contributions for their entitlements, but temporary workers

who are mostly employed medium- and small scale-firms failed to do so. The quasi-governmental agency in charge of the management of the programme seems to find it difficult to enforce the rules for all categories of workers. In the case of those who do not pay contribution to National Health Insurance as employees, they are likely to do so as residents. However, regarding the National Pension Programme and the Employment Insurance Programme, such possibility is very low. This strongly suggests that it is long way off from the universal coverage of social insurance.

Table 3 Social Insurance Coverage by employment status in 2001 (in per cent)

| | National Pension Programme | National Health Insurance | Employment Insurance Programme |
|-------------------------|----------------------------|---------------------------|--------------------------------|
| Wage and salary earners | 51.8 | 54.3 | 46.9 |
| Regular employees | 92.7 | 94.8 | 80.0 |
| Temporary employees | 19.3 | 22.2 | 20.7 |

Wage and salary earners = Regular employees and Temporary employees

Source: Kim, Yuson (2001), 'The Size of the temporary work-force and their employment conditions', <http://www.klsi.org> visited on 27th November 2001.

Secondly, there is a growing concern on the sustainability of the programmes especially for National Health Insurance and the National Pension Programme. The finance of National Health Insurance fell into deficit due to the increasing benefit days, widening the range of health service available within National Health Insurance. In addition, the government decision to increase fees for physicians and hospitals dealt the finance of National Health Insurance with severe blow during the period of 2000. Medical doctors were on strike against the government policy to redefine the division of labour between physicians and pharmacists.⁷ Citizens had to suffer from a number of disruptions in the health care systems, did not show strong support for the reform. It is also worth remembering that President Kim failed to win an overall majority in the general election in April 2000. Kim government had to make concessions to carry through the reform given the weakness at the National Assembly. Kim government increased health care

fees for doctors and hospitals by almost 60 per cent during the period of year 2000. In March 2001, the chief executive of National Health Insurance announced that National Health Insurance would be financially bankrupt in a month's time unless the government provided the extra funding (see Table 4). The government provided an emergency funding, but it caused a national outcry for the Kim government policy. It is an urgent task for the government, the National Health Insurance Corporation, medical professionals and ordinary citizens to find a sustainable formula for the financing National Health Insurance.

Table 4 The current accounts of health insurance funds (billion won)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|------------------|-------|-------|-------|-------|-------|--------|---------------------|
| Revenue | 5,614 | 6,631 | 7,554 | 8,230 | 8,892 | 9,529 | 10,953 ¹ |
| Expenditure | 5,076 | 6,464 | 7,795 | 8,788 | 9,610 | 10,538 | 13,623 ¹ |
| Current accounts | 538 | 167 | -241 | -558 | -718 | -1,009 | -3,971 ² |
| Reserve fund | 4,120 | 4,002 | 3,785 | 3,036 | 2,243 | 919 | -3,053 ² |

¹ By November 2001; ² projection

Source: MoHW (2000), *National Health Insurance Statistical Yearbook, 2000*; MoHW (2000), 'The financial situation of National Health Insurance and Policy for financial stability', mimeo.

With respect to the National Pension Programme, there is also a similar problem although it is not as urgent as National Health Insurance. The National Pension Programme has an unsustainable structure in which the internal return rate is set too high to deliver in the era of low economic growth, despite the reform in 1998. Kwon (1997) pointed out that it was strongly related to the developmental paradigm of social policy, which regarded the National Pension Programme as a measure of mobilising capital rather than a public pension programme. Since the National Pension Programme requires at least twenty years contribution to be eligible for full pensions, it has only accumulated fund since its introduction. Once pensions are being paid out from 2003, the fund will run out in years time unless there will be a reform in the financing structure.

Thirdly, there is an equity issue in burden sharing for the welfare programmes. Since social insurance premiums are not decided by the risks involved but person's ability to pay, it is essential to have correct information of income of the insured. At the same time, however, there is always a tendency of underreporting their income, particularly in the cases of the self-employed, in most societies. Korea is no exception, but the problem Korea is faced with is that the size of people and business that are waived from filing tax documents is exceptionally large due to the antiquated tax system (see Table 5). Among those who pay taxes, only 43.3 per cent pay their taxes based on bookkeeping. Because this problem, it is believed that a great number of the high earning self-employed and professionals such as practising lawyers and physicians pay much less taxes and social insurance contributions than they should do, while wage and salary earners taxes and contributions are directly deducted from their pay cheque. As the country's social insurance programme have been extended and integrated, there has been growing uneasiness among wage and salary earners about the inequity in burden sharing. This problem, however, needs to be tackled in terms of tax reform rather than that of the welfare system. Most Korean governments in the recent history including the Kim Dae-jung government have been reluctant to take up such challenge, but it will cause a great concerns and problems in the future unless necessary steps are taken.

Table 5 Tax returns of other than wage and salary earners (Global tax payers) (1999)

| | | | |
|---------------------------|-----------|----------------------------|-----------|
| Global Tax Payers | 3,407,662 | Taxpayers to file return | 1,342,153 |
| Those under tax threshold | 2,047,371 | Based on estimated income | 748,762 |
| Taxpayers to file returns | 1,360,291 | Based on bookkeeping | 593,391 |
| Ratio of those filing | 39.9 % | Ratio of those bookkeeping | 43.3 % |

Source: National Tax Service (2000), *Statistical Yearbook of National Tax*, Seoul: NTS.

V. Concluding remarks

Korea's social policy response should be much of interest for policy makers in the East Asian region and beyond. Confronted with the economic crisis of 1997-98, Korea adopted active social policy initiatives to overcome problems, and appear to have succeeded with these strategies in terms of social stability, cohesion and prospects for renewed economic development. In the process of social policy decision, Korea was able to create broad-based social and political consensus across major political actors and organizations in the labour market, notably the business, the labour and the government. The Korean government wanted to develop the welfare state further beyond meeting social policy requirements arising from the economic crisis. President Kim advocated the idea of productive welfare, which places emphasis not only on social policies that are instrumental for economic competitiveness but also social rights for every citizen. This paper sought to answer whether the Korean welfare state shook off the characteristics that are typical to welfare developmentalism by such social policy responses in Korea since the economic crisis.

It would, however, be difficult to answer such questions without reservation. The reforms of the National Pension Programme and National Health Insurance took place before President Kim explicitly launched his new initiative of productive welfare in 1999, but there were important changes, which tackled the problems arising in the period of the welfare developmentalism. Those programmes became universal in the sense that the coverage was extended to all citizens and risk pooling became wider. New institutional arrangements were set up to enhance accountability in the governance of the social welfare programmes. Although I analysed it elsewhere (Kwon 2002), the reform of the public assistance programme is one of the clear examples that indicates that the welfare state in Korea has moved beyond the welfare developmentalism that subordinated social concern to economic consideration. At the same time, it is important to note that the basic structure of the welfare state remains almost same and that

economic consideration such as enhancing competitiveness is still placed high on the government agenda.

There are also many future challenges for the Korean welfare state to address in the near future. Although the coverage of the social programmes was extended, they have not reached all population targeted. It is also a big challenge for the Korean government and citizens who have to pay for the social programmes in the end to ensure the financial sustainability of the welfare state. At the moment, the Korean government has increased duties on tobacco, which is easier solution in the short-term, to provide extra-funding to National Health Insurance. For the longer-term, the Korean government has to decide whether it would reform the antiquated tax system. It will be a real test in the future.

Notes

¹ Esping-Andersen (1997) disagrees with the suggestion of a fourth welfare regime. Instead, he argues that Northeast Asian welfare systems are a hybrid of the conservative and liberal regimes.

² The Employment Insurance Programme was introduced in 1995 but it was applied to only small part of the working population working at the large-scale firms.

³ The Employees-Employers-Government Committee began to falter after the country came out from the emergency situation. There emerged a critical weakness in this tripartite committee after the initial success. The participants in the committee were often unable to get their house in order to carry out the reform measures, an essential requirement for honouring the compromise (Park 2000).

⁴ *News Plus*, 7 March 1996 (in Korean).

⁵ The overall majority of the governing party was often made artificially after the general elections, which had not produce such an outcome. In order to entice some opposition members to cross the floor, the government put them under pressure, threatening to reveal their wrong doings.

⁶ Wages here means not actual take-home payment but 35 bands of Standard Monthly Wage.

⁷ For many years it has been allowed for physicians to sell medicines as well as to diagnose patients while pharmacists have been allowed to sell medicines without prescriptions. The government wanted to correct this by the redefinition policy.

Bibliography

- Chung, Kyungbae (2001), 'Productive Welfare as Korea's Welfare Model', paper presented at the International symposium on Sharing Productive Welfare Experiences, organised by the Ministry of Health and Welfare of Korea, the World Bank and the Korea Institute for Health and Social Affairs, Seoul, September 2001.
- Committee for Social Security (1997), *Institutional Reform of the National Pension Programme*, Seoul: Committee for Social Security (in Korean).
- Gilbert, N (2001), 'Market Economy and Productive Welfare', paper presented at the International symposium on Sharing Productive Welfare Experiences, organised by the Ministry of Health and Welfare of Korea, the World Bank and the Korea Institute for Health and Social Affairs, Seoul, September 2001.
- Gough, Ian (2001), 'Globalization and Regional Welfare Regimes: The East Asian Case', in *Global Social Policy*, Vol. 1 no. 2, 163-189.
- Holliday, Ian (2000), 'Productivist Welfare Capitalism: Social Policy in East Asia', *Political Studies*, Vol. 48, No. 4, pp. 706-23.
- Kim, Won-sik (2001), 'The Institutional changes in the National Pension Programme', paper presented at the Korean Social Security Association conference, June 2001
- Kim, Yon-myung (2001), 'The Nature of the welfare reform under the Kim Dae-jung government', paper presented at the Korean Social Security Association conference, December 2001.
- Kim, Yuson (2001), 'The Size of the temporary work-force and their employment conditions', <http://www.klsi.org> visited on 27th November 2001
- Kuhnle, Stein (2001), 'Democracy and the Productive Welfare', paper presented at the International symposium on Sharing Productive Welfare Experiences, organised by the Ministry of Health and Welfare of Korea, the World Bank and the Korea Institute for Health and Social Affairs, Seoul, September 2001.
- Kwon, Huck-ju (2001), 'Globalisation, unemployment and policy responses in Korea: Repositioning the state?', in *Global Social Policy*, Vol. 1, No. 2, 213-34.
- Kwon, Huck-ju (2001a), 'Income Transfers to the Elderly in Korea and Taiwan', in *Journal of Social Policy*, Vol. 30, No. 1, 81-93.
- Kwon, Huck-ju (1999), 'Inadequate Policy or Operational Failure? The Potential Crisis of the Korean National Pension Programme' in *Social Policy & Administration* Vol. 33, no. 1, 20-38.
- Kwon, Huck-ju (1998), 'Democracy and the politics of social welfare: a comparative analysis of welfare systems in East Asia', in R. Goodman, G. White & H. Kwon eds. (1998), *East Asian Welfare Model: Welfare Orientalism and the State*, London: Routledge.
- Kwon, Huck-ju (1997), 'Beyond European Welfare Regimes: Comparative Perspectives on East Asian Welfare Systems', *Journal of Social Policy*, Vol. 26, No. 4, 467-84.

- Mills, Anne (1985), 'Economic Aspects of Health Insurance', in A Mills & K Lee (eds.), *The Economics of Health in Developing Countries*, Oxford: Oxford University Press.
- Ministry of Economy and Finance (1998), 'Economy White Paper', Seoul: Ministry of Economy and Finance (in Korean).
- Ministry of Health and Welfare (2000), 'Planning the MLSG for 2001' mimeo, Seoul: MoHW.
- Park Dong (2000), 'The Social Consensus Politics in Korea and its Weakness', in *Korean Political Science Journal*, Vol. 34, no. 4, 161-177 (in Korean).
- Presidential Office (1999), *Productive Welfare for the New Millennium*, Seoul: Presidential Office (in Korean).