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Development Strategies, Welfare Regime and Poverty Reduction in the Republic of Korea

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1. Introduction

Although the quality of life we enjoy is higher than ever before, a billion people in the world still live in absolute poverty. In order to fight against poverty, it is necessary for developing countries, where the majority of poor people live, to endeavour for both economic and social development. The difficult question from this observation is about the development strategies that developing countries should adopt in their pursuit of development. A number of development strategies have been tried for the last half century; some were successful while others only produced disappointing outcomes. This research will examine the Republic of Korea's development strategy that transformed one of the poorest countries in Asia in the 1950s into an industrialized nation with low levels of poverty and a high reserve of human resources. Through this research, we will try to find out a set of mechanisms able to combine economic development and successful poverty reduction.

In order to tackle the task, this paper will first examine the Republic of Korea's development strategy in which the state has played a leading role in economic and social development. In order to capture such policy orientation, this paper will take the perspective of the developmental state but it will elaborate the conception further in order to analyze the institutional dynamics between economic and social policy. The International Financial Institutions (IFIs) such as the World Bank and IMF still maintain that market-driven economic growth is the most efficient way to economic development while the state should only underwrite market institutions. The IFIs continue to argue that market solutions could also meet the social needs of the majority of the population, and that social policy should target the marginal section of society whose needs cannot be met by the market. Considering such arguments, this paper will examine the way in which the developmental state in the Republic of Korea has constructed the policy regime that has been facilitating economic growth and social development.

For many developing countries, the effective state is often one of the important missing components for development (Gough & Wood 2004). Nevertheless there are many cases of successful economic growth where the state has played a pivotal role in organizing key components for economic growth and social development. As Gerschenkron (1962: 358) has made clear, what matters in the advancement of the economy is not the necessity of certain prerequisites but the strategy (or capacity) to organize key components or devices in meaningful pattern according to the degree of economic backwardness. One of the typical examples of the development strategies that the late industrializers took is the strategy of the developmental state, in which the government plays a strategic role in economic development with a bureaucracy that is given sufficient scope to take initiatives and operate effectively (Johnson 1999; Woo-Cumings 1999). It is true that not only the Republic of Korea but also many other developing countries in Latin America and sub-Saharan Africa tried to experiment with the strategy of the developmental state (Kohli 2004; Riesco 2007). While the performance of the developmental states in many developing countries was varied, the Republic of Korea is one of the successful countries with such development orientation, contrary to some observation that the state intervention in economic development would result in failure (Kruger 1974). What are the underlying dynamics that made the Korean experience of the developmental state successful? In this context this paper will examine the development strategy in historical perspective in the Republic of Korea while paying attention to the state-society nexus and bureaucratic capacity of the state in the Republic of Korea.

Secondly, it is of great interest to explore the development trajectories, such as that of the Republic of Korea, which achieve both economic development and low inequality. The classic argument on economic growth and inequality is that while inequality rises in the early period of economic growth, it would came down once the growth is consolidated (Kuznets, Epstein, & Jenks 1941). While this argument is still subject to debates in economic history with respect to developed economies, it is certainly true that economic growth often leads to greater inequality in many developing countries. Income inequality and poverty incidence increase with economic development instead of decreasing. Because of, *inter alia*, rising inequality and poverty incidence, many developing countries which experienced initial economic success could not sustain economic development for a longer span of time. It still remains an elusive task for many fast growing economies, for example China and Viet Nam, to combine economic growth and low inequality.

Thirdly, this paper will look into social protection in the Republic of Korea. Social protection is an essential element of development that protects people from social contingencies and allows individuals to enhance their life chance (Sen 1999). Social protection is provided by a range of collective agencies' efforts, which will include the state's social policies, firm-level welfare programmes, community welfare efforts and family self-help. In terms of social policy, the Republic of Korea has established a welfare state that has been instrumental for economic development while families have been regarded as a main site of welfare provision. Nevertheless welfare developmentalism has changed its complexion in the wake of economic crisis in East Asia. We will follow the change in welfare developmentalism in the Republic of Korea as one mechanism of the Korean developmental regime.

In fact, welfare developmentalism has long been promoted by prominent development scholars (e.g. Midgley 1995; Mkandawire 2004; Myrdal 1974) and United Nations agencies (UN Millennium Project 2005; UNDESA 1971; UNRISD 1980). Improved health conditions for the population through public health care is a great advantage for productivity increase for business. Social insurance for industrial workers protects not only workers themselves but also their employers, liable for compensation for industrial accidents, from financial contingency. More importantly, social policy programmes such as training and retraining develop and preserve human resources and skills of workers in particular. Development of human resources is a vital resource for sustained economic development as well as contributing to broad-based economic development which would in turn reduce poverty and inequality. In this context, it is important for the developing countries as well as developed ones to establish a welfare state that can contribute to economic development while fulfilling its intrinsic goal of social protection, equity and poverty reduction (Hall & Midgley 2004). There are, however, different variations of welfare developmentalism: selective vs. inclusive forms of welfare developmentalism (Kwon 2005).[1] Kwon argues that while the welfare state in the Republic of Korea took the selective form of the developmental welfare state in the beginning, it moved toward the inclusive form in its recent welfare reform. What is the underlying logic of this change?

In order to understand such dynamics, it is necessary to look into other components of social protection. Particular relevant in the context of the present study is social protection provided by private firms. Private firms, whether in manufacturing or services, are the producers of goods and services, the engine for economic development. They are also producers of social welfare particularly for their employees, when it is consistent with their economic interest. But the main purpose of the firms as organizations is not consistent with the provision of social protection for society at large, although such social protection would serve the economic and social needs of the society in general, which may in turn benefit organizations in the end. Nevertheless organizations may provide these services depending on the rules and regulations that shape the relationship between economic interests and firm-level welfare. As we will discuss later, the developmental state brought about such rules and regulations to force firms to carry out functions of social protection.

2. The Policy Regime and the Developmental State

This study will adopt a policy regime approach in order to tackle these tasks since economic development and poverty reduction are outcomes of a range of policies and institutions in different domains of political economy (Bangura 2006; Hall & Soskice 2001). The policy regime approach emphasizes the inter-connectedness and complementary nature of policy choices in different spheres of public policy. In other words, this research will approach the policy regime as a whole, considering the economic and social institutions (and policies) that interact with each other. It will also assume that politics is the medium of inter-connection between policy spheres.

There has been a growing body of literature analyzing economic and social policy from regime perspectives. Hall and Soskice's work on *Varieties of Capitalism* illustrates how economic actors compete and coordinate in order to achieve success according to their respective markets. For instance, Hall and Soskice contrast the liberal market economies with coordinated market economies (Hall & Soskice 2001). Firms coordinate their activities differently depending on the type of market in which they operate. In the liberal market economies, firms interact each other in the medium of competition, while in the coordinated market economies firms coordinate their activities with other firms in the market in order to maintain their competitiveness (Hall & Soskice 2001: 31). According to this approach, the nature of social policy fits the way the firm solves the

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[1] Kwon (2005) divides the developmental welfare state into two types: selective and inclusive types. The key principles of the selective welfare state are productivism, selective social investment and authoritarianism while the inclusive developmental welfare state is based on the principles of productivism, universal social investment and democratic governance. One of typical example of the first type is the Bismarckian welfare state and the welfare states in the Scandinavian countries fall under the second type.

coordination problems with other actors. Liberal welfare states, for example, maintain the flexibility of labour market with means-tested and low levels of benefits by which the firms of the liberal market economy manage their labour force. In contrast the coordinated market economy by and large has established firm-based welfare systems that aim to secure the employees' loyalty and to build the workforce with firm-specific skills.

In the studies of social policy, it is a well-established argument that there are at least three different welfare regimes in capitalist economies: social democratic, conservative and liberal welfare regimes (Esping-Andersen 1990). Three main components of the welfare regime—family, market and the welfare state—share the welfare responsibility according to the type of regime. The predominant political forces that have shaped the prevailing order of the welfare regimes are different. In the liberal welfare regime, it is the political force for free enterprises that maintains the regime; the coalition of the social democratic party and working class is the force behind the social democratic welfare regime; and in the conservative regimes, those who want order and stability are the backbone of the regime. In short, political meaning of social policy is different depending on the welfare regime.

What we can draw from these two strands of literature is that there must be a variety of combinations of production and welfare regimes. It can also be suggested that a set of social policies which can work very well in contributing to economic development under a particular type of policy regime may not do so in other regimes. In other words, one size does not fit all. Further we can set up a hypothesis that in order to bring about synergy effects for economic growth, social policy choice must be compatible with and complementary to the overall policy regime. Huber and Stephens (2001) argue that there is a clear link between the production regime and the welfare regime that a country may have developed. They also argue that countries with different production regimes tend to respond to economic challenges with different social policy reforms. The policy regime we will use in this paper refers to a combination of production and welfare regimes.

For many developing countries where economic and social institutions are often not well-established and functionally differentiated, their types of policy regimes must be different from what have been identified in Europe and North America. In the developing countries where the developmental state strategy is adopted in order to pursue rapid economic development, the state may strongly influence the nature of the policy regime. By definition the developmental state sets economic development as an overriding policy goal and its bureaucracy implements policy programmes to achieve this goal. Nevertheless, adopting the developmental state strategy does not guarantee success. In order to examine the performance of the developmental state, there are three aspects we may have to look into.

First, it is necessary to examine the relationship between the state and society since the developmental state needs to have a high degree of autonomy to pursue its policy goal of economic development (Evans 1995). The state elite might decide to adopt the developmental state strategy, but social forces such as the land-owning class, business or trade unions can frustrate its efforts in order to protect their economic interests. In some developing countries strong social forces which gained their power base under colonial rule may take on the state while in other countries the state may be the only actor that shapes the overall direction of public policy.

Secondly, we need to look into the presence of capable bureaucracy and the environment in which the capable bureaucrats effectively operate. The state bureaucracy needs to have certain a degree of organizational strength: full-time and salaried civil servants with professionalism with a clear hierarchical structure (Weber 1968). It is true that most developing countries are not likely to have an ideal-typical Weberian bureaucracy, but it needs at least a decent corps of bureaucracy to launch an ambitious economic development project. It is not unusual to find people in many developing countries without the necessary competence who have nonetheless obtained jobs in the government by virtue of their political connections. Some bureaucrats moonlight because their salaries are not adequate. In such circumstances, it would be hard to expect the bureaucracy to implement developmental policy effectively.

Thirdly, the state needs to possess the ability to coordinate multiple and sometimes contradictory functions of various institutions in order to achieve goals of economic development. The state should play a key role in setting out the road map of a medium and long-term economic plan and providing the economic actors with an facilitating environment to engage them in the national development process. In other words, the state needs to maintain a certain degree of cohesion among different economic actors (Kohli 2004). But there is sometimes resistance from institutions against certain public policies which may contradict or fall outside their economic and political objectives. It depends on the ability of the developmental state to persuade these institutions to carry out the tasks which fall outside their function, but which are necessary for the overall framework of economic development. Indeed, the ability of the state to coordinate and mobilize institutions for policy objectives would be the key to maintaining coherence of the policy regime, and connecting the production and welfare regimes within it. In the following sections, we will attempt to answer the questions raised in the first section by considering these three aspects of the developmental state.

In terms of the time-span of the research, we will cover the four decades since the Republic of Korea embarked on industrialization, but will focus on a number of discrete points in time when important changes took place. In particular this study will set out the four periods in modern Korean history of development, which will run through this paper: first the post-independence era of 1945-1960 when the land reform, Korean War and the subsequent recovery efforts took place after the liberation from the Japanese occupation; secondly, the launch of state-led economic development and the formation of a number of developmental social policies in the early 1960s though to the 1970s; thirdly, the adoption of stabilization policies with mounting democratization pressure in the 1980s; fourthly, neo-liberal economic reform and the strengthening of the welfare state after the economic crisis of 1997; and finally the adoption of redistributive policies by the present government (2003-). This paper will not describe these periods of development, which have been done by previous work, but will focus on the issues discussed above against the background of these developmental experiences.

3. Society and the Developmental State Nexus

Overview of the trajectory of development strategies

There has been a large body of extensive research on the Republic of Korea's development strategies, and a series of debate on the role of the government in economic growth. For the present purpose of this paper, we will first provide an overview of the historical trajectories of development strategies according to the above mentioned four periods of the Korean modern development history. The paper will then discuss the nature of the development state from the perspective of regime approach as we have discussed so far.

The Korean governments in the post-liberation period found it difficult to implement meaningful economic policy not only because of the industrial vacuum that the Japanese had left in 1945 but also because of the destruction of the Korean War. The main aim of economic policy was import substitution industrialization, but the economic outcomes were not impressive. Nevertheless, the Rhee government (1948-1960) laid the important grounds for economic development in the 1960s with the land reform. In the next section of this paper, we will discuss the nature and outcome of the land reform in this period.

After the short-lived Chan Myon government (1960-1961), the Park government (1961-1979) launched the state-led economic development policy. The Park government shifted economic policy from import substitution industrialization to export-led development in the middle of the 1960s. During this period, the economy started to record impressive growth, and poverty reduction took place. Later in this paper we will argue that poverty reduction was not only due to the economic growth but also as a result of the developmental state's ability to coordinate various agencies and mobilize them to perform multiple functions for poverty reduction. From the early 1970s, the Park government implemented economic policy aimed at the establishment of heavy and chemical industry while his grip on power was strengthened by the constitutional reform, moving further away from democracy.

The Park government's new focus on capital-intensive heavy and chemical industry coincided with the labour supply from rural areas reaching a limit in the early 1970s, and the beginning of US military withdrawal from the Republic of Korea. The