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The Economic Crisis and The Politics of Welfare Reform in Korea

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prepared for the UNRISD project on
Social Policy in a Development Context

in the UNRISD programme on
Social Policy and Development

November 2002 • Geneva



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Abstract

Since the economic crisis of 1997-98, Korea has witnessed a rapid expansion of the welfare state following a series of reforms. This paper examines the reform policies on income maintenance programmes for the unemployed and the poor and in the public health care system, including the reform of National Health Insurance and the policy for redefining the work of health care professionals. It tries to answer why these reforms went beyond the functional minima necessary to cope with social problems caused by the economic crisis. This paper pays particular attention to the advocacy coalition of the welfare-idealists, who were the driving force behind such reforms. At this historical juncture of the economic crisis, the advocacy coalition of the welfare-idealists had successfully grabbed a number of strategic points of decision-making, including the presidential office. This was an illuminating contrast with the welfare-idealists of the past, who were small in numbers, scattered in the different ministries and universities and unable to form an effective advocacy coalition. The present-day welfare-idealists who share the same belief are different from the predecessors in that they are prepared to take to the street, engage in legal disputes with the government, and interfere with strikes by trade unionists, and were also able to implement a strategic plan in pursuing their policy. More importantly, however, President Kim needed the welfare-idealists in order to carry out structural reforms, and to win the general election. This ultimately provided the advocacy coalition of the welfare-idealists with the strategic edge to produce the policy outputs they wanted.

Introduction

While many OECD countries have tried to reduce the size of their government and social spending in particular, the welfare states in East Asia have expanded the scope and commanded an increasing bulk of their public financing. The governments in this region have begun to take active responsibility for social welfare in recent years (Eto 2001; Goodman et al. 1997; Kunhle and Hort 2000; Kwon 2001). This trend has been further strengthened after the Asian economic crisis of 1997-1998. In particular, Korea, one of the victims of the crisis, has witnessed the rapid expansion of the welfare state since the economic crisis. The Employment Insurance Programme has been extended to small-scale workplaces to cover the newly unemployed amidst the economic crisis. Emergency public works programmes have been implemented to create jobs for the low-skill workers who would otherwise have been unemployed with no social protection. The Korean government has also introduced a new income support programme for the poor. This programme, the Minimum Living Standard

Guarantee (MLSG), will give benefits to those below the poverty line, increased to a much higher level than previously defined. It also aims to cover the wider population of the poor. The health care system was also reformed during the period of 1998-2000. A quasi-governmental agency was set up to manage integrated National Health Insurance, and the functional division of health care professionals, notably between physicians and pharmacists, was redefined. The question arising from this observation is why Korea has extended its welfare state, at a time when neo-liberal ideology has been predominant in public policy discourse in Korea and abroad.

A prima facie account for such policy responses could be a crisis-and-response theory, based on the explanation that the economic crisis increased the demand for social welfare and that the Korean government, in response, extended the welfare programmes to alleviate the hardship of its people. This explanation would be consistent with the IMF policy recommendation, which advised the Korean government to improve its social safety-net in order to carry out structural reforms. This explanation is true to a large extent, but it leads us to further questions. First, the policy strengthening the welfare state was not the only option to choose in order to overcome an economic crisis. A number of Latin American countries resorted to authoritarian politics to contain popular demand instead of adopting welfare policies when they were faced with economic crisis (Stallings 1999). Some European countries, such as the UK, implemented austere policies when they were faced with economic recessions in the 1970s and 1980s. We need to look into the political and economic context in which Korea chose the welfare option rather than other options. Secondly, the crisis-and-response theory cannot explain why some of the welfare reforms that were not directly related to economic restructuring took place. The reforms in some areas of social policy dealt with long-term structural issues rather than short-term requirements arising from the economic crisis. There was also a major shift in the policy approach to public assistance, which used to be like that of the poor law. Under the newly introduced income support programme, the MLSG, those whose income falls below the poverty line can claim income support as their social right, and the state is obliged to provide such support. The poverty line, which used to be defined in terms of absolute poverty, has been raised to a level near to relative poverty. This was a change in principle.

Welfare reforms since the economic crisis cannot be fully explained by the crisis-and-response theory, since reforms have been carried out beyond the functional minima required by the economic crisis. To answer the question as to why Korea attempted to carry out the reform towards a more comprehensive welfare state in the wake of the economic crisis, it is necessary to look into the politics of welfare reform in Korea, in which two different advocacy coalitions have competed for the policy paradigm since the 1960s.

‘Advocacy coalition’, here, refers to the group of actors from various public and private organisations who share a set of beliefs and who seek to realise their common goals over time (Sabatier 1986). Of course, an advocacy coalition cannot spring up simply because some political actors, policy experts and concerned citizens share a belief system and policy goals. An advocacy coalition needs a closer network of contact, co-operation and organisational structure, though often informal.

This article will examine the way in which those advocacy coalitions competed with each other and achieved success or failed to produce the policy output they pursued. It will examine political strategies of advocacy coalitions from an historical-institutional perspective, which will enable us to look into the institutional dynamics in which individual actors as well as groups of political actors interact with each other (Hall 1986; Steinmo and Thelen 1992). I will argue that, after the long period when economic-pragmatists exercised a strong influence in policy making, the advocacy coalition of the welfare-idealists was able to grab the effective point of decision amidst the economic crisis of 1997-98, which had altered the course of political competition and to a great extent changed the socio-economic conditions in Korea. Once the welfare-idealists had gained the strategic advantage over the economic-pragmatists, they were able to produce the policy outputs that had eluded them for the last four decades. Before we move to the politics of reforms in social policy, it is necessary to look at the social impact of the economic crisis, since it set the context of the politics of welfare reform since the 1997.

Economic Crisis and Its Social Impacts

Although the economic crisis of 1997-1998 pushed the Korean economy near to collapse, Korea managed to come out from the crisis rather well by implementing a series of structural reforms, compared to other Asian economies hit by the crisis. Those reforms dealt with a wide range of economic and social issues ranging from government bureaucracy, corporate governance, and the financial market, to the labour market. Most of the reform programmes were in line with the IMF directives (Ministry of Economy and Finance 1998), and some commentators like Cummings argued that the IMF directives were harsher than was necessary. He contended that the IMF was instrumental for the US to regain its strategic leadership in East Asia (Cummings 1998: 45), as some of the reform programmes had unsuccessfully been pressed by the US government before the crisis (Chung 2000). Nevertheless the Korean government vigorously carried out structural reform programmes, partly because a successful structural reform would enhance foreign investors’ confidence in the Korean economy, which would in turn persuade them to come back to Korea. The Korean government also saw most of the reform programmes as necessary for the economy

and already overdue. For example, a legislative package aiming at the labour market reform was blocked by the opposition parties at the first attempt in 1997 and was toned down at the second attempt in 1998 (Koo 2000).

Three and a half years after the economic crisis, it is still controversial whether those reform programmes have produced their intended outcomes (Islam and Chowdhury 2000; Park 2000b). It is, however, certainly true that the economic crisis of 1997-98 and subsequent reforms have had a significant social impact. It is worth noting, *inter alia*, three immediate impacts of the economic crisis, which subsequently set the context of the politics of welfare reform. In terms of political impact, first, the economic crisis altered the course of the presidential election, which took place at the end of 1997. In this election, the long-time opposition leader Kim Dae-jung was elected to the presidency. During the campaign prior to the emergence of the economic crisis, the governing candidate was leading the race, while Kim Dae-jung was struggling to mend his broken promise that he would retire from politics after his defeat in the 1993 presidential election. His support remained confined to his strongholds, leaving him to trail the front-runner. As the economic crisis unfolded, he successfully presented himself as a national leader who could deal with this unprecedented crisis, which resulted in electoral success.¹ To be sure, one cannot argue that the economic crisis was the only important factor deciding the electoral outcome. Many other factors should be taken into account, such as building a coalition between the opposition parties, and defection from the governing parties. All these events, however, unfolded against the background of the economic crisis, which discredited the governing party and devastated the prospects of its candidate. In the end, the 1997 presidential election produced a victory for the opposition. The transition of political power to the opposition, in turn, changed the political dynamics between political actors and advocacy coalitions in public policy making including that of social policy, although the constitutional configuration remained the same.

Secondly, the Korean bureaucrats were blamed for much of the failure of economic management. Although there are two strands of explanations, they both pointed a finger at the bureaucrats for the mismanagement of the economy (Weiss 1999). The neo-liberal view, which the IMF and the World Bank shared, argued that too much state intervention and opportunistic behaviour had resulted in political favouritism and a lack of competitiveness, which in turn undermined international investors' confidence in the Korean economy. The second view contended that the crisis had taken place due to the weakening of the regulatory role of the state (Chang 1998). Running up to the economic crisis of 1997-1998, the

¹ Before the economic crisis hit the country, Kim Dae-jung was in the second position (Joongang Daily 21st July 1997) but he led the opinion poll in 24th November (Joongang Daily 24 November 1997).

bureaucrats in the economic ministries failed to monitor the rapid increase of short-term loans from foreign lenders, which was an immediate cause of the economic crisis. What also undermined the credibility of the bureaucrats was their initial response to the crisis. According to Kim's study (2000), which observed the behaviour of senior officials running up to the economic crisis, senior officials in the economic ministries were complacent about the possibility of economic crisis, and too arrogant to listen to different views while there were already signs of an imminent crisis. They denied that Korea would ask the IMF to bail out until the US Treasury Secretary refused publicly to provide a bilateral-loan to Korea.

Lastly, the reform package following the IMF bail-out made a great number of people unemployed. The IMF advised the Korean government that interest rates should be maintained at a high level to avoid capital flight. The interest rate even reached twenty-two per cent at one point in 1998. Since Korean firms traditionally maintained a high debt-to-equity ratio, they were vulnerable to the sharp rise in interest rates. Indeed, a great number of firms went into default during the period of 1998. This inevitably resulted in the sharp rise of unemployment. The labour market reform was, however, the most direct cause of unemployment. Considering that the main purpose of the labour market reform was to make the labour market more flexible, the sharp rise in unemployment was at least in the short term, inevitable. The reform had two strands of programmes. One was to allow firms to lay off workers easily, while the other legalised the private agencies to supply labour for other business on a contract basis.

The labour market reform had an immediate impact as shown in Table 1. Considering the Korean economy had slowed down from 1996, the fact that the unemployment rate was kept was at a low level before the crisis showed that the labour market did not indeed have much flexibility.

Table 1. The Trend of Unemployment in Korea (in percent)

Year	Participation	Unemployment	Male	Female
1990	60.0	2.4	2.9	1.8

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