Welfare reform and future challenges in the Republic of Korea: Beyond the developmental welfare state?

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Abstract

Since the economic crisis of 1997-98, the Republic of 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 in clear contrast to the welfare developmentalism that used to place overwhelming emphasis on economic considerations. Despite these reforms, however, the Republic of Korea's welfare state faces the issues of ineffectual implementation and lack of financial sustainability of social policy. The National Pension Programme has failed to cover the majority of irregular workers, whose numbers are on the increase, and National Health Insurance needs to find a way to meet increasing health expenditure.

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The economic crisis of 1997-98 has made a profound impact on society in the Republic of Korea (hereafter, "Korea"). The country that had been used to full employment has been faced with high unemployment. The official unemployment rate reached 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 can no longer be complacent about their jobs. Many new graduates who used to be able to choose one of the best job offers experience a great deal of difficulty in finding their first jobs, while older employees are under pressure to leave the workplaces where they took it for granted that their jobs would be life-long (Kwon, 2001a: 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 continual structural reforms since the crisis, which saw many firms to go out of business. Perhaps this story sounds familiar to readers in many OECD countries that had carried out structural reforms throughout the 1980s and the 1990s, but the social challenge imposed by such reforms was tough one for Korea since it had only a rudimentary welfare state.

Four years on after the crisis, however, Korean economy has now recovered well compared not only with the countries hit by the Asian economic crisis but also with other East Asian countries like Japan, Taiwan (China) and Singapore. The recovery stemmed not only from economic reforms affecting the labour market, corporate governance and the financial market, but also from active social policy initiatives that aimed to provide social protection to those who had lost their job or fallen into 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, elected at the end of 1997 during the economic crisis, extended the Employment Insurance Programme swiftly during 1998, and also overhauled the Pubic Assistance Programme, which is now renamed the Minimum Living Standard Guarantee. This programme is designed to recognize the social right to a decent standard of living for every citizen. 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.

Welfare developmentalism and productive welfare

In a previous study (1999), I 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 a great financial burden on the government, because the government simply introduced insurance as a mechanism which would pool the risks of employers that were already liable for 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 these 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 have called this role of the State in financing welfare programmes that of a "regulator" (Kwon, 1998: 66-67).

The legitimization of authoritarian political power also explains 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 points 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: 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.

Welfare developmentalism, while it contributed to the incremental but steady development of the welfare state in Korea, has some downsides. We may note three important drawbacks among such legacies. First, redistribution took place in such a way that the lion's share 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; 2001b). Second, social policymaking was confined only to a small number of top policy makers, leaving most citizens without a voice. 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. Third, the welfare state was organized 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 Programme swiftly and implemented the public works projects to provide emergency help for those hit by the economic crisis.[2] Of course, the Korean government vigorously carried out structural reform programmes in a number of areas, ranging from government bureaucracy, corporate governance, and the financial market, to the labour market, which led to the high rise in unemployment (Ministry of Economy and Finance, 1998). President Kim convened the Employees-Employers-Government Committee, a tripartite body, 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, called "productive welfare", in his address on National Liberation Day. This new idea, influenced by the Blairite "third way" according to the president's office, placed emphasis on welfare that could be instrumental in the rise of economic productivity (Presidential Office, 1999). He claimed this approach to social policy was different from those of the past, since it recognises the social right to decent living for every citizen 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 items 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 2000a). The level of cash benefits was estimated at half of the official poverty line defined in absolute terms (Kwon 2001b), 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 from receiving cash benefits. They were regarded as having earning ability and not deserving income support. The MLSG was designed to change this approach to the policy to combat 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 now be entitled, 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. Second, the MLSG abolished the "demographic test" and provided benefits to those aged between 18 and 65 if their income fell below the poverty line. There are, however, conditions that require these beneficiaries 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.

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 was to invite contributions to a social debate on how the National Pension Programme should be reformed.

It acknowledged that without reform the programme would be faced with financial crisis. 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 existing conditions were 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 the assumption that Korea's economic growth would be modest in the future compared with the past, such as the 1970s and 1980s, 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, notably 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 pressure groups such as the Citizens' Coalition for Participatory Democracy argued that inefficiency of management would cause a 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 to argue that it was unconstitutional for the government to borrow capital from the National Pension Fund at 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 about the National Pension Programme. It was largely due to the lack of accountability and transparency in operating the programme. Many past directors of the Corporation of the National Pension Programme, quasigovernmental agency responsible for operating the Programme, were political appointees, often without proven records in the field. With respect to the investment, the Minister of Finance and Economy made most decisions on the basis of the Public Management Law without consulting the parties involved. The National Assembly was not able to hold the Minister effectively accountable since the governing party had an overall majority most of the time.[5]

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

Dose this reform of the National Pension Programme suggest a change in the paradigm of social policy? It is difficulty 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 it. The previous government wanted to part-privatize 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 privatized (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, financial sustainability is still in question as some provisional estimations had suggested (Kim, Won-sik, 2001). In a nutshell, the Korean government consolidated the National Pension Programme through the 1998 reform, but it did not follow the privatisation route that was advocated by many neoliberal experts.