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Development Trajectory and Future Direction of the Welfare State in Korea



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Development Trajectory and Future
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I

Introduction



Introduction <<

Since the dawn of industrialization, social welfare has been touted as both a “problem” and a “solution.” The welfare state is a European invention. Early industrialized states in Western Europe sought to counter the collapse of their communities and the impoverishment of the masses by introducing poor laws, mutual aid, and friendly societies. Since those early days, the welfare state has evolved along a trajectory that had led it to be both praised as an excellent mechanism for countering the inherent volatility of the market economy and thereby enabling stable re-production, on the one hand, and criticized as a disruptor of the self-regulating function of the market and inhibitor of economic growth that encourages wasteful spending and discourages people’s willingness to work. What is certain today, however, is that no advanced market economy can survive on its own without some level of welfare. In this regard, South Korea, where the market economy has developed and expanded rapidly, is not exceptional.

Social welfare is an especially complex and serious problem in Korea. In the early years of its industrialization, Korea managed to survive with little of public welfare provision under a series of authoritarian regimes. European welfare states have defined themselves as “civil servants” dedicated to shielding their

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citizens from the volatility of the market—a controversial self-definition, for sure, which we will be touched upon here. By contrast, the Korean state has appointed itself as a leader of economic development, having singlehandedly undertaken massive development projects while favoring the growth of large conglomerates to promote such projects. The growth-centered developmentalism had its validity when abject poverty was pervasive throughout Korean society. Throughout the country's decades of high industrial growth, both policymakers and the general public accepted the authoritarian approach to development that advocated the trickle-down effect. To the Western welfare states that struggled with stagflation in the 1980s, leading them to face near crises of legitimacy, Korea was the most miraculous and threatening of the so-called “four dragons of East Asia.” However, as the state and the market enlarged themselves in Korea during this period, the community and family structures began to crumble.

Watershed moments in the emergence of this development-centered order came in the forms of the Democratization Movement of 1987 and the Asian Financial Crisis of 1997. These two major events, occurring a decade apart, served as decisive catalysts for the radical growth of democracy and welfare in Korea. Democratization gave people the freedom to express their growing and increasingly loud demands for the restoration of civil society and welfare policy. The Asian Financial

Crisis, on the other hand, exposed the depth of long-accumulated contradictions of the state-led developmental economy at both the market and social levels. The two consecutive progressive administrations that governed Korea in the aftermath of the financial crisis did much to ensure the expansion and qualitative improvement of welfare benefits and services in Korea. Whereas the West, however, had 80 to 150 years to address the contradictions of the market economy and build and rebuild welfare states in light of the economic, social, cultural, and demographic particularities of the given societies, Korea's achievement of the same in the span of only three decades naturally involved significant complications. The welfare state was introduced in Korea without in-depth considerations of the premodern, industrial, and postmodern contradictions characterizing Korean society. Most regrettably, it was introduced in the absence of policy-makers' philosophical commitment to the necessity of social welfare as the founding pillar of the welfare state as well as the public's lack of understanding. As they had no meticulous plan for the form and structure of the welfare state, Korean policy-makers introduced welfare programs rather haphazardly and reactively as hurried responses to problems. As a result, some programs grew disproportionately large, while other more necessary ones shrank, leading to major holes in some areas and smaller leaks in others.

In this study, I shall attempt to summarize the trajectory and

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achievements of the Korean welfare state since the days of democratization and the Asian Financial Crisis. I shall then discuss the path-dependent nature and limitations of such evolution, with a view to finding policy implications for the future growth of the Korean welfare state.

II

Trajectory of the Korean Welfare State's Growth

- II-1. Post-Democratization Expansion (1987-1997)
- II-2. Post-Asian Financial Crisis Welfare Expansion

II

Trajectory of the Korean Welfare State's Growth <<

II-1. Post-Democratization Expansion (1987-1997)

Roh Tae-woo, elected as Korea's president through the first direct election held following the Democratization Movement of 1987, recognized the need to switch from repression to persuasion in dealing with the public. Whether as a result of directly mobilizing power resources or of a new political strategy favoring "the carrot" instead of "the stick," a great number of welfare programs were introduced from 1987 to 1997.

As for social security, the National Pension (NP) was introduced first, requiring employers with at least 10 full-time workers to subscribe to the pension insurance policy beginning in 1988. Starting in 1992, the scope of the NP and the Workers' Compensation Insurance (WCI) was expanded to include all employers with five full-time workers or more. The National Health Insurance (NHI), first introduced in 1977 as a requirement for businesses employing at least 500 workers each, saw the threshold number of employees fall radically over the following decade, declining to 300 in 1979, 100 in 1980, 16 in 1982, and finally five in 1988. In addition, separate public health insurance schemes were introduced for rural communities in 1988 and urban communities in July 1989. The health insurance thus became the first of the social insurance pro-

grams to be provided for all citizens of Korea (National Law Information Center (NLIC), accessed on November 1, 2018). Particularly important to note with respect to the rise of the public aid and social service distribution system in Korea during this period is that the introduction of agents specialized in social service in 1988 consolidated welfare as an essential part of Korean policymaking and the country's social makeup (Kang, 2014, pp. 289-290). A series of welfare statutes were also introduced during this decade, including the Gender Equality in Employment Act (1987), Maternal Welfare Act (1989), Act on Welfare of Persons with Disabilities (1989), Act on Promotion of Employment for Persons with Disabilities (1989), Child Care Act (1991), and Act on Promotion of Employment for the Aged (1991). In addition, the Minimum Wage Act was enacted in December 1986, leading to the implementation of a minimum wage in 1988, and public housing for the poor was introduced for the first time in 1989.

(Table 1) Annual Health and Welfare Budgets

(Units: KRW 100 millio, %, %p)

Year	Health and welfare budget (A)	Government budget (B)	A/B (%)	Change over five years (%p)	Percent change over five years (%)
1961	14	571	2.45	-	-
1965	31	946	3.27	0.8 ¹⁾	33.5 ¹⁾
1970	85	4,462	1.90	-1.4	-41.9
1975	426	15,863	2.68	0.8	41.1
1980	1,769	64,785	2.73	0.0	1.9
1985	3,365	125,323	2.69	0.0	-1.5
1990	11,518	274,557	4.19	1.5	55.8
1995	19,838	518,811	3.82	-0.4	-8.8
2000	53,100	864,740	6.14	2.3	60.7
2005	89,067	1,352,156	6.58	0.4	7.2
2010	310,195	2,928,000	10.6	4.0	61.1

Note: 1) Compared to four years prior.

Source: Seven Decades of the Health and Welfare History Compilation Committee (2015a, p. 101, Table 4-1). (Figures in the last two columns calculated by the author.)

Welfare policy grew so rapidly during this decade that the period is also referred to as a “welfare explosion” (Nam, 2018). As the table makes clear, the share of the health and welfare budget soared from less than three percent prior to 1987 to over four percent in 1990, showing an increase of 55.8 percent compared by 1985.

However, under President Kim Young-sam’s government, which is remembered as the first “civilian” (non-authoritarian and non-military) government in Korea, welfare spending remained stagnant and even dropped at some points. The proportion of the government budget occupied by health and welfare spend-

ing was 4.19 percent in 1990, but dropped to 3.82 percent in 1995. The Kim administration then unveiled the Five-Year Plan for a New Economy, joining the global trend toward reducing intervention and boosting the market. The plan changed the Korean state's approach to welfare to non-interventionism. On March 23, 1995, the Kim administration released the "President's Welfare Initiative for Bringing Quality of Life Up to the World Standard" and launched the National Welfare Planning Group. This move reflected the administration's pride in having achieved an economic growth rate of 8.3 percent the previous year, the need to prepare for the upcoming general elections in 1996, and decision to increase welfare spending so that Korea could join the Organisation for Economic Cooperation and Development (OECD). Throughout its five years, the Kim administration's health and welfare budget never exceeded that of its predecessor (Kim and Seong, 2000). Major statutes that were enacted during the civilian government years include the Employment Insurance Act (1993; effective until July 1995) and Rural Pension Act (effective until July 1995). A number of other statutes pertaining to social services were also enacted during this period. While the effects of these statutes were more nominal than substantial under Kim Young-sam's presidency, they nonetheless paved the ground for systematizing the wide range of welfare programs that had begun to take root in Korea at the time. Examples include the Framework Act on Social Security

(1995), Framework Act on Women's Development (1995), Juveniles Framework Act (1995), Mother and Child Health Act (1995), Mental Health Act (1995), Act on the Punishment of Sexual Violence and Protection of Victims (1994), Juvenile Protection Act (1997), Community Welfare Fundraising Act (1997), Act on the Prevention of Domestic Violence and the Protection of Victims (1997), and Act on Enhancement of Convenience for the Disabled and the Elderly (1997) (NLIC, accessed on November 1, 2018).

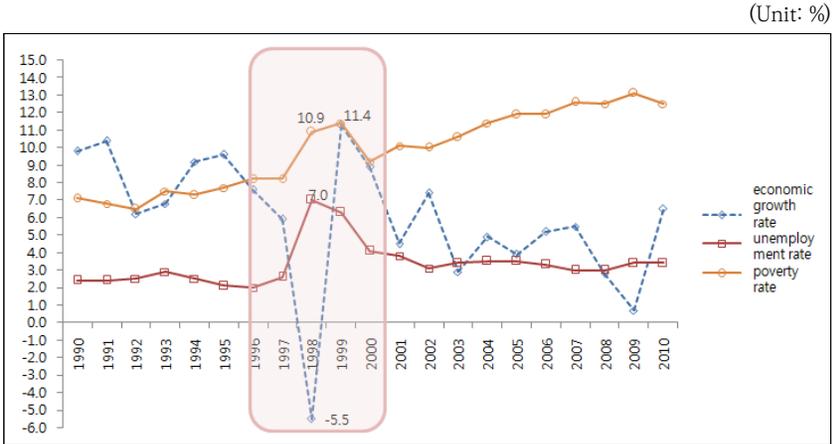
II-2. Post-Asian Financial Crisis Welfare Expansion

II-2.1 Universal Social Insurances and Basic Social Security Net

The Asian Financial Crisis quickly spread to Korea in 1997 as the country was put on a moratorium due to the rapid depletion of its foreign reserves. Prior to this crisis, the only year in which the Korean economy had recorded a negative growth rate was 1980 (-1.7 percent), which was a result of the oil crisis of 1979. The Asian Financial Crisis hit the Korean economy so hard that it recorded an unprecedented negative growth rate of -5.5 percent in 1998 (Statistics Korea, 2015, p. 65).

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[Figure 1] Korea's Fluctuating Economic Performance During the Asian Financial Crisis



Source: Korea Statistical Information Service (KOSIS), economic growth rates, economically active population, and income distribution indicators (retrieved from kosis.kr on December 30, 2018) (graph created by the author).

The social and economic repercussions of the Asian Financial Crisis were on a scale incomparable to that of the oil crisis that Korea suffered in 1980. The unemployment rate rose to 7.0 percent in 1998 and peaked at 8.8 percent in February the following year. The poverty rate, which had ranged between six and eight percent, rose to 10.9 percent in 1998 and 11.4 percent in 1999.

The Asian Financial Crisis led to a groundbreaking reform in Korean politics as well. Although the democratization movement of the 1980s had succeeded in toppling the military authoritarian regime and ushered in direct elections for the presidency, the conservative (military-affiliated) party kept ruling

Korea until 1997. The historic election of Kim Dae-jung, a long-time progressive and democratization champion, as president in December 1997 finally ushered in a decade of progressive government. The destructive effects of the economic crisis and the consecutive elections of two progressive governments conspired to revolutionize and expand the welfare system over the ensuing decade.

It was during this decade that a universal and integrated (at least formally) social security net was finally established. Leading this change was the integration of the public health insurance schemes in 1998. The public health insurance system had thus far been divided between the national system providing medical coverage for workplace-based policyholders, on the one hand, and local medical insurance cooperatives providing coverage for other types of policyholders, on the other. The decentralized and cooperative-based vision of public health insurance clashed with the centralized vision from the very beginning, with the former having prevailed. Under the decentralized system, however, the problems of inequality and fiscal imbalance were unavoidable. Beginning in the early 1990s, in particular, local medical insurance cooperatives began experiencing serious financial difficulties, with 65 urban cooperatives declaring deficits. Under the newly elected Kim Dae-jung administration, the integration of public health insurance schemes was carried out in three phases. Phase 1, which began in October

1998, integrated the finances of local cooperatives and brought local cooperatives and the public/private school staff pension schemes under the control of the National Medical Insurance Corporation, a public enterprise. Phase 2 began in July 2000 with the merging of workplace-based cooperatives with the National Medical Insurance Corporation to establish the National Health Insurance Service (NHIS). Phase 3 was carried out in January 2002, when the finances of all disparate insurance schemes was centralized to provide a single system of universal healthcare (Six Decades of the Korean Economic History Compilation Committee, 2011, p. 143).

The National Pension Act (NPA), amended on December 31, 1998, and effective starting the following day, brought the National Pension to all Korean citizens, including self-employed people, thereby becoming the first social insurance to become universal. Policymakers sought to reinforce the pension's ability to secure people's post-retirement income by reducing the minimum period of time required for eligibility to claim benefits and introducing installment-based benefit payouts. They simultaneously reformed the pension system to ensure its fiscal sustainability by lowering the pension income to 60 percent of lifetime income and raising the eligible age, phase by phase, to 65. The raising of the eligible age was expected, as the National Pension was introduced on an accumulative basis (with comparatively low contribution rates), yet with promises

of high levels of defined benefits. Policymakers stressed the rationality of their reform by pointing out that it was necessary to make the benefits universal and ensure long-term fiscal sustainability. Given its accumulative basis, the National Pension struck the public as “forced savings” and encountered strong objection from low-income groups, including small businesses (with fewer than five workers), temporary and day laborers, and self-employed earners. Nevertheless, the three phases of reform helped usher in an age of universal public pension within a relatively short span of time (Nam, 2018; Six Decades of the Korean Economic History Compilation Committee, 2011, pp. 143-144).

The Employment Insurance, first introduced in 1995, was expanded to include all employees, even those of small businesses employing fewer than five workers each, as of October 1, 1998, under the amended Enforcement Decree. This was in response to the abrupt increases in the number of businesses shutting down and going bankrupt amid the Asian Financial Crisis. The Workers' Compensation Insurance, which was the first social insurance ever introduced in Korea, was also expanded to include all employees, except for those of certain types of businesses (such as small rural businesses with fewer than five workers each) as of July 1, 2000, after the amendment of the Enforcement Decree on June 27 the same year (NLIC, accessed on November 1, 2018). With these measures, the social security net in Korea, which first began to take shape with the Government Employees

Pension of 1960 and Workers' Compensation Insurance of 1963, had become universal after only four decades. Although Korea's social security net is still criticized for lacking inclusiveness and a "good waist," every citizen in Korea is covered, at least formally, by social insurances.

The livelihood security system, which had been providing relief for the poor in the mold of the poor law up until this point, was also finally reformed to create the National Basic Livelihood Security Program (NBLSP), complete with the form and substance of a modern public assistance system. The dismissal, by the Constitutional Court in 1997, of a petition raised in 1994 for minimum livelihood support from the state effectively absolved the Korean state of the responsibility to protect the minimum living conditions of citizens. The Asian Financial Crisis and the International Monetary Fund (IMF)'s recommendation to provide a "denser social safety net" served to reshape public opinion. NGOs, including democratic and labor groups, therefore succeeded in politicizing the overhaul of the livelihood security system. President Kim Dae-jung's so-called "Ulsan remark," which he made on July 23, 1998, set the enactment of the NBLSP Act on an accelerated track (Yeo, 2004, pp. 140-141). After the Act was enacted on September 7, 1999, the NBLSP finally took effect, after some preparation, on October 1, 2000. Its predecessor was a system of categorical public assistance that divided between, according to demographic criteria, home-

bound recipients lacking the ability to work, on the one hand, and self-help recipients capable of working, on the other. The old system gave the former in-kind and some cash benefits, while giving the latter only in-kind benefits, such as opportunities to work and receive training. The new NBLSP, on the other hand, is a general public assistance system that defines recipients not according to whether they are able to work, but according to whether they have sufficient support in the form of family members or personal wealth. The new program provides various types of cash and in-kind benefits, including livelihood, medical, and housing benefits. By adopting an income supplementation approach that supports recipients with cash or in-kind benefits that compensate for shortfalls from the minimum cost of living (“necessary to maintain a healthy and culturally informed life”), the NBLSP also institutionally espouses the national minimum principle, which is a major pillar of the welfare state.

II-2.2. Expansion of Semi-Universal and Near-Poverty Benefits and Social Services

The Kim Dae-jung government finalized the form of the welfare state in Korea by universalizing the four major social insurances and refining the public assistance program, thereby substantiating “solidarity” at the core of the welfare state ideal.

The Roh Moo-hyun government, the progressive heir to the Kim administration, was bent on consolidating the welfare state by overcoming new challenges that characterized the birth of that state, such as polarization, the low birth rate, rapid population aging, and the increase in working poverty. In the meantime, the concern with fiscal soundness and the reigning ideology of “welfare for growth” still shaped and limited the evolution of welfare in Korea.

The Roh administration did not do much in the way of expanding and universalizing the social security net. Rather, the administration undertook reforms in the interest of fiscal sustainability, culminating in the second attempt to reduce pension benefits in continuity with the pension reform of 1998. The income replacement rate of the National Pension was thus made to drop by 0.5-percentage points every year from 2009, from 50 percent promised for contributions over 40 years starting in 2008 (Nam, 2018). The Roh administration stoked controversy further by promoting the industrialization of medicine and introducing bill-reimbursing medical insurances that amounted to privatizing healthcare. The Roh administration also sought to increase the efficiency of the collection of social insurance premiums by centralizing the collection of all four social insurances. The Korea Workers’ Compensation and Welfare Service (KWCWS) thus began collecting the premiums for both the Employment Insurance and the Workers’ Compensation

Insurance in January 2005.

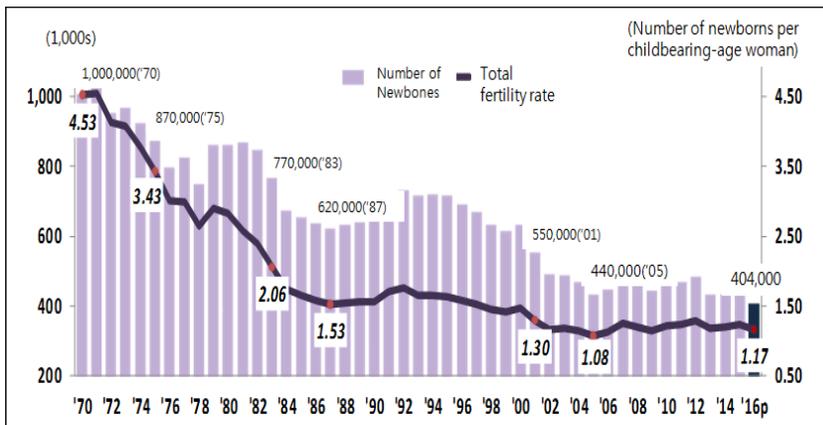
Yet the Roh administration also oversaw a significant expansion of welfare in Korea by introducing diverse cash benefits to narrow the gap between social insurances and the NBLSP and actively diversifying and increasing social services (childcare, Long-Term Care Insurance for Seniors, etc.) to counter the new societal risks arising amid the low birth rate and population aging.

First, as the contribution-based National Pension, low levels of pension income, breadth of blind spots of the pension system, and failure of the NBLSP to protect people with family members able (but often unwilling) to work and support them were causing the elderly poverty problem to worsen, the Basic Old-Age Pension Act was enacted on April 25, 2007, with benefits first paid out as of January 2008. The new pension was designed to pay five percent of the average income of National Pensioners (i.e., the A-value in the National Pension benefit calculation formula) to seniors with recognized income in the bottom 70 percent (Seven Decades of the Korean Health and Welfare History Compilation Committee, 2015b, p. 238).

In addition to introducing the Basic Old-Age Pension to counter rising elderly poverty, the Roh administration introduced the earned income tax credit (EITC) as part of the newly amended Restriction of Special Taxation Act (effective as of January 2007) to provide a kind of wage support for working low-income families. While the EITC was first stated in the statute on December

30, 2006, payouts of benefits did not begin until 2009, based on reported income earned in 2008. The eligibility criteria were rather stringent at first, requiring: (1) annual household income of less than KRW 17 million; (2) presence of at least one child under the age of 18; (3) non-ownership of home or ownership of home valued at KRW 50 million or less; and (4) possession of combined assets of less than KRW 100 million (Six Decades of the Korean Economic History Compilation Committee, 2011, p. 147).

[Figure 2] Changes in Total Fertility Rate and Number of Newborns



Source: Kim (2017), p. 176, Figure 5-1.

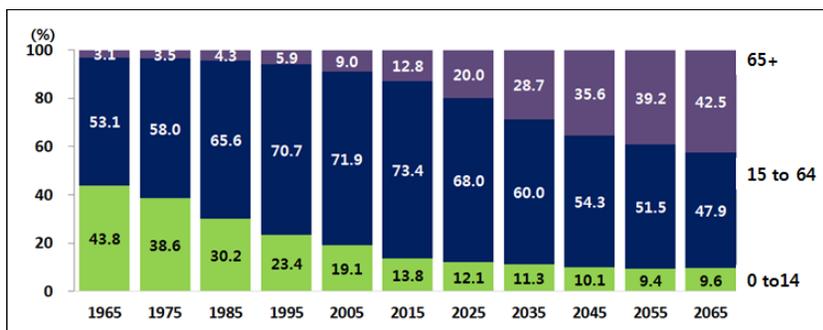
As the foregoing figure shows, the plummeting birth rate fueling the perceived demographic crisis coincided with Roh’s presidency. As the total fertility rate dropped further from 1.17 per woman in 2002 to 1.08 in 2005, pessimistic forecasts of Korea’s future began to abound, point to such issues as long-term labor shortages, contraction of the domestic market, decline in

the potential growth rate, and eventual fiscal crisis due to the abrupt rise in the demand for welfare spending for seniors. The Roh government thus began devising master plans to counter these potential problems, leading to the establishment of the so-called "Bud Plan" (First Mid- to Long-Term Childcare Master Plan, 2006 to 2010). The first and foremost policy response to the plummeting birth rate was to increase childcare services. The plan declared that all infants and toddlers, not just those of low-income households, had the right to childcare services, thereby heralding the age of universal childcare. In addition, income-differentiated childcare allowances and basic subsidies were introduced to benefit even middle-class families during this time (Kim, 2017, pp. 175-177).

Rapid population aging also led to increased demand for making elderly care a societal task. The increase in life expectancy, along with the low birth rate, was expected to dramatically increase the proportion of seniors in the national population and the elderly dependency ratio (ratio of the number of seniors to every 100 working-age people). Whereas the working-age population was projected to reach a peak of 37.63 million in 2016 and decline afterward, the elderly population was projected to increase rapidly to 28.7 percent of the population in 2035 and further to 42.5 percent by 2065. The elderly dependency ratio was thus predicted to skyrocket from 17.5 in 2015 to 50 by 2036 and 88.6 by 2065 (Statistics Korea, 2016).

Such dramatic transformation of Korea’s demographic composition would not only increase the financial burden of elderly care, but also make the provision of physical and mental care for seniors a serious social problem. As Roh had won the presidency in part thanks to his campaign pledge to introduce a long-term care insurance for seniors, the Roh administration assembled the Public Long-Term Care Insurance Steering Group in March 2003. One year later, the Public Senior Care Insurance Executive Committee and its working-level group were created as part of the Ministry of Health and Welfare to develop an execution model. After three trial phases, the Long-Term Care Insurance for Seniors (LTCIS) was finally introduced on July 1, 2008 (Seven Decades of the Korean Health and Welfare History Compilation Committee, 2015b, p. 252).

[Figure 3] Age Makeup of Korea’s Demographic Composition, 1965 to 2065 (Median)



Source: Statistics Korea (2016), p. 9, Figure 7.

Although the Roh administration sought to make the NBLSP more widely available by reducing the measurement period of the minimum cost of living and relaxing the supporting family member and asset-income conversion requirements, the NBLSP remained largely intact. To provide relief for people in need who had been turned away by the stringent family support and asset requirements of the NBLSP, the Emergency Welfare Relief Program was introduced in 2006. Medical benefits were also introduced for near-poverty households.

The Roh administration also sought to devolve social services to local governments in 2005 as part of its pursuit of more balanced regional development and steered the creation of the Community Living Support Service System in 2007 to improve the distribution of public benefits and services. Finally, it also pushed for increasing disability allowances, introducing mobility support for the people with disabilities, and the enactment of statutes prohibiting discrimination against and providing special education for people with disabilities in 2007 (Nam, 2018).

II-2.3. Welfare Stagnation under the Conservative Administrations

Lee Myung-bak and Park Geun-hye were two conservative-leaning presidents who were consecutively elected after Roh left office. Although these two conservative administrations began

with quite different approaches to welfare, they both eventually came to neglect welfare in the end. Lee Myung-bak promised to make economic growth the foremost goal of his agenda when he was running for the presidency. It was therefore unsurprising that his election would lead to a contraction of welfare spending. Park Geun-hye, on the other hand, set out by espousing a much more active welfare policy, so much so that progressives lamented that Park's party had hijacked the welfare frame. The Park administration began by pushing for the overhaul of the Framework Act on Social Security and promising to make the old-age pension universal.

Nevertheless, the two consecutive governments together introduced only a handful of new welfare measures. One was the Durunuri Program, which sought to support underpaid workers working at small businesses who were not included in the scope of the social insurance net. Although the Kim administration sought to make the four major social insurances universal, a significant number of working people had in fact been neglected by the system. After a trial phase in the first half of 2012, the Durunuri Program was launched, in July 2012, to subsidize the National Pension and Employment Insurance premiums of eligible workers working at small businesses employing fewer than 10 workers each. The program specifically funded half of the matching premiums to be paid by both employers and employees (Seven Decades of Korean Health and Welfare History Compilation

Committee, 2015b, pp. 412-13).

While efforts to expand childcare services began under the Roh administration, the Lee administration introduced the universal daycare program for toddlers aged five and under, known as the Nuri Program, as well as free childcare support for all children aged two and under. Later, the Park administration expanded the free childcare support for children aged three and four. Of the OECD member states, Korea is the only country that provides universal and unconditional childcare support for young children irrespective of the parents' income and working status (Kim, 2017, p. 177). The Lee administration also introduced the home care allowance in 2009 for families raising infants and toddlers without the help of daycare facilities. While the allowance initially targeted low-income and near-poverty families only, it was expanded to benefit all families with young children in 2013. These free childcare and home care allowance programs grew rapidly, ostensibly due to the government's urge to counter and stem the plummeting birth rate and also to appeal to young people and parents as constituents. The rapid growth of childcare support, however, sparked controversies over the public nature and quality of the childcare services provided. Moreover, it also led to the escalation of conflicts between kindergartens and daycare centers and between the central government (Ministry of Education, or MOE) and regional educational offices over the allocation of fiscal

resources.

The NBLSP also underwent radical changes. Since its introduction, some had demanded that the programs' benefits be customized to individual recipients' needs. The Park administration restructured the program in July 2015 to tailor all its benefits to individuals' needs. Whereas the Ministry of Health and Welfare (MOHW) had single-handedly decided and paid out all benefits of the program until that point, the change broke the program up among multiple departments, including the MOHW (living, medical, funerary, childbirth, and self-help benefits), Ministry of Land, Infrastructure and Transport (MOLIT, housing benefits), and MOE (education benefits). Furthermore, while the old program had defined and applied the minimum cost of living as the baseline for determining eligibility and the amounts of benefits to be provided, the reformed program introduced a number of different metrics to be defined and applied for different benefits. The reform made it possible for the government to ensure flexibility in the operation of the program. However, it has also been criticized for rendering the minimum cost of living as meaningless as the poverty line and blocking the consistent and integrated evolution of the program due to the decentralization that it introduced.

Park, who won the presidency in part thanks to her campaign pledge to provide KRW 200,000 a month as a basic pension benefit for each and every eligible senior, assembled the National

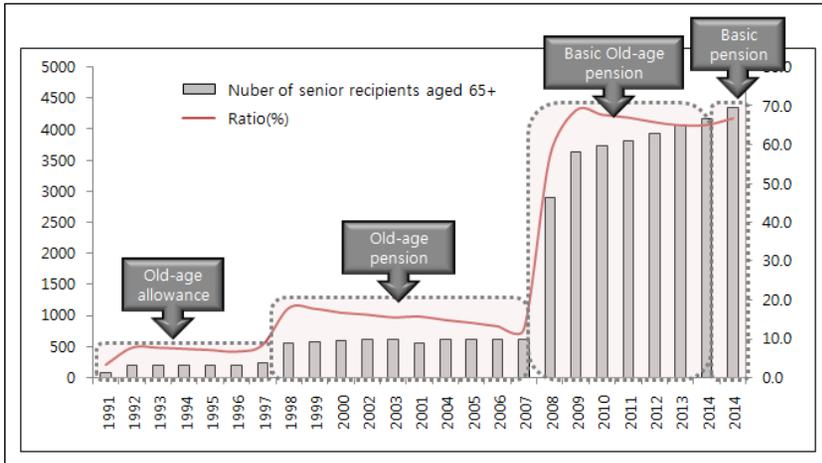
Pension Commission shortly after her election to organize discussions on making the basic pension universal. However, the result, decided in July 2013 and made effective as of July 2014, did not live up to the universal old-age pension plan that was initially touted. It was effectively identical to the existing old-age pension, paying the average income of 70 percent of seniors receiving National Pension benefits, or 10 percent of the A-value (Seven Decades of the Korean Health and Welfare History Compilation Committee, 2015b, p. 239). Except for the change of name, slight increase in the amount of pension benefits, and adjustments made to the basic pension benefits for pensioners already receiving National Pension benefits, the new basic pension introduced was not markedly different from the existing old-age pension.

On the other hand, pursuant to the Disability Pension Act, which was enacted on April 21, 2010, NBLSP recipients and near-poverty individuals with severe disabilities began receiving disability pension benefits as of July 1 the same year. The new pension, however, became a source of much controversy as it represented nothing more than paying slightly more for severely disabled individuals who were already eligible for the disability allowances along with people with relatively mild forms of disabilities.

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[Figure 4] Numbers of Seniors Eligible for Old-Age Income Security Benefits

(Units: 1,000 people, %)



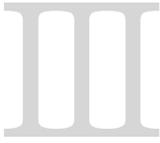
Source: Seven Decades of the Korean Health and Welfare History Compilation Committee, 2015b, p. 240, Table 6-3 (graph created by the author).

III

Discussion and Conclusion

III-1. Discussion

III-2. Conclusion



Discussion and Conclusion <<

III-1. Discussion

The process through which the welfare state grew and expanded in Korea in the aftermath of democratization and the Asian Financial Crisis can be summarized as follows.

First, it is important to remember that the developmentalist state in Korea prioritized economic growth above all else and heavy-handedly directed economic development under authoritarian regimes for decades. Therefore, democratization, the Asian Financial Crisis, and the subsequent expansion of welfare were not enough to put a stop to state developmentalism. The Kim Young-sam administration took a step back from direct and state-led authoritarian development, but it never compromised on economic growth as the guiding principle of all policy objectives. Under Kim's Presidency, statism survived alongside a newfound focus on the market. This new policy focus ultimately led to a particular brand of market economy, led and shaped largely by multinational conglomerates, as the center of economic policy-making. The equal emphasis on growth and the market served to prevent the Kim administration from pursuing its other policy goals, i.e., social equity and balanced development. Instead, it reinforced the policy preference for a less-expensive and low-welfare state in Korea. Remember that

the share of social welfare spending of overall government spending decreased during the Kim Young-sam years.

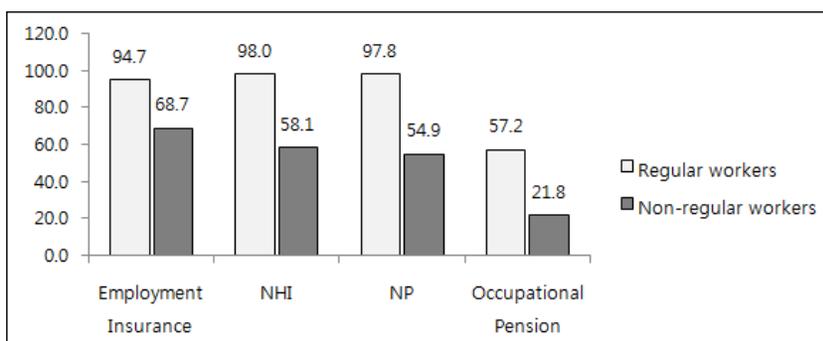
The two progressive governments that were elected after the Asian Financial Crisis were unsurprisingly more pro-welfare than their predecessors or conservative successors. The Kim Dae-jung administration's slogan of "productive welfare," however, did not depart significantly from the economy-focused thinking that still drove much of policy-making and the residual and selective approach to welfare. It wasn't until the Roh administration that welfare was spotlighted. The Roh administration was the first, and remains the only, government in Korean history to have championed welfare as its first and foremost objective. The Roh administration oversaw the transformation of Korea's welfare system, introducing the Basic Old-Age Pension, EITC, LTCIS, childcare services, mobility support services for people with disabilities, Emergency Welfare Relief Program, and Community Living Support Service System. While the Kim Dae-jung administration aligned itself more closely with neo-liberalism and maintained a residual and selective approach to welfare, the Roh administration pursued a more sophisticated, active, and universal approach. Upon closer examination, however, one would find that even the sweeping scope of welfare transformation under the Roh administration failed to set the welfare system apart from the pro-market perspective. The EITC, privatization of childcare and con-

valescent hospitals, and industrialization of nursing and care services are evidence of this point. The privatization of medicine and health services, second drop in the income replacement rate of the National Pension benefits (2007), increased tax breaks for private pension plans, and introduction of retirement pension programs (2005) attest to the fact that even Roh's "Participatory Government" adhered faithfully to the market- and growth-centered view of its predecessors. Despite its status as the most pro-welfare of all governments in Korean history, the Roh administration's welfare policy strategy seemed rather vague and even ambivalent.

Second, notwithstanding the rapid expansion of the social security net, the income security system still has large holes and offers support that is insufficient to satisfy the needs of any beneficiary. The discontinuity of market income beyond retirement is a universal and grave risk faced by the majority of the population. Now that the Korean population is also rapidly aging and life expectancy is increasing, the considerable coverage gap in the old-age income security system is, by far, the most serious problem with the welfare system in Korea today. Other social insurances, however, also have gaping holes. As the graph below shows, non-regular workers and struggling small business workers are especially likely to be excluded from the social security net. Only 69.6 percent of people working at small businesses employing fewer than five workers have employ-

ment insurance, and that figure drops to 68.7 percent among non-regular workers. Although retirement pensions can provide at least some supplement to the already low National Pension income, only 16.5 percent of small business workers and 21.8 percent of non-regular workers participate in retirement pension schemes.

[Figure 5] Employment Status and Coverage of Social Insurances



Note: Special types of non-regular workers are not included.

Source: KOSIS (Social insurance participation rates), kosis.kr, retrieved on September 7, 2018. (Graph created by the author.)

Most importantly, the top-down manner in which the social security net has been expanded, all in the absence of minimum guaranteed income, has meant that the social security net excludes large numbers of the country's most vulnerable people, including small business owners and workers, self-employed people, and non-regular workers. Even those who participate in social insurance plans receive income that falls short of the minimum cost of living. People who work in highly specialized

trades with stable and high levels of income and employees of large corporations and public enterprises who enjoy high job security and at least middle levels of income can earn enough income during their employment to prepare for old age. They are also likely to have multiple other sources of old-age income aside from public pension schemes, such as private retirement plans. Small business owners and workers, non-regular workers, and self-employed people, on the other hand, are not only deprived of stable and sufficient income during their careers and corporate benefits such as retirement pensions, but are also excluded from public social insurances. The security of welfare as social income, in other words, is something that only some lucky people can enjoy and itself serves as a marker of the polarization and fragmentation of the Korean labor market. Although the Korean government has introduced additional programs, such as the Durunuri Program, to address the holes in the social security net, it is unlikely that these social insurance subsidies will tighten the social security net as a whole.

Third, the range and quantity of social services have grown exponentially over the past two decades, whether under progressive governments or conservative ones. Such rapid expansion of social services largely reflects the need for policy intervention in the demographic changes that have been accelerated by the plummeting birth rate and population aging, collapse of the traditional family-based division of labor, and growing demand

for the socialization of care. Although the universalization of social services has taken place in Korea at a rate unprecedented anywhere else in the world,¹⁾ such speed was achieved in large part by compromising on the quality and public nature of the services provided. This has caused the proliferation of under-qualified and small service providers to become a major problem today. “Universal but non-public” social services came about as a result of the state indiscriminately fostering the private sector for care services rather than increasing the number of public channels of such services that can better ensure quality. The current phenomenon, on the other hand, also reflects the “tacit covenant” between the state and the market that has existed since Korea’s liberation from Japanese occupation: namely, the practice of the state starting and financing services, and the market operating those services on the state’s behalf. This phenomenon, of course, is also attributed to the underlying purpose for which the past administrations have expanded social services: that is, to create new industries and jobs. Whether intended or not, a certain form of clientelism has thus arisen among the government, social service providers, and social service workers. This clientelism is supply-centered and for-profit and

1) According to Bettio and Plantenga (2004), a study conducted at a time when the social service regime began undergoing explosive growth in Korea, the quality of child and elderly care services remained mostly poor in southern European states; was at a middle level in Austria, Germany, and other continental European states; and was also mostly at a middle level in northern Europe, except for some in-kind benefits, such as paid leaves.

therefore fosters the multiplication of poor-paying jobs and undermines the quality of care services. Whereas the supply side of social services is well organized and wields a significant influence over the policy-making process, the demand side remains unorganized and maintain stakeholder status only for a short period of time. Going forward, the absence of a mechanism to ensure the adequate representation of service users in the policymaking process will make it even more difficult to ensure that social services cater to public values.

III-2. Conclusion

The welfare state in South Korea has made truly remarkable progress over the past three decades, and it is no longer possible for Koreans to imagine a life outside the welfare regime. Few citizens could maintain the security of their living without the public childcare services and education for their children, basic pension and long-term care services for the elderly, disability services, and universal healthcare system serving all citizens. It is also true, however, that market uncertainty has grown even more over the past decades, threatening our security and future. The polarization of industries and the labor market and the sweeping march of the Fourth Industrial Revolution are accelerating and aggravating inequality and polarization. As

a result, citizens have come to pursue their own welfare, leading them to become engaged in a fierce zero-sum game of ensuring their security at the expense of others. The obsession with investment in education for one's own children, the rising popularity of tedious but stable jobs over innovative risk-taking ones, and the growing tendency to equate welfare with wealth are only some signs of this trend. Despite the impressive growth of welfare in Korea so far, we still need more welfare, and just as importantly, better society-wide understanding of what the welfare state truly is.

We are at a crossroads where we need to decide, first and foremost, to move beyond the developmentalist legacy of the state and strike a better balance between the economic and the social. The old habits of the Korean mind, consisting of growth-centrism, competition for an edge in education, and selfish familyism, still hold sway in the minds of Korean policymakers and citizens alike. The fiercer market competition becomes, the more accepting Korean society becomes of selfish familyism/clannism and self-destructive investment in anything to get ahead of others, most notably education. Engrossment in the market ideology and private investment culminates in inefficient and surplus investment society-wide and inequality in the labor market. This in turn reinforces the desire to reap returns on private investment, which has the effect of strengthening resistance against tax increases. In the meantime, excessive in-

vestment in the education and future of their children leads people to neglect the need to prepare adequately for old age and ultimately contributes to elderly poverty (Yeo, 2014). In a society like Korea, where economic concerns dominate social issues, it is unlikely that a universal welfare state backed by strong solidarity will emerge. We must therefore develop and practice education, for youth and citizens alike, that focuses on social as much as economic issues, despite the painstaking and time-consuming labor such an endeavor would entail.

Second, filling in the holes of the social security net is a task we cannot afford to neglect. To solve this problem, we need more thorough, refined, and purpose-oriented analyses of the current situation in Korea. We need to better understand, and come up with better responses to, the particularities of the Korean labor market amid the global trends of post-industrialization and the Fourth Industrial Revolution. Characterizing the Korean labor market today are the high proportions of non-regular and unpaid workers and the low rate of women's participation. The rapid and top-down expansion of the social security net, furthermore, has stood in the way of the establishment of a universal income security system. A welfare state that does not protect the most vulnerable groups—underpaid non-regular workers, small self-employed businesses, non-working women, etc.—is a failed welfare state. A social security net that is designed to prioritize fiscal stability above all else is unlikely to

guarantee minimum income for the poor. Western welfare states have begun to recognize the impossibility of ensuring security and minimum income for citizens with public insurance plans only, and have thus started introducing various supplementary measures. The bifurcation of the labor market and belated start and hurried adjustment of the welfare system makes the same problem all the more serious in Korea. We thus need a more innovative approach to income security.

Finally, it may be a little too late to start, but we must start making efforts to ensure that social services cater to public values and ideals. The sense of crisis caused by the plummeting birth rate and rapid population aging, the need to increase the employment of women, the demand to create new industries and jobs, and the proliferation of discourses on the state's role in social services and social investment all generated the momentum that drove the relatively rapid universalization of social services in Korea. In the process, though, the public function and quality of social services were nearly lost. The path-dependent legacy of Korea's developmentalism and the pro-market approach to policy services have left the expansion of social services almost exclusively to the private sector, leading to mixed results. Social services, undoubtedly, is where welfare mixes are most often attempted in many welfare states worldwide. In numerous countries around the world, the finance and operation of social services are functions of a mix of the state, the

private sector, and the third sector. Nevertheless, that social services are meant to serve the public good above all else is a widely accepted core value of advanced welfare states. Although the quick universalization of social services is significant as a policy response to low birth rates and population aging, the failure of social services to serve the common good is bound to raise skepticism over the legitimacy of massive government welfare spending. The Korean case shows that universalization does not necessarily promote the common good, and that universalism and universalization are separate matters. We also need to revisit the tendency to equate universal services with free services. Early proponents of social service expansion called for a balance of cash benefits and social services. Now that the elderly poverty rate easily exceeds 40 percent in Korea, however, we may need to “re-balance.”

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