

Welfare Reforms in Post-Crisis Korea: Dilemmas and Choices

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This paper explicates the welfare reforms executed in Korea after the abrupt financial meltdown in November 1997, and asks whether the same line of reforms will continue further into the twenty-first century Korea. The DJ government's post-crisis policy choice was to pursue an expansion and consolidation of the social welfare system based upon the principle of solidarity. Consequently, the size of social welfare expenditure grew fast between 1996 and 1999. Korean experience of post-crisis years demonstrates the case in which the global integration of economy brought about the fast expansion of social welfare programs. The ultimate question is will this growth continue in the sea of neo-liberal challenges, with the new government's 'Participatory Welfare' whose complete design is not made public yet.

Introduction

Korean society is experiencing significant transformation as the country faces the challenges of global integration. The financial crisis of 1997 was a costly wake-up call, alarming in the astonishing extent of interconnectedness of the global economy. It has demonstrated that no country is allowed to pursue development without regarding global standards or the requirements of global capital. And, at the same time, its deleterious social consequences made serious welfare lacuna obvious. While the Korean government faithfully followed the neo-liberal suggestions, attached to the IMF's lending programs, it earnestly pursued an expansion and consolidation of social welfare programmes as well.

Now six years after the crisis, reforms are still going on. And all now agree that Korea today has departed far from its earlier self, with both politics and market forces pushing toward some re-organisation of the ways in which the whole society is run and managed. After all, the crisis accelerated the process of transition from the pre-crisis 'developmental state' model toward what is more responsive to the twenty-first century global world.

This paper focuses on the comprehensive welfare reforms undertaken by the post-crisis Korean government, particularly the Kim Dae Jung government. In the following section, post-crisis reforms at various fronts will be briefly delineated as an effort of transition from the 'developmental state' to the 'democratic-welfare-capitalist' state in the context of the government's welfare reforms. The third section will look into the welfare reforms actually undertaken in public assistance, social insurance and the increase in welfare expenditure. And the last section will discuss the ways the new government of Rho Moo Hyun approaches the welfare policies, inherited from the previous government.

From a developmental state toward a productive welfare state

Up until November 1997, the performance of Korean economy was cited as a success story. From 1961 to 1996, Korea grew from a war-torn wreck to the world's 11th largest economy and to become the 29th member of the OECD. At the heart of this dynamic emergence of miraculous economy of Korea, commentators agreed, was the strong interventionist state determined to pursue export-led economic growth, together with the availability of a high-quality, low-cost labour force.

This economic performance defied not only the orthodox or neo-liberal economic theories, which stress the economic benefits of a minimalist regulatory role of the state, but also the dependency theory that warned that world trade retards and distorts the development of Third World countries and forces them into a state of dependence. Korea sought to join the world economy by following export-led growth policies, orchestrated by the ubiquitous authoritarian interventionist state. And thereby, Korea actually achieved a phenomenal improvement in its living standards.

But, in November 1997, the Korean economy was shattered by sudden financial crisis. The crisis, which was immediately followed by the inauguration of the President Kim Dae Jung, forced the Korean government to turn to the IMF for an emergency rescue loan. And the stewardship of the IMF destined a whirlwind of neo-liberal reforms in all economic, social, political and public sectors. The President Kim whose economic policies were rooted in the interlocked principle of democracy and market economy, had set out to restructure the economy as a whole. Much of the economic reforms were undertaken in accordance with the belief that in order to ride out the crisis and build up medium- and long-term growth potential, market principles should be enshrined in the economy through the pursuit of market-oriented policies.

Most urgent for the post-crisis government were restructuring the financial sector and improving corporate sector efficiency, since it has to stop the vicious circle of corporate insolvency, which directly led to financial insolvency. The Financial Supervisory Commission was established and had 171 financial institutions (including 5 banks) closed down or suspended by April 1999. Measures to enhance transparency of corporate governance and to strengthen the accountability were undertaken, together with the public sector reforms to create a small and efficient government, incorporating the principle of competition among civil service organisations and personnel.

For the labour market restructuring, the newly elected President Kim Dae Jung launched the Tripartite Commission in January 1998 as the first of its kind in Asia. The Commission rapidly agreed on a 'social compromise to overcome the economic crisis' and thereby a total of 90 agreements on structural adjustments and burden sharing whose major items were subsequently adopted by the National Assembly. Potentially important labour law changes were made to increase flexibility in the labour market by removing barriers to large-scale layoffs. At the same time, the Labour Standard Law came to cover all workers, including those working for a firm with four or fewer employees.

As the crisis has deepened into an economic crisis of massive proportions, the serious welfare lacuna was made clear. For a country that had thrived on expansion and growth over the past thirty years, a contraction of the economy by 5.8 per cent in 1998, which meant an 11 per cent contraction from the positive 5.5 per cent for 1997, was indeed a catastrophe. Unemployment rate soared from 2.5 per cent in 1997 to 8.6 per cent in February 1999. The proportion of unemployed for 6 months or longer sharply increased

from 7.8 per cent in the first quarter of 1998 to 31.2 per cent in the same period of 1999 (OECD, 2000: 27). Headcount poverty rate increased from 2.4 per cent in the third quarter of 1997 to 7.8 per cent in the same period of 1998.

Kim Dae Jung government quickly acknowledged the need for the social safety net, and expanded it quite earnestly. The distinct feature of the Korean government's welfare response was the ability to move beyond the short-term temporary measures. When the economy appeared to have turned the corner in 1999, the government declared its commitment to productive welfare as the third pillar of national governance together with democracy and market economy (Presidential Office, 2000). The term Productive Welfare itself incurred much controversy, but the notion was soon substantiated by the comprehensive vision of the twenty-first century welfare state, inclusive of a wide range of welfare thoughts and various welfare reform strategies.

For the first time in Korean history, welfare reforms came to be appreciated as an institutional means to keep democracy and market economy sustainable. By incorporating the Productive Welfare policies as an integral part of governance, the Kim Dae Jung government made clear its departure from the earlier pre-crisis 'development state' model, in which the authoritarian government was the single most significant actor and had the clear aim of rapid economic growth for which it mobilises resources and protects domestic firms from foreign competition, and, more importantly, in resolving social welfare questions, the government relies heavily upon growth and family, not on the formal social safety net.¹

Productive welfare and welfare reforms

The notion of Productive Welfare incorporates the ideas of, first, the basic human right to decent minimum standard of life, second, the right to work and participate, and third, welfare pluralism, with emphasis on the importance of social welfare as a human capital investment. It encompasses the components of Beveridge's notion of national minimum, Nordic countries' social democratic corporatism, and the neo-liberal principles of welfare-to-work and private-public partnership. The Kim Dae Jung government's relative priority was placed in these ideas.

The most conspicuous achievement was the introduction of the National Basic Livelihood Security (NBLS) system as the modern social assistance program in 2000. The second is the completion of expansion of population coverage of the four Social Insurance Schemes, in which the solidarity principle, as opposed to the stratification or individualist principles, was struggling to be maintained. For the reforms of social insurance schemes, to be noted is its incorporation of human capital investment and women-friendly policy orientation as expressed by the introduction of the maternity protection benefit system. The third is the rapid increase of welfare expenditure.

Social assistance reform: Birth of National Basic Livelihood Security system

The NBLS Act is often referred to as representative of the many welfare reforms of the Kim Dae Jung government. It was a radical replacement of the existing pre-crisis social assistance scheme in Korea. The social assistance programme, based upon the Livelihood Protection Act of 1963, used to require all three conditions to be satisfied to become a social assistance recipient: first, being poor; second, being economically inactive

Table 1 Number of NBLS benefit recipients by year

Items	1997	1998	1999	2000	2001	2002
Total recipients (in ,000)	1,410	1,470	1,920	1,510	1,490	1,550
Livelihood aid recipients (in ,000)	370	440	540	1,510	1,490	1,550
(b)/(a) (%)	26.2	29.9	28.1	100.0	100.0	100.0

Source: MOHW.

Table 2 NBLS budget (billion won)

Items	1997	1998	1999	2000	2001	2002
MOHW (a)	2,851.2	2,057.0	3,896.8	5,310.0	7,458.1	7,749.5
NBLS (b)	900.8	1,090.1	1,847.9	2,332.1	3,269.6	3,403.4
(b)/(a) (%)	31.6	35.8	47.4	43.9	43.8	43.9

Source: MOHW.

(meaning aged 65 and over or under 18 or handicapped or pregnant) and the third having no responsible family member or the responsible family member being unable to work. The official poverty line was largely administratively decided by the budget allocated. There had been no staff to undertake means testing or to work solely for the social assistance scheme. Thus, only less than 1 per cent of the total population had received livelihood benefit supplementing the basic livelihood until the eve of the financial crisis.

The new NBLS Act of 1999 repealed the second eligibility requirement. Regardless of reasons for being poor, those who are poor and could not keep the minimum living standard as defined by the Ministry of Health and Welfare (MOHW) each year, were able to resort to the NBLS as the last safety net for all. For this system, the calculation of the official poverty line and the delivery structure of public welfare, with qualified social workers for means testing and provision of benefits, were institutionalised. The NBLS Act also stipulated a conditional provision of benefit for those who were poor but capable of work. They are required to participate in the Self-Reliance Support Programs, which are intended to help beneficiaries get out of poverty and to prevent unnecessary dependency of the employable poor on social assistance.

By the enactment of the NBLS Act, as shown in the Table 1, the number of social assistance cash beneficiaries increased from 0.37 million in 1997 to 1.55 million in 2002. The poverty line, the minimum standard of living to be protected by the NBLS system, was estimated by the experts and made public each year. As shown in the Table 2, the budget for the NBLS rose from 900 billion won in 1997 to 3,403 billion Won in 2002. It accounted for about a half the total budget of the MOHW in 2002.

Social insurance reform: Expansion of coverage with social solidarity principle

As shown in the Table 3, by the year 2000, most of the categories of the total population came to be covered by the four major social insurance schemes with the exception of the self employed, unpaid family workers, and other irregular workers.

Table 3 Changes in the population coverage of the four major social insurances

Types		1997				2000			
		EI	WCI	PI	HI	EI	WCI	PI	HI
Firm size (no. of regular employee)	<5	X	X	X	O	O	O	O	O
	5–9	X	X	O	O	O	O	O	O
	10–29	O	O	O	O	O	O	O	O
	30+	X	O	O	O	O	O	O	O
Daily workers	X	X	X	O	□	□	O	O	
Temporary workers	X	X	X	O	□	□	O	O	
Self-employed	X	X	X	O	X	O	O	O	
Unpaid family workers	X	X	X	O	X	O	O	O	

O = covered; □ = partially covered; X = uncovered.

EI = Employment Insurance.

WCI = Worker's Compensation Insurance.

PI = Pension Insurance.

HI = Health Insurance.

As the unemployment rate soared, the government entered into a series of commitments to expand eligibility and coverage of the Employment Insurance System which was first introduced in 1995. Its coverage was expanded first to firms with five or more employees, later to those with one or more employees, as were mandatory contributions to training and wage subsidy schemes. This expansion increased the number of workplaces covered more than 17 times, from 47,400 in 1997 to 800,000 in 2001. The same expansion of coverage was made with the Workmen's Compensation Insurance. In 2000, its mandatory coverage expanded to the firms with less than five employees. Thereby the number of workers covered by Workmen's Compensation Insurance increased from 8,237,000 in 1997 to 10,581,000 in 2001. Despite these expansions of coverage of the social insurances for the employees, the majority of irregular workers are excluded, and, as of 2001, only 16.6 per cent of the unemployed were receiving unemployment benefits.

In 2001, the Maternity Protection Law, which is based on three Acts (Equal Employment Act, Labour Standards Act, and Employment Insurance Act), was amended to expand the coverage of maternity and childcare leave. Thereby, maternity leave was extended to 90 days from previous 60-day protection. Sixty days are covered by the employer, and the rest is covered by Employment Insurance and the general budget. Parents of children under 12 months can use paid childcare leave. The cost for childcare is covered by Employment Insurance. The employee on leave is paid 300,000 Won per month.

The Kim Dae Jung government also implemented a major reform of Pension Insurance by expanding the population coverage to those urban self-employed, to the firms with less than 5 employees, temporary workers, and daily workers in 1999. Thereby, 9 million individuals were added to make the 16 million universal coverage of pension insurance a reality by 2001. In expanding the coverage to the urban self-employed, and others whose income is hard to identify, there had been debates and controversy whether to keep a separate fund for these categories or to keep the integrated one. Since incomes of the

Table 4 Welfare expenditure by OECD standard (billion won)

Items	1990	1996	1997	1998	1999	Annual growth rate (%)	
						90–97	98–99
Social insurance	3,687	10,973	12,865	18,202	22,929	19.5	33.5
Social assistance	861	1,780	2,077	2,512	3,353	13.4	27.1
Welfare services	1,103	3,578	4,446	5,799	7,090	22.0	26.3
Company welfare	1,940	5,810	9,881	21,756	13,808	26.2	18.2
Total expenditure(a)	7,591	22,142	29,269	48,269	47,180	21.3	27.0
(a)/GDP ratio	4.25	5.29	6.46	10.86	9.77	–	–

Notes: Social insurance: pension insurance, health insurance, workmen's compensation insurance, employment insurance.

Social assistance: NBSL, disaster relief.

Welfare services: Welfare services for the children, the handicapped, and the elderly.

Company welfare: Paid maternal leave, paid sick leave.

Source: Ko, 2002.

self-employed are notoriously under-reported in Korea, opinions were against an integrated fund system as long as the pension scheme is structured with income-related contributions and vertically redistributive benefit formula. The Korean government chose the integrated redistributive pension model, maintaining the solidarity principle. The increasing number of irregular workers in the labour market also results in the population systematically excluded from the pension system. No less importantly, the unprecedented ageing raises the serious question of the financial sustainability of the pension system.

The health insurance system also underwent dramatic changes after the crisis. Before the reform, the system was composed of about 420 health insurance societies with different contribution rates and independently managed funds for different workplaces and geographical areas. These societies were incorporated into a single health insurance plan operated by the public sector, which controls the administrative organisations of health insurance and the hundred of funds previously managed by financially independent agencies. A unified contribution standard across the nation was introduced, and thereby increased the equity of health insurance contributions. The scope of benefits covered by health insurance was slightly extended (Kim, 2001). These reforms were pursued with the rhetoric of nationwide solidarity and strengthening state responsibility for health security, but not without vociferous oppositions from various groups. These reforms proceeded in tandem with the separation of medical and pharmaceutical services, which resulted in a steep increase in the cost of health care.

Growth in social welfare expenditure

The total social welfare expenditure as estimated by the OECD standard, as a percentage of GDP, increases from 5.29 per cent in 1996 to 9.77 per cent in 1999, slight decreases to 9.14 per cent in 2000 and to 9.18 per cent in 2001. As Table 4 shows, except company welfare, all other expenditures show formidable growth rates after the crisis.

One can say that the financial crisis and the Kim Dae Jung government together have brought the subject of social welfare into the mainstream political discussion and on to national policy agenda, as a means to make democracy better able to withstand shocks inherent in the market economy, for the first time in Korean history. Moreover, in all these welfare reforms, voices from the civil society organisations (CSOs) were well heard. The enactment of the NBLs Act, for instance, was not possible without the effective role of CSOs. After the crisis, the coalition of 45 CSOs pursued its enactment replacing the old law. So was the amendment of Employment Insurance Act for maternity protection. The maternity protection scheme is regarded as one of the most ambitious family-friendly, women-friendly, human capital investment policies, which was initiated and pushed by women's organisations in Korea.

Dilemmas and prospects

The Kim Dae Jung government was succeeded by the Rho Moo Hyun government in 2003, headed by a relatively young progressive, whose political support was mainly from young generation liberals. Four major sector reforms continue and Productive Welfare is also expected to be succeeded. The new government started with the term 'Participatory Welfare' but the differences or similarities between it and Productive Welfare have not been made officially clear yet.

The Kim Dae Jung government placed the structural foundations of a social welfare system in Korea, particularly of social insurance and public assistance in the economically difficult years after the financial crisis. It was an epoch-making achievement, demonstrating the case where global integration brought about the expansion of social protection. Nevertheless, the questions remain: Will this expansion continue? Will the principle of solidarity be politically supported? Are the programmes financially sustainable? Are they administratively feasible? And is the provision of income maintenance enough?

Productive welfare had components more than income maintenance. As a rhetoric, it emphasised not only the basic social right to a minimum standard of living, but also human capital investment, right to work, welfare pluralism, welfare to work, and so forth. The NBLs system, for instance, incorporates the Self-Reliance Assistance (SRA) services for those poor who are employable. In improving the NBLs system, not only do the higher benefit levels guarantee better living standards for the poor, but also the good administrative infrastructure for effective means testing, and establishment of the effective system of these SRA services, are important.

The number of the recipients of the NBLs slightly decreased during the year 2003. Whether this is because of the decrease in number of the needy or because of the further strictness in administration of the programme, or because of the relative decrease of the poverty line, is hard to tell. But, the distribution index, Gini Coefficient, for instance, is deteriorating (0.283 and 0.312 in 1997 and 2002, respectively) and the official poverty line has not been raised more than price index.

The Rho government seems to prefer expanding the SRA services for those employable poor, NBLs recipients. With the NBLs system instituted, the danger of poverty trap becomes a policy concern. The SRA programme is more labour intensive and more expensive than cash provision, but it is pursued as a human capital investment and as an effort to create employment.

For social insurance, which is based on the principle of income-related contributions and vertically redistributive benefits an effective income assessment or income report system is essential. The Pension Insurance, for instance, has achieved universal coverage, but the inequity problems stemming from the different rates of income identification, particularly between the employed workers and the self-employed, remain as a fundamental weakness. Integrated National Health Insurance is also difficult to escape from the same problem. More importantly, the changing labour market structure, that now houses more than half of the employees as irregular workers, renders a social insurance system that excludes half of the working population with employee status. And for the maternity benefits, for instance, only 25.9 per cent of women in the irregular workforce are covered and still have very limited accessibility to maternity benefits (National Statistical Office, 2002).

What the new government has done thus far seems to be improving and refining the reforms that the previous government launched, perhaps with different priorities. For the social insurance schemes, the main priority concern of the government today seems to be financial sustainability. According to the estimation of Moon (2000), in about 30 years social welfare expenditure in Korea will grow to about 20 per cent of GDP, the average of the OECD countries in 1995. This increase will be mostly accounted for by the effect of the programme's maturation and ageing population.

For the Pension Insurance, the Rho government proposed a reform to raise the contribution rate and reduce the replacement rate from 50 per cent to 40 per cent. With the strong opposition from the labour unions, the proposal was aborted. For the Health Insurance also, cost containment is the priority goal. Introduction of private health insurance has long been on the table as an alternative. Increasing revenue for the medical assistance programme for the poor as a part of the NBLIS is another concern of the MOHW.

Long-term care insurance for older people is being planned. Daycare services for children are to be rapidly expanded. Its jurisdiction has moved from the MOHW to the Ministry of Gender Equality so that the child care services get more attention and budget increase is promised. The expansion of the SRA programs for those employable recipients of the NBLIS is the choice of the same line. And all pre-school 5 year old children will be taken care of by the government free of charge. These policies are geared to the changes in family structure, with unprecedented fast ageing and decreasing birth rate, as well as the increasing need of women's labour participation.

What Korea has to consider in designing the new sustainable post-crisis welfare system, are three broad lines of forces. One is global integration of economy, which requires labour market flexibility and income inequality, the second is population ageing and a low economic growth rate, and the third is changes in family structure and increasing women's labour force participation. All the forces are interrelated and work simultaneously. Iverson and Wren's (1998) trilemma of service economy is apparent now in Korea. Full employment, redistribution, and restricted financing cannot be pursued at the same time. The labour market in Korea today houses about half of workers as irregular workers, demands of women for labour market participation and gender mainstreaming is ever increasing, and rapid population ageing and low fertility rate is the reality today.

The questions for the Rho government are whether the expenditure needed for the current level of social welfare provision is bearable and sustainable? How to share the burden among different stakeholders? How to draw social consensus? In transforming Korea's past of a developmental state, with the family and economic growth as the

best welfare policy, into a democratic, just and competitive future, Korea needs more fundamental reforms in the structure of income maintenance schemes, together with a human capital investment strategy.

Note

1 In fact, well before the financial crisis of 1997, this model had undergone important changes. On the economic front, government had begun to liberalise trade and investment, deregulate the markets, and reduce and reposition the state's role in the economy. In politics, Korea underwent transition to democratic rule, which meant not simply staging of elections but the emergence of new parties, interest groups, and civil society organisations, including labour, and the freeing of intellectuals and the media. In the area of social welfare, the authoritarian government introduced social insurance schemes selectively when it was deemed necessary for the authoritarian rule or economic growth. So the transition from the developmental state regime is not to be said so abrupt a discontinuity (Haggard, 2000).

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