Comparative Perspectives on the South Korean Welfare System

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South Korea's welfare system has undergone radical institutional expansion since the 1990s, largely as a consequence of the financial crisis of 1997. Despite these changes, however, public social expenditure remains extremely low in comparison with all other Organization for Economic Cooperation and Development (OECD) countries. The social insurance system and social welfare service sector remain underdeveloped. The current welfare system in Korea can best be characterized as a residual model in which state intervention remains limited and the family and the private market economy play the central roles in providing a social safety net. This situation is largely the legacy of the "growth-first" ideology, which has remained the dominant approach favored by the majority of Korea's political and economic decision-makers since the period of authoritarian rule (1961–1993), together with the adoption of Western European-style neoliberal restructuring, which was implemented following the financial crisis of 1997.

Changes in South Korean Welfare since the Late 1990s

Public spending on social welfare in Korea has increased rapidly since the 1990s (Hong and Song 2003, 209, 226; Ko, et al. 1999). This was especially evident during the administration of Kim Dae-Jung, who took office immediately after the 1997 financial crisis and advocated "productive welfare." A sweeping reform of the national welfare system subsequently followed involving a radical increase in public social expenditure and expanded coverage of national social insurance programs (national pension, employment insurance, national health insurance, and industrial accident compensation insurance). At the same time, an attempt was also made to build a universal social security system by reforming public assistance. Kim's government also established the Korea Tripartite Commission in 1998 as part of its efforts to institutionalize cooperation between labor, management and the state. For the first time since the liberation of Korea in 1945 a Korean government made the expansion of the national social welfare system as its core policy goal (Hong and Song 2003, 208).

Some commentators have evaluated the welfare reform initiated by the Kim administration in a very positive light, likening it to reforms implemented in the United States during the Great Depression of the 1930s and in the United Kingdom at the end of the Second World War (Sung 2002, 510) or labeling it a "welfare windstorm" (Kim and Sung 2003, 412).

One can establish a clearer picture by examining some of the major areas of the reform. First, the administration addressed social insurance, expanding the coverage of employment insurance and industrial accident compensation insurance to all companies with fewer than five employees. Second, it extended the national pension scheme to cover all citizens aged between 18 and 60 as of 1999; third, it sought to reduce household expenditure on health care, while at the same time attempting to elevate the health status of Koreans, through the establishment of the National Health Insurance Corporation (NHIC) in 1997.

The NHIC, established through the National Health Insurance Act, integrated 227 self-employed health insurance societies, together with the health insurance corporations of both public servants and private school employees. By July 2000, all health insurance management systems had been fully integrated. The Health Insurance Review Agency was established that same month, and was given responsibility to review medical fees and evaluate health care performance. Within a short time, the agency had established its authority and soon afterward it implemented a national policy that established separate guidelines for prescribing and dispensing medication. Through these measures, Korea finally began implementation of a universal social insurance system covering all citizens (Nam 2002, 152–53).

Kim Dae-Jung, president of the Republic of Korea, 1998–2003.

Turning its attention to public assistance policy, the Kim government enacted the National Basic Livelihood Security Act in September 1999, and fully implemented the National Basic Livelihood Security System (NBLSS) in October 2000. The new system marked a significant change in governmental policy, providing everyone living beneath the poverty line with financial benefits, regardless of whether they were able to work. The number of recipients eligible for assistance under the new system rapidly increased (MOHW 2005, 67).

The Kim government also addressed labor issues, establishing the Korea Tripartite Commission and legitimatizing the Korean Confederation of Trade Unions (KCTU). This was an attempt to enhance labor-management cooperation and to resolve labor issues on the basis of agreement between labor, management, and the government through a centralized corporativist consultation system.

All of the governmental measures taken since the 1990s suggest that Korean administrations have been seriously committed to the institutional expansion of social welfare. As one of its 12 policy goals, the administration of Roh Moo-Hyun, which took office in early 2003, declared its intention "To Improve Participatory Welfare and Quality of Life." Accordingly, it increased social expenditure on a large scale. Table 1 shows that between 2002 and 2006, the share of public social expenditure in Korea's total government budget increased steadily from 19.9 percent to 27.9 percent.

Table 1: Trends in Korea's public social expenditure, 2002–2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006
India (billion rupees)	492	598	642	689	717	761	812	982	1102
Pakistan (billion rupees)	140	147	154	170	188	210	240	270	290

Source. SIPRI Yearbook 2007: Armaments, Disarmament, and International Security (Oxford University Press, 2007), Table 8A.2, p. 303–309.

(Social expenditure as a percent of total government budget)

Source: here

(http:/ / www.president.go.kr/ cwd/ kr/ archive/ archive_view_popup.php?meta_id=policy_news&id=923b3b2541c81bca194d9635)

Despite these large-scale efforts, however, Korea's welfare system continues to lag significantly behind the advanced social welfare programs of countries with similar-sized economies. The percentages of wage-earning Korean employees covered by social insurance in 2001, for example, were very low: 51.8 percent for the national pension, 54.3 percent for national health insurance, and 46.9 percent for employment insurance (Lee 2001, 6). Furthermore, the percentage of so-called non-standard workers covered by social insurance that same year stood at less than 25 percent (ibid.). This illustrates that notwithstanding the aforementioned policy changes, the majority of low-income earners, including standard workers employed in small companies with fewer than five employees and all non-standard workers, lack an adequate social safety net. In addition, successive Korean governments' spending on national social insurance has been extremely conservative. Social insurance is funded primarily by contributions from employers and employees, rather than taxes. This suggests that no systematic method of income redistribution exists (Yang 2003, 421–22; Idem. 2005, 396). The future of the national pension, in particular, has caused considerable concern, with many studies predicting that unless vigorous steps are taken its fund may be exhausted by 2040. This is a consequence of excessively low insurance rates and increased numbers of pension recipients (owing to the rapid aging of the Korean population) and the lack of adequate administrative infrastructure to assess the income of the self-employed (Hong 2002, 354–55).

With regard to labor policy, it has been argued that—as predicted by many at the time of its establishment—the Korea Tripartite Commission has not been able to perform its role sufficiently due to the lack of effective institutional infrastructure (Kim, S. Y. 2005, 263). Moreover, as a result of the neoliberal labor policy (which emphasized wage and labor flexibility) that has been advanced since the financial crisis of 1997, the number of low-wage non-standard workers has increased sharply. The percentage of non-standard workers in Korea's total workforce increased from 45 percent immediately following the financial crisis to 55.4 percent (7.8 million people) in 2003, 55.9 percent (8.16 million people) in 2004, and 56.1 percent (8.4 million people) in 2005 (Choi, T. W. 2006). Presently, Korea ranks first among 30 OECD countries in terms of its percentage of non-standard workers in the total workforce (ibid.). The fact that non-standard workers now account for the majority of the total labor force in Korea largely explains why the national social insurance covers only (approximately) 50 percent of wage earners despite rapidly expanded coverage since the financial crisis.

The integration of national health insurance and the revised policy involving the separation of prescribing and dispensing of medication were implemented under very difficult circumstances due to strong opposition from interest groups concerned about negative repercussions. The fears of many seem to have been realized with an inflated budget deficit resulting from the extension of national health insurance, together with an increased financial burden on the general population due to sharp increases in health insurance fees (Hong 2002, 354). At present, health care charges paid by the patient account for more than 50 percent of the total heath costs (Yang 2005, 396). In addition, the private medical sector's stake in Korea's national health care is extremely large while the share of the public sector is extremely small; hence, it can be argued that the need for proper health care for the unemployed and those with low incomes has not been met. Currently, the percentage of public health services provided free is approximately 20 percent, making Korea the lowest in this category among 30 OECD countries (MOHW 2005, 375–76).

The National Basic Livelihood Security System (NBLSS), established in 2000, aims to provide assistance for the needy. Unlike the previous system, the NBLSS provides financial aid to all people living under the poverty line. However, in order to qualify as a recipient of the NBLSS, individuals need to provide evidence that they are unable to support themselves and lack sustainable support from any other party. The total amount of the potential recipient's income and property is then assessed, and if this is deemed below a level annually specified by the Ministry of Health and Welfare, financial benefits are provided (MOHW 2005, 69). Given the strict conditions for eligibility, it is not surprising that only 27.1 percent of households, those whose incomes fall below the official poverty line, benefit from the system (Lee and Choi 2004). While 8 million people are living below the poverty line, only 1.4 million people are protected by the NBLSS (Ryu 2005, 172). The remaining 6.6 million people lack the protection of a public assistance program (ibid.). Furthermore, to embody the concept of productive welfare, the Korean government has introduced a program which provides NBLSS social benefits on the condition that recipients of participate in self-support programs (MOHW 2005, 69). The ultimate aim of this particular measure is to keep the pressure on recipients of financial aid. This approach is typical of the residual welfare model.

In the past, the family occupied the most important position in Korea's social welfare system. Despite the expansion in coverage of national social insurance following the financial crisis, the amount of private income transfer within the family still surpasses that of public income transfer. In 2000, the private income transfer totaled 18.3 trillion won (3.5 percent of the GDP), surpassing total income-security related expenses, including national pension, survivor pension, unemployment benefit, NBLSS, etc., which totaled 11.889 trillion won (Kim, J. W. 2005, 40). Welfare services provided by the family, including private income transfers and managing household affairs, account for 37.4 percent of total welfare expenditure, which suggests that the family is still the most important source of welfare provision in the country's welfare system (Kim, J. W. 2005, 43).

Corporate disbursements also account for a large share (22 percent) of Korea's present welfare system despite the expansion of the public social insurance system since the financial crisis (Kim, J. W. 2005, 40). The dependence of the national social welfare system on the private sector has further increased. The level of market dominance of the Korean social welfare sector is very high in comparison with that of other countries (Cho 2002a, 259; Sonn 2005, 222). For example, the private insurance market—including both private pensions and life insurance—has experienced rapid growth since the 1990s, and its share of the GDP in Korea is now larger than that found in many other advanced countries (Cho 2002b; Idem. 2002c; Jung 2002). In brief, while the role of the Korean state remains extremely low, the responsibility to meet the growing need for social welfare services has rapidly shifted on to the family and, more recently, to the private sector.

The low level of public social expenditure is evident in table 2. In the comparative table showing public social expenditure of 30 OECD countries across a 12-year period, Korea occupies the lowest rank almost consistently across the board. In 2001, public social expenditure in Korea accounted for just 6.1 percent of GDP, while in Sweden, the country with the highest percentage, the level was 29.8 percent. The OECD average for 2001 was 20.9 percent. In short, public social expenditure in Korea is lower than that of all other OECD countries except Mexico.

Despite rapid institutional expansion since the 1990s, the role of the state as a provider of welfare remains low and the family continues in its position as the primary source of social welfare with the private sector playing an increasing role in recent years. Corporate welfare, in particular, has grown significantly. Thus, one could argue that the Korean welfare system today is best characterized as a residual one in which the responsibility of the family and the private market economy are emphasized. Why then has Korea adopted such a residual welfare regime? What political, social and economic factors explain the development of this residual welfare system in Korea?

Table 2: Public social expenditure of 30 OECD countries, 1990–2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Australia	14.2	15.3	16.3	16.5	16.2	17.8	18.0	17.7	17.8	17.5	18.6	18.0
Austria	24.1	24.4	25.0	26.6	27.3	26.6	26.7	26.0	25.7	26.1	26.0	26.0
Belgium	26.9	27.7	28.4	29.9	29.2	28.1	28.6	27.5	27.5	27.2	26.7	27.2
Canada	18.6	21.1	21.8	21.6	20.6	19.6	18.8	18.3	18.4	17.4	17.3	17.8
Czech Republic	17.0	18.3	18.7	19.2	19.2	18.9	18.8	19.7	19.5	19.8	20.3	20.1
Denmark	29.3	30.2	30.7	32.3	33.1	32.4	31.7	30.7	30.2	29.8	28.9	29.2
Finland	24.8	29.9	33.9	33.9	33.1	31.1	30.9	28.7	26.5	26.1	24.5	24.8
France	26.6	27.2	28.0	29.5	29.3	29.2	29.4	29.4	29.0	28.9	28.3	28.5
Germany	22.8	24.9	26.4	26.9	26.9	27.5	28.1	27.6	27.4	27.4	27.2	27.4
Greece	20.9	20.1	20.2	21.1	21.2	21.4	22.1	22.1	22.8	23.6	23.6	24.3
Hungary	m	m	m	m	m	m	m	m	m	20.8	20.0	20.1
Iceland	16.4	17.1	17.8	18.2	18.4	19.0	18.8	18.5	18.7	19.6	19.7	19.8
Ireland	18.6	19.5	20.4	20.3	20.0	19.4	18.2	16.8	15.6	14.2	13.6	13.8
Italy	23.3	23.5	24.3	24.7	24.4	23.0	23.5	24.2	23.7	24.1	24.1	24.4
Japan	11.2	11.3	11.8	12.4	13.0	13.5	13.7	13.8	14.5	15.1	16.1	16.9
Korea	**3.1**	**2.9**	**3.2**	**3.3**	**3.4**	**3.6**	**3.9**	**4.2**	**5.9**	**6.9**	**5.6**	**6.1**
Luxembourg	21.9	22.4	22.8	23.1	23.0	23.8	23.9	22.6	21.7	21.5	20.0	20.8
Mexico	3.8	4.3	4.6	4.9	5.4	5.4	4.9	5.0	4.9	5.0	5.0	5.1
Netherlands	27.6	27.7	28.3	28.6	27.2	25.6	24.4	24.0	23.0	22.5	21.8	21.8
New Zealand	21.9	22.3	22.2	20.4	19.4	18.9	18.8	19.8	20.0	19.5	19.2	18.5
Norway	24.7	25.7	26.8	26.7	26.4	26.0	24.9	24.1	25.7	25.8	23.0	23.9
Poland	15.5	22.1	26.2	25.6	24.4	23.8	23.9	23.3	22.0	22.2	21.9	23.0
Portugal	13.9	14.9	15.6	27.2	17.3	18.0	19.1	18.9	19.1	19.8	20.5	21.1
Slovak Republic	m	m	m	m	m	19.2	19.1	18.7	19.0	18.9	18.3	17.9
Spain	19.5	20.3	21.4	22.5	22.0	21.4	21.6	20.9	20.3	19.9	19.9	19.6
Sweden	30.8	32.4	35.3	36.8	35.4	33.2	32.7	31.3	31.1	30.6	29.5	29.8
Switzerland	17.9	19.3	21.3	23.0	23.2	23.9	25.0	26.0	25.9	26.1	25.4	26.4
Turkey	7.6	8.2	8.5	8.3	7.9	7.5	9.7	10.8	11.1	13.2	m	m
United Kingdom	19.5	21.1	23.1	23.7	23.2	23.0	22.8	22.0	21.5	21.2	21.7	21.8
United States	13.4	14.5	15.2	15.4	15.4	15.4	15.2	14.9	14.4	14.2	14.2	14.7
OECD-30	m	m	m	m	m	m	m	m	m	20.8	20.6	20.9

(Unit: Percent of GDP)

Source: OECD (2004a).

Political and Economic Factors Instrumental in the Development of the Residual Welfare Regime in Korea

Numerous factors have been instrumental in creating the residual type of welfare regime in Korea. The present study sees the legacy of the "growth-first ideology," based on the growth-first-and-distribute-later principle, as the most important one. This has remained the dominant approach favored by the majority of Korea's political and economic decision-makers since the period of authoritarian rule (1961–1993) and continuing to the present era of neoliberal globalization. To understand why the welfare system in Korea approaches a residual model today, it is first necessary to consider the central philosophy toward economic policy shared by the country's political and economic elites, who have regulated all national policies, including social welfare policy for the past 50 years.

It could be said that the growth-first doctrine during the development period (1960s–70s) was largely based on strong state intervention and regulation of the market, banks and large companies (*chaebols*). However, the fundamental approach of the Korean government toward social policy was closer to neoclassical economic theory—which emphasizes economic efficiency, production, and performance—rather than social welfare. During this period, the Korean government upheld the view that a variety of socioeconomic goals, such as better incomes and wealth distribution, social benefits, employment expansion, and the improvement of working conditions and living standards, could be achieved automatically by a trickle-down effect, generated by rapid economic development. Accordingly, state intervention or government directed income redistribution, were regarded as not only as detrimental to the effort to achieve social goals, but also as a hindrance to national economic development. In such a political atmosphere, social policy was considered secondary and complementary to the advance of strong economic policy. As a consequence of the influence of growth-oriented goals, the status of government departments dealing with economic affairs—e.g., the Economic Planning Board (EPB)—was elevated to that of a central state agency to control and oversee all national policies, while those in charge of social issues were marginalized (Jung 2002, 441).

The "growth-first" policy has since maintained its central position. This is evidenced by the relatively weak commitment of the Korean government to promoting social welfare. For example, in a study conducted and published recently on the comparison in levels of expenditure of select government departments of particular countries in the OECD, economic policy accounts for 25.5 percent of the total government expenditure in Korea, approximately 2.5 times larger than the average of the 18 surveyed OECD countries (10.2 percent) (Park 2005, 32–34). In contrast, public social expenditure in Korea accounts for only 9.4 percent of total government expenditure. This figure accounts for approximately one quarter of the average of the 30 OECD countries (37.4 percent) (Park 2005, 32–34), thus underlining the priority that successive Korean governments have placed on economic growth, while paying scant attention to social issues, much as in the development period. In short, welfare policy has always been secondary to economic policy and has been limited to a role that has only complemented the market economy; in other words, it has aimed to compensate ex post the losers from market competition (Choi, J. J. 2005, 456). Hence, it was significantly limited from the start of the development era so that Korea developed a residual welfare system (Hong and Song 2003, 210).

Welfare reform, as carried out under the motto of "productive welfare" during the Kim administration that followed the financial crisis of 1997, was premised upon economic efficiency rather than social equity, and aimed to emphasize only the type of social welfare that was conducive to economic growth. The ideology of productive welfare, with a strongly neoliberal leaning, has also consistently been emphasized—together with independence and individual autonomy—by the Roh Moo-Hyun government, which took office in early 2003. This ideology, which holds that social policy hinders development and accelerates economic crisis, remains deep-rooted among the policymakers of today, particularly those dealing with economic affairs. Given that government officials, who still adhere to the growth-oriented doctrine of the development period, have led the neoliberal restructuring since the financial crisis of 1997, social policy has remained secondary to economic policy while residualism in Korea's social welfare system has been consolidated.

Some may argue that, although Korea lags far behind European welfare states, it has made increasing efforts to construct a social safety net while simultaneously pursuing economic growth. Indeed, the Korean government introduced a public assistance program in the 1960s and initiated industrial accident compensation insurance and health insurance in the 1970s. During the 1980s it implemented a national pension scheme and expanded health insurance coverage. In the mid-1990s it introduced employment insurance and expanded coverage of the national pension. Following the financial crisis, it established the NBLSS, and expanded further the coverage of the four national social insurances. However, the problem is that, despite apparently stable development, a national social policy in Korea was developed mainly to induce rapid economic development and to compensate the losers arising from this process, rather than to achieve equity, as is arguably the case in such welfare states as Sweden and Finland. Korea's health insurance, for example, was launched as a means to increase labor supply during the development period, and the national pension was implemented originally to garner funds to assist the construction industry and small businesses (Kim, Y. B. 2002). Such practices were never witnessed in Bismarckian welfare states such as Germany, which introduced national social insurance as a means of taming the working class (Kim, Y. B. 2002). The welfare system in Korea was also used to secure legitimacy and support for military regimes in times past. As a result, the system was organized without clear long-term social goals (Jung 2002, 441; Kwon 2002). Consider the fourth and fifth Five-Year Economic Plans proposed by military regimes in search of legitimacy. Both plans mentioned social policy, but ostensibly as avenues by which to garner popular support (Kwon 2002). Meanwhile, the military regimes actively protected special groups such as professional soldiers, government employees and teachers with a generous welfare package. These groups were viewed as indispensable for their contributions to rapid industrialization and regime stability. At the same time the working class was largely excluded from social welfare (Jung 2002, 441).

According to the Power Resources Model, the emergence and development of welfare states require unified action by social democratic groups, including trade unions and progressive political parties, to exert pressure on capital. However, in Korea, the power of trade unions, which represent Korea's social democratic interests, has consistently been weakened by the Korean government's repressive labor policy and a trade union structure organized by individual companies. These two factors have produced a union density that has decreased over time. Union density in Korea in 2000 stood at only 11 percent—rendering it 29th among 30 OECD countries (OECD 2004b, 145)—while the degree of union coverage in Korea currently stands at less than 20 percent, still very low compared to the 80–90 percent found in some European countries (Freeman et al. 1995; Kim, Y. S. 2005, 67). This suggests that in Korea the effect of collective agreement between labor and management does not apply to non-members and that wage discrimination between large and small companies and standard and non-standard workers is much greater in Korea than in European countries (Freeman et al. 1995; Kim, Y. S. 2005, 67).

Low degrees of union density and coverage are closely associated with the fact that trade unions in Korea have been organized by individual companies, rather than by industrial sectors. This structure reinforces the tendency of trade unions to stress the interests of their members rather than those of an entire industry profession, including non-standard workers or those employed in small companies. This situation has precipitated a crisis of the labor movement. As the number of non-standard workers has increased rapidly as a result of the neoliberal labor policy of the Korean government since the financial crisis, in particular, the polarization of labor between standard workers employed in large companies and those employed in small companies, as well as between standard and non-standard workers, in all respects – i.e. wages, welfare, job training, employment security and working conditions – has deepened. In short, the political influence and power resources of trade unions have been weakened over time as a result not only of the Korean government's repressive labor policy, but also of the extremely decentralized labor-management relationship (due to union structure formations organized by individual companies) and, in particular, the tacit support of the Korean government for labor flexibility following the financial crisis, which has caused the further deepening of labor polarization and solidarity crisis. Not surprisingly, therefore, the influence of trade unions on the development of the welfare state has been minimal.

Significantly, since the financial crisis of 1997, the Korean government has been restructuring four sectors—finance, *chaebols*, public corporations and labor—under its agreement with the International Monetary Fund (IMF). As a result of proposed and implemented changes, the unique economic structure of Korea, which has been the basis of the country's rapid economic growth—otherwise known as "Korea, Inc."—has dissolved, having been replaced by Western European neoliberalism, which emphasizes privatization, trade-investment-finance liberalization, labor flexibility, conservative budget spending, anti-inflation policy, welfare cutbacks and deregulation.

Most present-day political and economic decision-makers in Korea, and even numerous scholars and theorists with progressive inclinations, who favor *chaebol* reform, economic justice, and market regulation, support such neoliberal restructuring under the veil of the 'theory of democratic market economy.' They hold that neoliberal reforms offer the best hope for solution to recent economic problems, such as economic downturn, high unemployment, and income maldistribution (Choi, J. J. 2005, 464). However, neoliberal restructuring has not produced positive results—i.e. optimized distribution of resources and economic growth through the introduction of advanced management techniques, and improved transparency and accountability of domestic economic structure. Restructuring has instead inflicted hardship on the majority of those in the middle and working classes, rather than economic benefits arising from the trickle-down effect that proponents of neoliberal restructuring anticipated.

Conclusion

The welfare regime in Korea is best characterized as a residual model in which the provision of social welfare is left mostly to the family and the market. This is evidenced by an underdeveloped social insurance system, an antiquated social welfare service sector, and extremely low levels of public social expenditure relative to that of other OECD countries. The reasons for this situation are closely associated with the legacy of the “growth-first” ideology, which has remained the dominant ideology of political and economic decision-makers who have led Korea’s economic policies since the development period under the authoritarian military dictatorship, and the neoliberal restructuring, which was adopted following the financial crisis of 1997. In essence, the role of the social welfare system in Korea has essentially been to complement market competition, thereby inducing faster economic growth. This is a characteristic not found in the institutional welfare framework, in which social welfare programs are introduced and implemented to construct a universal and comprehensive welfare system not only for the poorer members of society but for all citizens, as a way of realizing egalitarian values. The welfare regime in Korea, which is inherently residual in nature, has declined further in the agenda of most political and economic decision-makers since the financial crisis of 1997. This is due primarily to the growing pressures of globalization and subsequent restructuring.

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