Welfare States and Global Financial Crises.
The Case of South Korea

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Abstract

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This thesis deals mainly with the question how and to what extent the 1997 Asian financial crisis influenced the unprecedented development of the welfare system in South Korea while other Asian countries remained or diminished their welfare programs. This research explains the historical development of the South Korean welfare system, which has been entwined with political and economic conditions in the theoretical approach of the path dependence. This research proved that the 1997 crisis was a critical juncture, which explains how unprecedented welfare policy reforms were achieved and that the character of the South Korean welfare system has improved. While the IMF and the World Bank required the reforms and expansion of social safety net as a bailout condition, the political leadership of South Korea was changed by President Kim Dae-Jung, which made possible opening progressive policymaking and decision processes in reform politics to extend the national welfare system, particularly four social insurance systems and the public assistance. Given these occasions, the character of the South Korean welfare system has transferred from the liberal welfare-state regime to the conservative.

Zusammenfassung

Wohlfahrtsstaaten und globale finanzielle Krise. Der Fall von Südkorea

Die Dissertation beschäftigt sich mit der Frage, wie und inwiefern die asiatische Finanzkrise im Jahr 1997 die Entwicklung der Wohlfahrtstaatlichkeit in Südkorea beeinflusst hat, während andere asiatische Länder, die auch von der Finanzkrise betroffen wurden, die Wohlfahrtssysteme nicht expandiert oder geschränkt haben. Die Forschung erklärt die historische Entwicklung der Wohlfahrtssysteme in Südkorea mit der Pfadabhängigkeit, die im Zusammenhang mit der Politik und Wirtschaft den Entwicklungsverlauf bestimmt. Diese Dissertation beweist, dass die Finanzkriese im Jahr 1997 ein historischer Wendepunkt war, der erklärt, wie die umfangreichen Reformen in der Sozialpolitik in Südkorea beschleunigt und die Wohlfahrtsstaatlichkeit verbessert wurden. Während der IWF und die Weltbank in

der Rettungsaktion die Reformen des sozialen Sicherungsnetzes forderten, die neue Regierung von Präsident Kim Dae-Jung ermöglichte die Reformen, insbesondere die Sozialhilfe und nationale Versicherungen, bei geöffneten politischen Entscheidungsprozessen. Durch die Reformen der Sozialsysteme entwickelte sich der Charakter der südkoreanischen Wohlfahrtsstaatlichkeit von einem liberalen zu einem konservativen Wohlfahrtssystem.

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List of Abbreviations

APEC	Asia-Pacific Economic Cooperation
CCEJ	Citizens' Coalition for Economic Justice
CPF	Central Provident Fund
DJP	Democratic Justice Party (Roh Tae-Woo)
DLP	Democratic Liberal Party
DLaP	Democratic Labor Party
EI	Employment Insurance
EPB	Economic Planning Board
ERL	Economic Reconstruction Loan
FDI	Foreign direct investment
GATT	General Agreement of Tariffs and Trade
GDP	Gross domestic product
IACI	Industrial Accident Compensation Insurance
ILO	International Labor Organization
IMF	International Monetary Fund
JNCTU	*Joseon* National Council of Trade Unions
JPRL	*Joseon* Poor Relief Law
KCTU	Korean Confederation of Trade Unions
KDI	Korea Development Institute
KEF	Korean Employers' Federation
KFEM	Korean Federation for the Environment Movement
KFTU	Korean Federation of Trade Unions
KIHASA	Korea Institute for Health Social Affairs
KLI	Korea Labor Institute
KMT	Kuomintang
KTEWU	Korean Teachers and Educational Workers' Union
KTU	Korea Trade Unions
LPS(A)	Livelihood Protection System (Act)
LRC	Labor Relations Council
LSA	Labor Standards Act
MOFE	Ministry of Finance and Economics
MOHW	Ministry of Health and Welfare

MOL	Ministry of Labor
MOPB	Ministry of Planning and Budget
NBLSS(A)	National Basic Livelihood Security Scheme (Act)
NDRP	New Democratic Republican Party (Kim Jong-Pil)
NHI	National Health Insurance
NICs	Newly industrializing countries
NGO	Non-governmental organization
NKP	New Korea Party
NPS(A)	National Pension Scheme (Act)
OECD	Organization for Economic Cooperation and Development
PAP	People's Action Party
PCMFA	Public Capital Management Fund Act
PPD	Party for Peace and Democracy (Kim Dae-Jung)
PSPC	Presidential *Segyehwa* Promotion Committee
PSPD	People's Solidarity for Participatory Democracy
QLPCPS	Quality of Life Promotion Committee under the Presidential Secretariat
RDP	Reunification Democratic Party (Kim Young-Sam)
SAL	Structural Adjustment Lending
SCNR	Supreme Council for National Reconstruction
SENBLSA	Solidarity for Enactment of National Basic Livelihood Security Act
SSP	Self-Support Program
SSSC	Social Security System Council
TC	Tripartite Committee
ULD	United Liberal Democrats
UN	United Nations
WTO	World Trade Organization

Chapter 1: Introduction

After World War II, European countries as well as a few others witnessed rapid growth in their welfare systems. This was expressed as the "Golden Age of the welfare state" (Nullmeir and Kaufmann, 2010: 81). Throughout this period, the welfare state became firmly entrenched; it became a favored research topic, particularly in the range of the definition of the welfare state and the development of various typologies (ibid.: 83, 85). Still it is not simple to define what the welfare state is, because countries have developed their welfare systems according to different concerns; these concerns are closely related with economic and political circumstances, as well as the cultural values in each country.

Scholars have mainly paid attention to understanding the welfare state. Why were welfare systems developed earlier in some countries than others? To what extent were welfare regimes developed and institutionalized, particularly in European countries? On the one hand, as Wilensky (1975) stressed, the growth of the welfare state was a "by-product" of economic development, because countries where industrialization started earlier than in other countries could afford advanced welfare programs. On the other hand, some scholars attempted to explain the development of welfare regimes in relation to the growth of citizen rights, working-class mobilization, and the effect of party politics in the sense of democratization and the process of de-commodification of the labor force (Bonoli, 2007; Cameron, 1978; Esping-Andersen, 1990; Huber et al., 1993; Korpi, 1983; Stephens, 1979). These explanations refer to the fact that a welfare state regime is expressed as a particular outcome of policies in politics from various concerns depending on the economic and political circumstances of countries (Esping-Andersen, 1990). In other words, the welfare state is characterized by the way in which distinctive circumstances of countries and national policies are considered, resulting in various conditions in welfare policies.

In this regard, Esping-Andersen (1990: 26-28) sought to classify types of welfare state regimes that were clustered in qualitatively different arrangements among the state, the market, and the family; he defined the first type of regime as the "liberal" welfare regime, in which the state encourages the market and plays a marginal role in welfare policies (e.g. the USA, Canada, and Australia). The second is the "corporatist" or "conservative" welfare regime, in which a state displaces the market as a provider of welfare programs and the role of the Church and the traditional family is expected to play a part in society (e.g. Austria, France, Germany, and Italy). The final type is the "social democratic" welfare regime, which

is characterized by welfare systems constructed on the basis of an essentially universal solidarity and the role of the family is expected as a preemptively socialized institution (e.g. Scandinavian countries).

However, since the world is becoming more strongly interconnected due to increasing economic openness among countries (Weiss, 2003: 5), the process of welfare policymaking and decision-making has become more complex due to various influential factors, which spring not only from internal political conditions, but also from global influences. Therefore, it is important to consider how global economic policies and politics impact national welfare policies according to policymaking and decision processes in order to understand the development of welfare state regimes in the globalized world. In other words, understanding a given welfare regime is not only a consequence of national policies, but also reflects the impact of global policies. Regarding this, the character of welfare regimes should be considered not only on the basis of their internal features (as Esping-Andersen did), but also from the global environment, which should be considered as an important influential element in the development of the welfare system of a country. In these circumstances, how do we understand the development of Asian welfare systems, which are "newly" developing, i.e. later than European welfare states?

Asian countries began industrializing later than European countries. Most countries did not endeavor to develop their respective welfare system, but focused more on economic development to catch up with industrialized countries. Particularly, Hong Kong, Singapore, South Korea, and Taiwan – the so-called "Tiger Countries" – achieved rapid economic growth, which was described as the "East Asian Miracle" by the World Bank in 1993. Scholars generally accept that the explanation for the underdeveloped welfare systems in these countries is that they introduced welfare programs in growth-oriented economic policies in order to support ongoing economic development and/or to justify authoritarian regimes (Choi Y. J., 2012: 225). In light of this, it is difficult to carry over theoretical approaches such as modernization and class mobilization (which convey the establishment and progress of European welfare states) to explain the development of the welfare systems of those Asian countries.

Some scholars have attempted to address the character of East Asian welfare regimes on the basis of their different developmental paths. Esping-Andersen (1997) classified the Japanese welfare system as a mixed welfare regime somewhere between the American and the European system. In addition, Holliday (2000) built up a fourth type, the "productivist" welfare regime, which explained the obstruction of the development of welfare capitalism in

East Asia due to growth-oriented economic policies, including in South Korea. However, South Korea deviated from such categories in the course of the 1997 Asian financial crisis, during which welfare systems were structurally reformed. South Korea expanded welfare policies and initiated comprehensive reforms for universal welfare systems, while Singapore and Hong Kong maintained the basic structure of a selective welfare system (Kwon H. J., 2009: 12). This counters, in fact, the neo-liberal assertion that market-driven globalization renders social policy marginal in economic development (ibid.). What made it possible in South Korea and can we understand the change of the welfare system in South Korea?

Welfare programs were not introduced on the basis of universal solidarity in South Korea, but for selected groups. Examples included civil servants and the military who could afford the costs of social insurance systems, as well as workers who were employed by large-sized enterprises. The aim behind the development was to acquire the political legitimacy of the military regime and to support economic growth. Policymakers of South Korea also believed in a trickle-down effect. The ideology of the "growth-first-then-distribution" became dominant in politics and society, so they did not take welfare policies seriously as a crucial national task. Consequently, welfare policies were neglected in South Korea due to growth-oriented economic policies; which follows the logic of the productivist welfare regime by Holliday. However, welfare was replaced in informal sectors such as the family and company-based welfare, following, in this regard, the interpretation as a mixed welfare regime by Esping-Andersen.

However, the situation in South Korean society collapsed during the 1997 financial crisis. Structural problems were dramatically exposed not only in the economy, but also in other sectors. The most unprecedented social problem was the rapidly increasing unemployment rate, which shattered the belief of "welfare through work" (Ahn B. Y., 2009). Strong criticism arose about the government's marginal role in welfare policies. Moreover, the IMF and the World Bank pressed the reform of the weak social safety net as one of the bailout conditions in order to effectively implement structural adjustment programs in South Korea. In these circumstances, the government carried out an expansion of the national welfare system in the crisis period. For the first time in the history of South Korea, welfare policies came to be appreciated as an institutional means during the 1997 crisis; this has thus been interpreted as a critical juncture in the historical development of the South Korean welfare system (Yoon H., 2009: 334). What made possible the implementation of welfare reforms in South Korea? The crucial external factor was the intervention of global financial

governance organizations during the 1997 crisis in South Korea. However, these external conditions were not the only source of the unprecedented welfare reforms.

Former governments led by Chun Doo-Hwan (1980-1987), Roh Tae-Woo (1988-1992) and Kim Young-Sam (1993-1997) also attempted to reform and expand social welfare programs, which were established under the Park Chung-Hee government (1963-1979). However, their efforts either failed or did not go far enough (Mo and Moon, 1999: 158). The dysfunction of the social safety net remained hidden as long as economic growth was successful. Serious social problems were only revealed by the 1997 financial crisis, and a change in welfare policies was expected under the following government, which could carry out structural reforms (Kwon and Holliday, 2007). Eventually, the political leadership was changed from an authoritarian regime to a democratic government led by Kim Dae-Jung (1998-2002), who was inaugurated as President by an opposition party for the first time in the history of South Korea. The Kim Dae-Jung government interrupted the possibility of perennial political intervention by military authorities, who up to that point controlled the ruling elites until the inauguration of President Kim. Kim brought a progressive political ideology to the administration, enabling the policymaking process to open up to civic and labor groups (Jeong D. H., 2001: 24; Kwon and Holliday, 2007: 244-5). Society strongly expected progressive welfare policies to be implemented. And indeed, structural reforms of the welfare system were implemented and resulted in an unprecedented development of the South Korean welfare system. In doing so, the debate on the character and the future of the South Korean welfare system has arisen in different perspectives in South Korea.

One book encapsulating the debate, published in 2002, was entitled *Debate on Korean Welfare State Character*. On the one hand, some scholars argued that the Kim Dae-Jung government followed the Third Way, which was a philosophy of welfare reform policies in the UK, and which President Kim Dae-Jung officially mentioned. This meant some scholars contended that the expansion of the national welfare system was closely related to a liberal welfare regime like that of the United States, on the basis of Esping-Andersen's (1990) categorization. The main assertion was that the rate of social expenditure was still much lower than in other welfare states in spite of the expansion of welfare programs because the reformed welfare schemes encompassed strongly liberal ideas. On the other hand, some scholars defended the idea that the reforms of welfare policies under the Kim Dae-Jung government were not oriented to the liberal welfare regime. The primary argument was that the government carried out a structural expansion of the welfare system from a residual welfare system to an institutional one, and accepted welfare policies as one of the most

important national policies. Later on in this context, Kim W. S. (2006) contended using a neo-institutionalist theoretical approach that the South Korean welfare state regime had been becoming more like European welfare states. According to him, it appeared to be more like a liberal welfare regime, but the process of reform and implementation resembled the conservative welfare regime. All these claims notwithstanding, there were also different statements of these arguments. Some scholars asserted that South Korea could not be assigned to any of the welfare state regimes according to the categorizations of Esping-Andersen (1990), but developed with a mixed character, i.e. a cross between the liberal and the corporatist welfare state regime.

To sum up, it is generally agreed that the South Korean welfare system developed following the 1997 Asian financial crisis. Scholars also agree that the welfare system has transformed from a limited welfare system to an expanded formation. However, there is still a debate about what the development of the South Korean welfare system has transformed it into. In this context, how can we understand the different formation of the welfare system in South Korea since the 1997 crisis? Is it evolving into a liberal, conservative, or social democratic welfare regime, or is it on its own, different path? It is also important to realize how the 1997 Asian financial crisis influenced the reform of the South Korean welfare system in order to understand the outcomes. In this regard, this research will mainly deal with the historical development of South Korea, the reform process under the Kim Dae-Jung government (1998-2002), and interaction among actors in policymaking and decision processes of social welfare programs in order to respond to such questions.

Research Questions and Aims

There are two important perspectives needed to fully understand the unprecedented development of the welfare system in South Korea since the 1997 Asian financial crisis. On the one hand, there was an external factor, as the crisis facilitated the expansion of the welfare system. On the other hand, there was an internal factor, with the crisis opening up an opportunity to change the political leadership; this in turn brought progressive ideas into the reform processes of the welfare system. Throughout these changes, welfare policies rapidly developed from a residual to an institutional welfare system. In this regard, it is critical to assess how and to what extent the 1997 Asian financial crisis influenced the development of the welfare system in South Korea.

This research will respond to following questions in order to understand the main question: (1) How did the financial crisis influence not only the economy, but also political circumstances and welfare policies? (2) What were the concerns of various actors in welfare policies and how did they interact in the policymaking and decision processes of welfare policies, particularly under the Kim Dae-Jung government (1998-2002)? (3) How can we understand the expansion of the welfare system in South Korea since the 1997 Asian financial crisis?

When looking at these questions, this research will focus on two main processes. First, it is important to explain something about the central institutions of the welfare system in South Korea, including how they were established and developed (or failed to develop) into the national welfare system. This research will address the main national welfare programs, i.e. the new modern public assistance system (the National Basic Livelihood Security Scheme), as well as the four main types of national social insurance (Industrial Accident Compensation Insurance, National Health Insurance, the National Pension Scheme and Employment Insurance) which were all reformed to an unprecedented degree under the Kim Dae-Jung government during the financial crisis. In addition, the changing economic and political circumstances will also be explained to help readers understand the outcome of the welfare schemes. Second, this research will investigate the understanding of different roles by various actors in the policymaking and decision processes of welfare policies to analyze their concerns about how these processes influenced the result of welfare reforms. Through this, we can understand how the government had made decisions in the political context and the extent to which various actors confronted and/or accepted the restructuring of the welfare system.

In short, the aims of the thesis are: (1) to explain what made possible the implementation of the structural reforms of four national social insurance types and the introduction of a new modern public assistance system during the 1997 Asian financial crisis in light of complex domestic and global circumstances; (2) to examine how these processes came about, which refers to the reforms of welfare policies, and what the results were under the Kim Dae-Jung government; (3) finally, to determine which character South Korea has according to various types of welfare regimes and how we can understand its developmental trajectory.

Organization of the Research

This thesis consists of seven chapters including the introduction, the conclusion, and the discussion. Following this introductory chapter, in Chapter 2, I review various theoretical approaches to understand the development of European welfare states and East Asian welfare state systems and whether they have similar or different developmental paths. The explanation enables me to develop an analytical framework to examine the research questions and methods to conduct this research. Chapter 3 mainly deals with the historical development of the economy and politics since the establishment of the modern state to understand how South Korea was able to conduct its development of the welfare system. Chapter 4 presents the historical development of welfare policies prior to the 1997 crisis and the establishment of the structure of the national welfare system in South Korea. This research will focus on four national insurance systems and a public assistance program: Industrial Accident Compensation Insurance (IACI), National Health Insurance (NHI), the National Pension Scheme (NPS), Employment Insurance (EI) and the National Basic Livelihood Security Scheme (NBLSS). In Chapter 5, I analyze the dynamics of influential factors and the interrelation between various factors to answer the main research question, of how and to what extent the 1997 crisis influenced the development of the national welfare state system in South Korea. Chapter 6 concludes the overview of the developmental trajectory of the South Korean welfare system, including what resulted from the complex interrelationships of various internal and external factors. Finally, Chapter 7 discusses the character of the South Korean welfare system, which means the development of the welfare system since the financial crisis and a comparison with the welfare state in other countries with different economic and political conditions to help to understand its specific developmental path.

Chapter 2: Theoretical Approaches and Research Methods

Many scholars have attempted to explain the development of welfare states, the extent to which some countries have been able to develop into welfare states, and why other countries have not (Esping-Andersen, 1990; Flora and Heidenheimer, 1981; Haggard and Kaufmann, 2008; Korpi 1983; Rothstein and Steinmo, 2002; Seeleib-Kaiser ed., 2008; Manow and Kersbergen, 2009; Wilensky, 1975). Some of the many factors that are crucial in these processes include democratization, industrialization, working-class mobilization, partisan politics and cultural values – factors that are especially useful in explaining the development of European welfare states. How do political and social scientists attempt to explain the emergence of welfare systems in East Asia, particularly in the four "tiger countries" of Hong Kong, Singapore, South Korea, and Taiwan? These countries, which exemplify the extraordinary success in post-war economic development, are ideal case studies to examine new welfare states, because European welfare policies and institutions have historically evolved in the context of remarkable economic and population growth, political development, and the transformation of the international economic and political order (Flora and Alber, 1981: 37-8). In this context, many scholars have developed an interest in the emergence of East Asian welfare state systems precisely because these are not adequately explained by the pathway taken by European welfare states.

This chapter is organized into three sections. The first section generally explains the concept of a welfare state, to broaden understanding of this phenomenon. The second section reviews the existing literature on East Asian welfare states. Through these, the third section outlines the analytical framework and the methods of this thesis.

2.1. The Welfare State in Perspective

The development of welfare states was accompanied by the Golden Age of post-war capitalism (Nullmeir and Kaufmann, 2010). Governments expanded their role in welfare provision and began to acknowledge social rights as universal human rights in social policies. This is in marked contrast to the period before World War II, when governments remained selective in welfare benefits. Social policy reforms inspired the development of welfare state institutions and the implementation of social insurance legislation. Indeed, during the war and

the Great Depression, international attention to welfare programs increased and, as a result, the UN Economic and Social Council and the ILO were created to support the development of social policies (Nullmeier and Kaufmann, 2010: 83-85). It is in this period that European countries developed into welfare states. Nonetheless, it is not easy to clearly define "the welfare state" as such, because welfare states exist in differing modes and scopes, depending on the types of political systems and economic conditions of the respective countries. How do scholars explain the different paths in the development of welfare states? Generally, scholars have studied the development of welfare states in connection with economic development (Cutright, 1965; Flora and Alber, 1981; Wilensky, 1975). Others, in explaining the expansion of welfare states, also consider power-oriented theories in politics, particularly the role of working-class mobilization and political competition among parties (Esping-Andersen, 1990; Hicks and Swank, 1992; Huber eds., 1993; 2001; Kersbergen, 1995; Korpi, 1983; 2001; Manow and Kersbergen, 2009; Pierson, 1991; Rostow, 1961; Stephens, 1979). Furthermore, the role of globalization, which has influenced welfare state development and policy-decision and making processes in social policies, cannot be overlooked. As such, there is increasing scholarly focus on the effects of globalization.

Economic Growth and the Golden Age of the Welfare State

Since the Golden Age of the welfare state, which began in the mid-1950s in European countries, the welfare state has generally been understood as a state that takes responsibility for securing its citizens' basic livelihood, welfare, or needs. In the post-war period of urbanization and industrialization, according to Haggard and Kaufman (2008: 3), the life cycle was changed and market risks increased in the form of work-related injury and disability, unemployment, and retirement. These vulnerabilities presented the need to carry out social policies in various social realms. Such social policies have been introduced in the cultural, economic, and political spheres of each country and their development is nowadays connected with "the welfare state." Yet this leads to important questions. Why are welfare states developed in some countries, but not in others? How could these disparities be explained?

Scholars who explain a welfare state in connection with economic growth focus on the social impacts of changes in the industrial structure. According to Wilensky (1975: xiii), "economic growth and its demographic and bureaucratic outcomes are the root cause of the

general emergence of the welfare state." His research agenda was concerned with the puzzle of why European countries developed better welfare systems than other countries. In other words, countries that achieved industrialization and economic growth earlier than others could afford the financial costs and administrative infrastructure needed for welfare schemes.

This understanding is also embraced by neo-Marxists who see the growth of the welfare state as a by-product of economic development beyond the control of policymakers and publics that compel a common response, and along a similar functionalist logic (Myles and Quadagno, 2002: 37; Offe, 1972; O'Connor, 1973). For them, the industrialization that accompanied urbanization spurred a structural change in labor markets through a transformation of labor from farm workers to industrial (Inglehart, 1997: 7). Moreover, urbanization wrought fundamental changes in traditional family structures that eventually resulted in the modern nuclear family. Ultimately, the labor force converged on urban areas and developed occupational specializations. Traditional families had responsibilities to care for the disabled, ill, elderly, or unemployed, but such roles were weakened by this structural change. People began facing problems that could no longer be resolved at the individual level – problems that entailed "social" answers and demanded collective responsibility. In doing so, industrialization was thus accompanied by the need and demand for social policies that were understood as the "public management of social risks," or in other words "risk sharing" (Esping-Andersen, 1999: 36-37; Garrett 1998; Skocpol and Amenta, 1986: 133).

However, by the end of the 1970s, political conditions became more significant factors in explaining the divergence in the formation of European welfare states (Myles and Quadagno, 2002). Indeed, in the case of Sweden, economic growth has not been linearly connected with the development of the welfare state. Its national welfare systems have been exemplified as an optimal welfare state model even though industrialization was achieved later than other European welfare states (Pierson, 1991; Stephens, 1979: 129-30).

Impact of Political Power on Social Welfare Policies

From a political perspective, welfare states are understood as products of political responses by elites, parties, or governments. Scholars have stressed that working-class mobilization, particularly the modern labor movement strongly organized and closely associated with social democratic parties, built political pressures that facilitated the growth of welfare systems (Esping-Andersen, 1985; Korpi, 1983; O'Connor, 1973). The Swedish case

positively demonstrates this path of welfare state development associated with the labor movement (Pierson, 1991; Stephens, 1979: 129-30).

Korpi (2001; 249) explained that "labor power, or human capital, differs from other basic power resources by being more difficult to concentrate on the individual level. However, the efficacy of labor power can be greatly enhanced via collective action." According to Korpi (1983, 2001), collective action of labor power leads to the development of welfare institutions. The activities of working-class and labor-related parties provoked ruling parties and elites to improve their political strategies, and therefore welfare policies were mostly introduced and implemented to resolve political conflicts and social grievances. Esping-Andersen (1990: 32) connected the function of politics and political institutions, which indeed led to the development of divergent welfare states. Class development into patterns of working-class political formations and political coalition-building with the middle class significantly influenced the development of the type of welfare regime and even welfare markets. For instance, the private market for various insurance systems mechanisms has been largely undeveloped in the policies by Scandinavian social democratic parties.

Nevertheless, Pierson (1994, 1996, 2000b) disputed the idea that the power resource approach could explain the changes in retrenchment or expansion of the welfare state after the mid-1970s. Some research opened up the new perspective informed by politics, especially partisan politics in which partisan competition proved conducive to welfare-expanding reforms. The role of left-leaning parties such as labor and social democratic parties has been particularly pronounced in this alternative explanatory approach. It is widely argued that left or social democratic parties generally lead to higher welfare systems than right parties as exemplified by Sweden, Austria, and Norway (Hicks and Swank 1992; Korpi 1983). On the other hand, some scholars also stressed the role of Christian democratic parties for similar effects in countries such as Germany, Switzerland, the Netherlands, and Italy. Cultural values of Catholicism (or Protestantism) in which the development of modern welfare systems was promoted are deeply entrenched in the political tradition of European countries, e.g. church intervention in education and relief for the poor (Manow and Kersbergen, 2009; Palier, 2010). Particularly, the emergence of welfare and social assistance is a Catholic tradition, in which Christian social doctrine emphasizes the Church's social responsibilities and its stance towards the poor (Kahl, 2009; Seeleib-Kaiser eds., 2008: 96). According to Stephens (1979: 100), this is related to "anti-capitalist aspects of Catholic ideology such as notions of a fair wage or prohibitions on usury." Kersbergen (1995) pointed out that Christian democratic parties are imbued by Christian social doctrine, which is crucial in shaping the approach

towards social issues and the development of the welfare state. Although both social democracy and Christian democracy have different political orientations and have operated along different developmental paths to welfare states,[1] they have both commonly promoted the development of the welfare state through high levels of welfare expenditure through competitive partisan politics (Manow and Kersbergen, 2009; Stephens 1979). Nevertheless, as Huber at al. (1993: 717) stressed, left-leaning parties had a greater effect on welfare state expenditure, because Christian democratic parties omitted the de-commodification process of the labor force.

Globalization: Encouraging or Hindering Welfare?

The social and economic impacts of globalization on countries today are hardly new. Particularly, globalization has led to capital mobilization across borders, which spurs strong global competition in trade, as well as in fiscal, industrial, and social policies. In such competitive environments, capital moves to where there is minimum state taxation; this is done to attract capital and foreign investment. States have been attempting to reform their policies in various realms, e.g. reduction of levels of taxation and the high costs of welfare policies. This has led to a discussion on the privatization of welfare programs and decentralization of state responsibility in the welfare system (Kapstein and Milanovic, 2001: 199; Rhodes, 1996: 307-12). To what extent has globalization influenced the development of welfare states? Scholars have led a debate on the impact of globalization according to critical and advocatory perspectives.

First, explanations of critical perspectives refer to the diminished expansion of welfare state systems. A central issue of economic globalization concerns strong competition among states. To win in global competition, states endeavor to reduce production costs to raise their advantage – this is known as the "race to the bottom" (Rodrik, 1997). According to Scharpf (2000: 421), "the terms of trade between capital, labor and the state have shifted in favor of capital interests and national powers to tax and to regulate have become constrained." In this

[1] Huber et al. (1993: 740) developed a different position in the development of the welfare state: "the commitment of social democracy to the correction of inequalities created by the market finds its reflection in an expanded public sector; the commitment of Christian democracy to a protection of the position in the labor market acquired by individuals and families from such adversities as sickness and old age is reflected in large transfer payments." Esping-Andersen (1990) categorized the specific character of welfare regimes into three types – liberal, conservative, and social democratic – according to the position of governments, parties, and party systems.

sense, neo-liberalism generally seeks ways to increase productivity rather than redistribution (Rhodes, 1996). It is therefore difficult to sustain social expenditure, which is non-productive in liberal economic conditions, and the political autonomy of states is constrained in providing an adequate level of social protection. In these global circumstances, welfare systems have been oriented to neo-liberal ideas and reformed in the context of privatization and decentralization (Weiss, 2003: 3).

In addition, Yeates (1999) stressed the role of global governance systems, which increasingly means the implementation of international policies on national policymaking and decision processes. For Yeates (1999: 382), global governance structures such as the IMF, the World Bank and the OECD operate "within a complex legal and political framework of international agreements, treaties, regulations and accords regulating economic exchange and accumulation between countries." States have attempted to match such global standards through reform processes in order to adhere to global norms. What are the problems associated with reforms at supranational levels? Dobbin et al. (2007: 455) emphasized that industrialized countries may meet the conditions and achieve their objectives, but developing countries most often fail to resist pressure from lenders and donors that usually require economic and political reforms, in particular opening markets, lifting trade barriers and privatization in the line with neo-liberal economic policies. Indeed, countries that need financial assistance could not help themselves unless they accept the neo-liberal policy prescriptions of institutions of global economic and trade governance. In doing so, the IMF and the World Bank led their ideas with a policy standard known as "Structural Adjustment Lending (SAL)" in the 1990s. In fact, these international economic institutions granted loans with a variety of labels, e.g. adjustment lending, economic recovery program, export rehabilitation loan, which were all not just about project or lending policies, but more concerned with bringing about profound policy changes that favored market expansion (Mosley and Toye 1988: 395-6).

In this context, some scholars have stressed that globalization is a cause for the retrenchment of welfare policies (Benvenisti, 1999; Mishra, 1998; Scharpf, 2000; Yeates, 1999). Mishra (1998: 485) criticized the fact that "unremitting economic laissez-faire is likely to destroy communities and social life and the problem of controlling the economic in order to save the social is back on the agenda," so as not to lose potential foreign investment and to create private welfare markets (Deacon, 2000). Thus, most welfare states embraced diminished levels of social expenditure and allowed the unfettered operation of markets – a

governance approach referred to as the idea of "active labor market policies" and "the Third Way" (Giddens, 1998).

Second, some scholars deal with positive aspects of globalization (Brady et al., 2005; Cameron, 1978; Rodrik, 1998a, 1998b; Swank, 2003). They argue that globalization has not led directly to significant welfare retrenchment and, in fact, the effects of limitation or reduction of the welfare state cannot significantly be attributed to increasing globalization. Rather, some indicators show that globalization has even led to an expansion of welfare systems. For instance, according to Brady et al. (2005: 941-3), countries such as Scandinavian states that are open to international economic transactions tend to have more generous social security transfers.

Rodrik (1998a, 1998b) also argued that globalization had no net negative impact on welfare programs, because social protection with social security programs has played a role as a cushion in globalized processes. To prevent people from experiencing social risks, welfare schemes are increasingly required in the process of market reform or restructuring, which has exposed the risks of the competitive international economy (Rodrik, 1998b: 157). Furthermore, according to Larner (2000: 6) and Weiss (1999: 75-7), the transition of welfare state principles[2] is not because of the pressures of neo-liberal ideas, but due to the fact that welfare states are in need of revamping as a result of shifting demographic and household patterns. On the other hand, Deacon (2000: 2) pointed out that globalization raises issues about social policies because international governmental organizations such as the UN and the OECD insert welfare policy issues into domestic politics. Indeed, the OECD (1999: 137) stressed that globalization in competitive environments could lead to a "race to the bottom" as a result of a reduction in social protection schemes, but globalization also has led to increasing demand for social protection and could support "best practices" for reform of social policies in countries through global governance organizations (Deacon, 2000: 33).

2.2. Understanding East Asian Welfare State Systems

There has been a great deal of academic and political interest to explain the slow or limited development of welfare systems in East Asia, i.e. newly industrializing countries (NICs), in

[2] In welfare policies, neo-liberal economic ideas have also resulted in the transition from the Keynesian welfare state to the Schumpeterian welfare state, which limits the responsibility of the state for social policies in favor of economic competitiveness (Jessop 1990, 1993).

spite of the astounding economic transformations these states have witnessed in recent decades. The absence of a positive correlation between economic growth and welfare development is surprising, because exponents of the modernization theory claim that the evolution of social welfare policies and institutions is positively correlated to economic and political development as in the case of developed Western countries (Flora and Alber, 1981: 37-8; Rieger and Leibfried, 2003). How, then, do scholars attempt to explain this seemingly aberrant path of the development in East Asian countries? Thus far, East Asian welfare state systems were explained predominantly in the light of the historical experience of European welfare states in comparative social policy studies (Ku Y., 2007). However, Midgley (1986: 225) has argued that the theoretical approaches deployed in the explanation of industrial growth of the Western countries were unable to shed light on NICs. In contrast to the European welfare states, the development of welfare policies in East Asia has not accompanied industrialization, but rather it is "the consequence of a variety of causal events" (Midgley, 1986: 225). Some scholars have attempted to explain their development in terms of Confucian cultural values that were presumed to underlie the peculiar path for the rise of welfare state institutions in a non-Western cultural environment (Goodman and Peng, 1996; Jones, 1990). However, the explanations yielded by this culture-focused approach are insufficient, as the following section explains. Other scholars have looked at the impact of different political conditions, particularly growth-oriented political strategies in the Asian tiger countries, as well as globalization (Gough, 2004; Kim Y. M., 2008; Kwon H. J., 1999).

Cultural Values of Confucianism in East Asia

To some scholars, cultural values of Confucianism, which are deeply entrenched in East Asian societies, are the ultimate source for the variation of East Asian welfare state systems from their Western, especially European, counterparts (Chau and Yu, 2005; Goodman and Peng, 1996; Jones, 1990; 1993). In cases of European welfare states, Catholic and Protestant religious values are assumed to be relevant cultural ingredients in the formation of their welfare systems (Kersbergen, 1995). Such fundamentally different social principles have driven the divergent pathways to welfare state development.

The fundamental social principle of Confucianism is that "society and humanity at large could function harmoniously" and this enables people to help their fellows, understand each other, and solve their problems. In the tradition of Confucianism, ethics such as the root

of social relationships, the foundations of stability, peace and prosperity of the state, the family and individuals were institutionally developed (Yao, 2000: 23-6). As such, its values shape the moral life, rules of propriety, patterns of behavior, and precepts for daily life in East Asian societies. These Confucian values were and are very ingrained in East Asian societies, so much so that they understandably influenced the emergence and nature of welfare systems. For instance, family and informal networks played a role as social safety networks in place of national welfare systems, unlike European welfare states, where welfare policies were developed in terms of citizens' rights[3] (White and Goodman, 1998).

According to Jones (1990: 450), these societies see the family as the key social unit because an "ideal family" provides harmony, solidarity, pride, loyalty for their members: "filial piety ensures due deference upwards; family honor ensures due care and protection downwards." As a result, Jones (1990: 451) concluded that the reason for the limited development of East Asian welfare states lies in "the tradition [that] was one of subjects, not citizens; of coming to terms with officials (as and when necessary), not of exercising 'rights'. It was only when 'normal bargaining' was perceived to have broken down or to have given rise to an unacceptable outcome that people 'in general' were liable to protest against government 'in general'". Regarding this, it is assumed that the state's intervention in social welfare arrangements was largely absent. In a nutshell, underdeveloped welfare systems resulted from the strong role of the family and the informal networks that bypassed state responsibility in social welfare policies.

On the other hand, there is a different perspective, which is that the government used Confucian values as a political strategy. According to Chau and Yu (2005: 30), "some Asian governments use Confucianism against the development of social welfare." Walker and Wong (2005b: 213-5) note that Confucian values enabled rapid industrialization and economic growth without concerns for social problems on the national level by simply abandoning or purposely entrusting the tasks of social welfare to self-reliant social institutions – that is, the family, occupational organizations, and social communities.

Nonetheless, the cultural values approach easily glosses over several other issues and the complex causes for the sluggish development of the welfare state in East Asia. Although East Asian societies retain strong values of family and community, it is yet unclear as to why welfare systems have been comparatively underdeveloped in the context of Confucian

[3] According to Marshall (1950), welfare institutions are constituted as part of the "social rights of citizenship." Citizenship means a status for the people "who are equal with respect to… rights and duties."

cultures (Walker and Wong, 2005b; White and Goodman, 1998). East Asian societies and, for that matter, the underlying cultural values, have been changing in response to migration, modernization, economic competition, and globalization, among other factors. In other words, the character and the development of welfare state systems in East Asian is strongly linked to political and economic conditions as well.

The Economic and Political Impact of Authoritarian States on Social Welfare Policies

Some scholars focus on political factors, in particular on sources of the political legitimacy of authoritarian regimes and on growth-oriented political strategies (Gough, 2004; Holliday, 2000; Kwon H. J., 1999). According to this school of thought, military regimes in East Asia introduced national welfare programs such as public assistance, the IACI, the NHI, and the NPS, primarily to buttress their political power and legitimacy. Furthermore, their national drive for rapid economic development necessitated some form of limited and selective social coverage in order to focus on economic growth. Such strong growth-oriented political strategy has been understood as a way for East Asian countries to promote "social dumping"[4] policies, which were used to forestall the development of welfare states. However, Hort and Kuhnle (2000: 179) contended that it would be an exaggeration to insist that deliberate social dumping policies have been ultimately responsible for the underdevelopment of welfare states. They rather emphatically suggest that this differs from one case to another. In the cases of South Korea and Taiwan, governments introduced welfare programs not only for political reasons, but also for social protection. What are, then, the most important factors in the development of welfare state systems in East Asian countries?

It is widely agreed that the prime national goal of these countries was economic growth and, in part, social policies supported economic and industrial policies (Hort and Kuhnle, 2000). In other words, welfare programs were introduced as a "policy instrument for economic development" (Kwon H. J., 2005a). Seen as "developmental welfare states" (Gough, 2001; Kwon H. J., 2005a; Tang, 2000b), this notion holds that these countries predominantly introduced and implemented welfare programs as a political strategy as fuel for economic growth. In a similar vein, Holliday (2000) described East Asian welfare state

[4] The concept of "social dumping" is usually defined in terms of economics. It is most related to policies of cutbacks in social protection, public spending, and labor costs to increase competitiveness in global economic competition (Alber and Standing, 2000).

systems in terms of "productivist welfare states." Two central aspects of this concept are a growth-oriented state and the subordination of all aspects of state policy – including social policy – to economic and industrial growth (Holliday, 2000: 709).

The above-described theories commonly hold that social policies might be oriented to facilitate economic growth so that the meaning of social rights – or civil rights – is very weakly developed. Pierson (2004: 5) stressed that "pursuing developmental goals should recognize and value the central importance of state-sponsored social welfare as a part of a comprehensive strategy for economic development." Gough (2004: 186), in contrast, pointed out that "the core idea is that elite policy-makers set economic growth as the fundamental goal and pursue a coherent strategy to achieve it. National social policies can differ, but all of them are explicitly subordinated to economic policy and the pursuit of economic growth." Nevertheless, for both scholars, the priority was economic growth. Indeed, although East Asian countries achieved rapid industrialization, which leads to the expectation that states invest more in welfare policies (Lee and Ku, 2007), the development of welfare systems was overlooked and social expenditure was significantly lower than that in European welfare states. In a nutshell, welfare policies in East Asian countries were instruments in economic and developmental strategies geared toward securing high growth rates and national development in the sense of a "trickle-down effect." In fact, such an approach to welfare policies proved successful, as evidenced by the full employment rate in these NICs before the 1997 crisis (Gough, 2004: 182).

Welfare programs, especially in the four tiger countries – Hong Kong, Singapore, Taiwan, and South Korea – were initiated as a "policy instrument for economic development," which was the political priority of the authoritarian developmental regimes (Kwon H. J., 2005a; White and Goodman, 1998). The following brief explanation of their historical development shows that the development of welfare programs in East Asia was a result of a combination of politics and economic policies.

Hong Kong was long under British colonial administration until 1997, and its welfare system was influenced by the colonial government. Colonial politics allowed a "minimal" social safety net, but social problems such as poverty, homelessness, and political instability worsened when Hong Kong began to develop economically after World War II. Some improvements were first made in the early 1950s, including public housing policy, reform of the education system, health policy, and the introduction of industrial accident occupational insurance. The strategy for economic growth was driven by free-market principles, with the market and families performing key welfare functions (Chow 1981; Tang, 2000a).

In the case of Singapore, a public assistance scheme was introduced in 1951 under the British colonial rule as an initial welfare program. The basis of a comprehensive welfare system was considered under colonial rule, but turned out to be insufficient (Chow 1981). Indeed, the Central Provident Fund (CPF), which still remains a central element in Singapore's welfare system, was created in 1953. After independence in 1959, Singapore focused strongly on economic growth. A single party, the People's Action Party (PAP), played a dominant role in the economy. In the context of a national goal for rapid economic transformation, welfare programs were seen as hostile to the norms of individual responsibility, self-reliance, community support, and a strong work ethic. Thus Singapore did not establish a comprehensive social safety net, but introduced limited coverage for selective social groups living in "real" poor conditions (Holliday, 2000; Tang, 2000a). In sum, social welfare was regarded as an inhibitor of economic growth. Thus, there was a lack of social consensus on the notion of social rights.

Taiwan was returned to China after World War II. However, the Kuomintang (KMT) party fled Mainland China after its defeat by the communists in 1949, and continued the nationalist regime on the island. In the aftermath of World War II, Taiwan was one of the poorest countries in Asia, and the economy was mostly based on agriculture. It could, however, obtain massive foreign aid from the USA as part of its containment strategy against communist expansion in East Asia. Taiwan aimed at economic growth and developed plastics, chemical, shipbuilding, clothing, and electronics industries. The national priority was economic development (as well as national defense and political legitimacy) and nation-building (Holliday, 2000; Tang, 2000a). Until the end of the 1990s, the authoritarian government under the KMT's rule dominated the political and economic life of the island. National social insurance schemes were established as the main safety nets, but they covered only selected groups of people such as military servicemen, teachers, and civil servants.

In South Korea, rapid economic growth was achieved under military regimes. The authoritarian regimes focused on economic development, but welfare programs were essentially understood in the context of a "trickle-down effect." After a military coup, Park Chung-Hee introduced social welfare policies to serve primarily as a short-term strategy for generating political legitimacy for his rule (Kwon H. J., 1999). From the beginning, the military regime under President Park pursued social policy motivated almost entirely by economic development objectives. In the case of the pension scheme, the central aim was capital mobilization. Singapore's CPF was also established in a similar context (Holliday, 2000; Tang, 2000a).

From the above brief illustration, it could be inferred that welfare programs in East Asian countries, especially the four tiger countries, were not introduced because of popular demand or labor and civic movements, but basically out of the economic and political priorities of authoritarian developmental states (White and Goodman, 1998).

However, it seems that one important peculiarity in understanding East Asian welfare state systems was missed, namely company-based welfare. National welfare programs were slowly developed, so company-based welfare and supporting of the family have played relevant roles as part of the welfare system that has filled in for the lack of a national social safety net. During the earliest years of industrialization, social services were available through firms, not the state. Large firms provided various welfare programs, such as housing allowances, student grants for employees' children, medical subsidies, childcare allowances, generous insurance schemes, and retirement plans. Working conditions ameliorated by such benefits became incentives for employees who saw them as social rewards for hard work. In fact, the scale of company-based welfare programs, especially in Japan, Korea, and Taiwan, was greater than those provided in European welfare states (Pempel, 2002: 284-8). Company-based welfare systems as part of social protection schemes were developed amid economic growth without consideration for the establishment of a welfare state and the social problems unleashed by industrialization.

Company-based welfare systems in East Asian countries should be explained as one of a different formation because they do not completely belong to the private market, but take into account labor costs and institutional support from governments (Kim Y. M., 2005). However, there are a few studies that explain East Asian company-based welfare as a part of state welfare systems and as products of convulsive changes wrought by globalization (this will be dealt with in greater detail in Chapter 5).

The Effects of Globalization on Welfare Policies

By the end of the 1990s, Asian countries had come under the full influence of globalization. Since then, some scholars have argued that East Asian welfare state systems could not be explained only in light of growth-oriented political strategies and the cultural values of Confucianism, but also in terms of the ultimate effects of globalization (Kim W. S., 2006; Rieger and Leibfried, 2003).

Rieger and Leibfried (2003: 243) argued that "economic globalization sharpens rather than mitigates the distinctiveness of social policy structures in East Asia." This argument draws on the notion that some countries expanded welfare programs due to growing integration into the international economy in an attempt to build a cushion against social risks (Ramesh, 2003). Moreover, Ramesh (2003) noted that economic globalization is not the only factor for the expansion of welfare policies by some East Asian countries. He asserts that these countries also faced intense domestic political competition amid transitions to democracy.

It seems that domestic policy change arises when policymakers face unusual political or economic problems such as a lack of social security, health care and/or unemployment, and are constrained in their search for rational political solutions (Campbell and Keys, 2002; Dobbin, 1993; Hall, 1993; Rose, 1991). In the globalization process, it is becoming possible to more easily learn political systems and social policies from other countries that have successfully developed and implemented reforms in politics, the economy, and social policies.

In addition, according to Dobbins and Gerrett (2007), the impacts of globalization could also be coercive. For instance, the IMF and the World Bank condition financial aid on welfare reforms. Developed countries have an advantage in withstanding these austerity programs or can accept conditionality with lesser risk. However, most developing countries have no or little choice to defy the rules of the global economy. In this context, neo-liberal ideas are implemented in welfare reform processes, e.g. through global financial governance organizations. This was demonstrated by developments in East Asian countries after the 1997 crisis.

2.3 The Analytical Framework and Research Methods

Various theoretical approaches have been used to explain the development of the welfare state and its character, primarily as related to democratization, industrialization, working-class mobilization, partisan politics, the impact of economic globalization, and cultural values. However, it is still difficult to directly apply such theoretical approaches, which well explain the progress of European welfare states, to characterizing the state welfare systems of East Asian countries. Regarding this, it is necessary to go back and look at history in order to understand the developmental processes of countries when they had

different choices and how the choices pointed to certain directions in the economy, politics, and welfare policies (Pierson, 2000c; Mahoney, 2001).

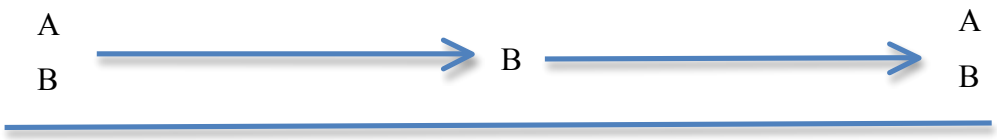
The Analytical Framework

The theoretical approach of path dependence refers, according to Pierson (2000c: 252), to the causal relevance of issues of timing and sequence. The analysis of path dependence focuses on processes how countries made political choices in complex conditions that were inherited from the past (Myles and Pierson, 2001: 306). These choices may establish certain directions of development over long periods of time (Mahoney, 2001: 264). For instance, industrialization was achieved in East Asian countries especially the "tiger countries" with different timing and on different pathways than those of European countries. In this regard, history matters when trying to understand the processes of why and what countries have different outcomes in the economy, politics, and other sectors. The theoretical approach of path dependence explains, in short, political events to find out *how* things happened to understand *why* they happened (Aminzade, 1992: 459). This perspective is also significant when examining the research question of "how and to what extent political strategies were developed for solving political and social problems and what came as political outcomes" (Thelen and Steinmo, 1992: 7).

Particularly, "critical junctures" illustrate the political transitions that establish certain directions in different ways and contexts, and are understood in history as turning points toward certain directions (Collier and Collier, 2002: 27-37; Capoccia and Kelemen, 2007: 342). In policy-decision processes, this accounts for how policymakers and interest groups shape their interests with different political options and how this leads to a political result (Hogan, 2006; Hwang GJ, 2006; Pierson, 1993). For instance, this explains reform of national welfare policies, agenda setting of policymaking in the economy, public policies and politics, the reform of institutions and the regulation of competition in markets, reforms of banking systems and foreign policy, i.e. the critical juncture focuses on "most macro historical analysis of the development of regimes or entire regions" (Capoccia and Kelemen, 2007: 345). Critical juncture focuses, according to Mahoney (2001: 113-4), "attention on key choice points that mark points in history when the range of possible outcomes is substantially narrowed." In this theoretical approach, the case of South Korea will be explained by how the 1997 Asian financial crisis influenced the expansion of the welfare system. Figure 2-1 shows

that the 1997 crisis indicates a turning point in the historical development of welfare policies, which transformed from limited welfare systems to comprehensive ones.

Figure 2-1 Illustration of critical juncture in the development of the South Korean welfare system



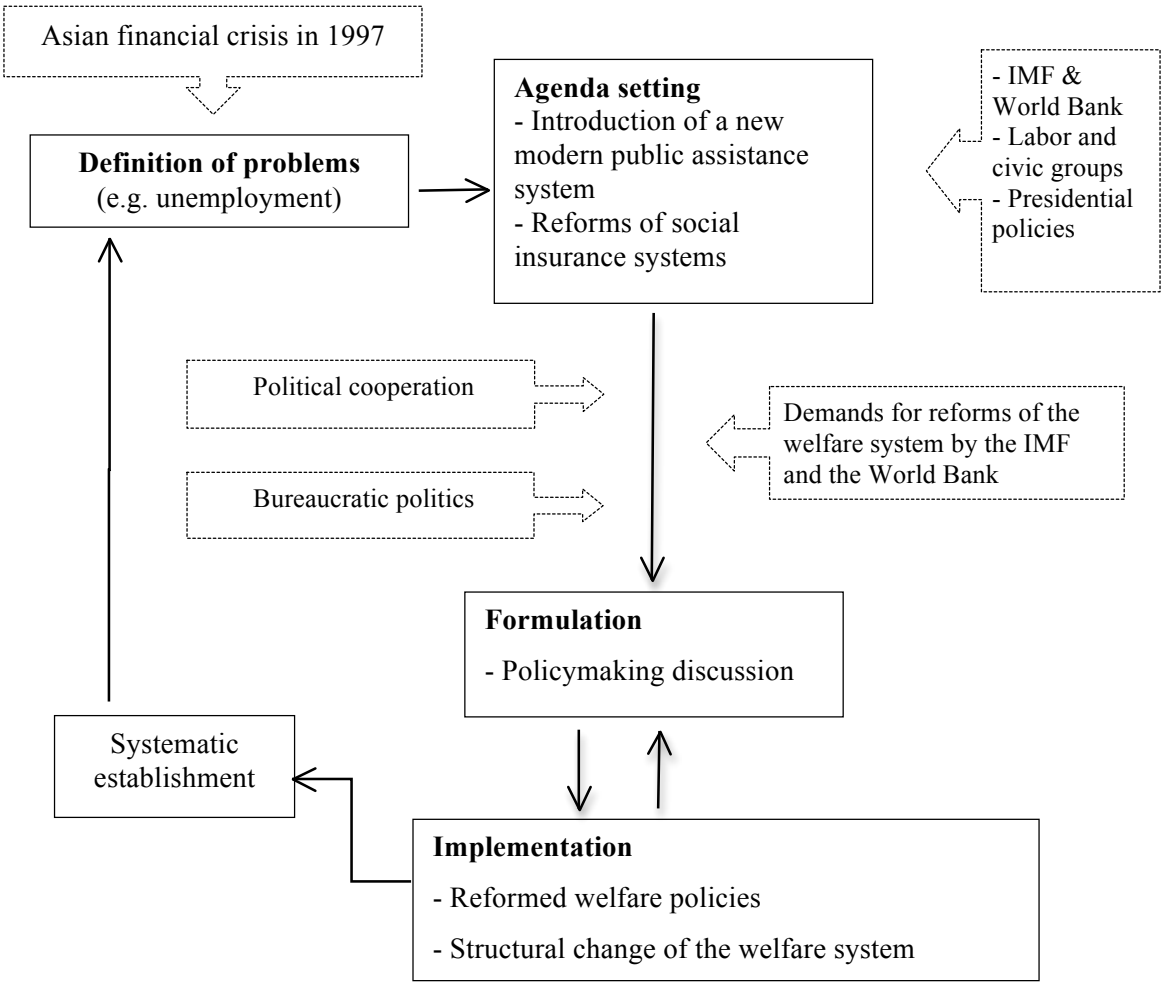
Time 1 (Initial conditions)	Time 2 (Critical juncture)	Time 3 + (self-reinforcement)
- Focus on economic growth - Development of democratic institutions	- 1997 Asian financial crisis - Reforms of welfare policies and other sectors	- Expansion of the welfare system - Transition from the residual welfare system to a comprehensive system - Development of welfare politics

Source: based on Mahoney (2000: 514)

As Figure 2-1 shows, the South Korean government made the choice during the 1997 crisis to reform the welfare system – not only the economic system to overcome the crisis, but also related policies in other sectors. Consequently, the national welfare system was unprecedentedly developed. In doing so, the outcomes of the reforms referred to the transition of the character of the South Korean welfare system. As Figure 2-1 points out, industrialization was successfully achieved from the 1960s to the 1980s. Democratic institutions were also significantly developed from the 1980s on. However, South Korea faced an unexpected Asian financial crisis in 1997, so the government had to respond to the sudden crisis, particularly the interruption of this successful economic growth and the negative influence of this interruption in other sectors. A serious social problem, for instance, was the rapidly increasing unemployment rate. In these circumstances, South Korean society expected the government to carry out measures to overcome the financial crisis; these were in fact implemented by the Kim Dae-Jung government. The political choices dealt with structural changes not only in the economic system, but also in the welfare system, which was expanded to an unprecedented degree. In other words, outcomes were influenced by a constellation of complex conditions, such as intervention by the global financial governance

organizations, particularly the IMF and the World Bank, in order to get bailouts, and different interests of various actors in bureaucratic and partisan politics. Figure 2-2 shows the framework of this research, which points out influential factors in the progress. This includes the political heritage of the past and the choices during the crisis period, as well other influential factors that played crucial roles in policymaking and decision processes.

Figure 2-2 Influential factors of the development of South Korean welfare policies after the 1997 crisis to resolve social problems



Note: ---- influential factor; ⟶ process
Source: based on Czada (1997)

To sum up, as Figure 2-2 illustrates, the development of the welfare system followed a process of first defining problems due to the 1997 crisis, followed by agenda setting, formulating solutions, and implementing them. Due to the 1997 crisis, these political choices led in a certain direction. This research will prove how and to what extent the 1997 financial

crisis influenced political outcomes, i.e. the establishment of the welfare system, according to various influential factors to understand the process, the significance of outcomes, and the structuration of the welfare system in South Korea.

Research Methods

In this research, I used qualitative and quantitative methods. As Berg (2001: 4) emphasized, "researchers obtain a better, more substantive picture of reality by combining several lines of sight." The combination of both qualitative and quantitative approaches counteracts the weaknesses of the other and produces more effective approaches to prove research questions (Steckler et al., 1992).

The strength of quantitative methods is that measurement tends to be objective (Steckler et al., 1992: 2). I collected statistical data using two methods. First, I used primary statistical sources. The domestic statistics were collected from the national statistics office and government departments of South Korea, which showed domestic circumstances. The international statistics were gathered mainly from the OECD, the IMF, and the World Bank regarding economic and social expenditure. Second, I also handled secondary statistical sources from academic research, which collected statistical sources and interpreted the data in specific themes that closely related to this research. The statistical data underpinned various arguments of the overall research project and provided facts about the welfare policies that confirmed the qualitative growth of the welfare system.

Qualitative methods are generally used and accepted to generate rich, detailed, and valid process data to understand reality (Steckler et al., 1992: 2). This research mainly dealt with qualitative methods, particularly text data analyses and interviewing. The text analysis is based on existing documents and research. On the one hand, text data was collected in two ways. First, it includes official government publications, reports, books, and scholarly articles, which supported an understanding of the economic system and politics in the complex circumstances of South Korea. This also assisted in establishing the critical juncture, i.e. the 1997 Asian financial crisis, and in finding out influential factors. In addition, I interpreted reports by the government, and by the National Assembly to clarify understandings of the policymaking and decision processes regarding the reform of the welfare system. Second, I used media such as newspapers, magazines, and websites that were

connected with information and discussion in society about the 1997 crisis and the national policies of the Kim Dae-Jung administration (1998-2002).

Moreover, interviews were used to gain knowledge. According to Rathbun (2008: 686), interpretation of an interview is a significant method to understand how subjective factors influence political decision-making and its processes. Questions used in a semi-standardized interview can reflect how individuals understand the political process (Berg, 2001: 70). In this research, expert interviews were mainly conducted, especially the persons who engaged actively within the Kim Dae-Jung administration, to gather information on policymaking and reform processes and to understand their progression, as well as who significantly influenced the reform processes and how political cooperation happened, not only in domestic conditions, but also in the interaction between factors at national and global levels. Interviewees were people who operated in an accountable and public realm, especially in welfare policies (this is addressed in further detail in Appendix 2). These included university professors who played roles as consultants on the national welfare system; social scientists at the Korea Development Institute, the Korea Labor Institute, and the Korea Institute for Health and Social Affairs, which are institutions that generally frame welfare policies as public institutions to develop national policies; and officials and staff who worked at the President's Office or participated in the reform processes.

In addition, secondary transcripts of interviews were used from a data bank (this is addressed in further detail in Appendix 2). Some South Korean scholars conducted interviews with the main people responsible; these served as a linchpin in the establishment of social insurance systems and public assistance, as well as in the reform processes of these. This has left a record of that time, and clarifies what was occurring at the crucial historical turning point of the development of welfare policies in South Korea. Subsequently, these scholars published a book, *Policymaking Process of the Korean Welfare Policy: History and Qualitative Data*, edited by Yang, J. J. (2008), and built the open data bank from which I obtained interview transcripts. These transcripts were helpful in supporting the argument of this research project, because they were the most dominant individuals in welfare politics; it was either impossible as a PhD candidate to conduct interviews with such high-level personnel, or these transcripts supported interviews that I conducted but which had omitted some points that referred to the understanding of policymaking and decision processes of welfare reforms.

Chapter 3: The Pre-1997 National State and Preconditions for the Development of Social Policies

When its first modern government was established in 1948, Korea was one of the poorest countries in the world with an unstable democracy. Nevertheless, South Korea quickly transformed itself between the 1960s and 1980s into one of the NICs, becoming an OECD member in 1996. Until the onset of the Asian financial crisis of 1997, South Korea achieved almost full employment. Meanwhile, South Korean democracy had been developing as well. However, the 1997 crisis disrupted this substantial advance and South Korea began to face structural problems in all social, economic, and political spheres. One interesting effect of the crisis was, however, the beginning of a national debate on the establishment of a welfare system, which set South Korea on the path to a modern welfare state. Social welfare policies were expanded to unprecedented levels over the next few years under the Kim Dae-Jung government (1998-2002). This chapter aims to explain the economic, political, and social conditions before the 1997 crisis to foster our understanding of such changes and the crucial factors for the change.

3.1 Economic Development in Korea

Economic development is generally accepted as one of the conditions for social policies in welfare states (Wilensky, 1975). From the 1960s to the end of the 1990s, South Korea, which was dubbed the "Miracle on the Han River," experienced rapid economic development. In particular, the *chaebol*, a type of conglomerate in South Korea, grew as a special and dominant type of company in the economy. To understand this developmental process, this section explores the historical development until the 1997 crisis.

3.1.1 The Establishment of the Modern State

The *Joseon* Dynasty[5] (hereafter referred to as "*Joseon*"), which became the last Dynasty in Korea, was not stable at the end of the 1890s. Internally, *Joseon* faced societal transition from

[5] The *Joseon* Dynasty ruled from 1392 to 1910.

a rigid caste system[6] to emancipation from the caste system. Externally, it was under pressure by a cultural, economic, and political opening known as the "open door" policy. *Joseon* was threatened by other countries, such as Japan, China, Russia, the UK, the USA, France, and Germany because of its geographical location as an important bridge between countries and continents. Under such external political circumstances, there was heated debate coming from two different sides in *Joseon* society. On the one hand, the group of *Wijeong Cheoksapa* was against national opening, contending that an "open door" policy would invade the *Joseon* tradition, in particular Confucianism and state authority. On the other hand, *Gaehwapa*, supported by Japan, argued for an "open door" policy, which saw it as a means for Westernization and civilization. The *Gaehwapa* sought to develop political power and to build a strong state through policy-learning from Western countries. This debate caused political unrest and movements that undermined the absolute power of the king. At the same time, the autonomy of *Joseon* was damaged by competitive relations with neighboring powers.

Meanwhile, in October 1897, the *Joseon* king declared the *Daehan* Empire as a new state to strongly demonstrate the independence of the *Joseon*. Nevertheless, Russia and Japan continued to interfere in the Korean Peninsula. In 1904, Russia and Japan went to war for supremacy over the Korean Peninsula. Japan emerged victorious and, on 17 November 1905, the *Daehan* Empire entered into the *Eulsa* Protective Treaty, the Japan-Korea Protectorate Treaty, which deprived Korea of its diplomatic sovereignty under the pretext of supporting national construction. The *Daehan* Empire almost turned into a Japanese external possession. In August 1910, Korea came under Japanese colonial rule; this would last for 35 years. During the Japanese colonial period, many people joined a resistance movement that was nevertheless divided between nationalists and socialists. The nationalists advocated independence from Japan in the first instance, while the socialists emphasized class emancipation, including farmers and urban workers. In 1919, resistance groups organized a "Provisional Government of the Republic of Korea" and fought Japanese rule until 1945.

During this period, the foundation of a feudal agricultural system underpinning the Korean economy collapsed, and a modern state system was established through the centralization of power (Jeong M. G., 1996). Japan established a war industry in Korea to

[6] *Joseon* had three castes: *Yangban*, who were the aristocratic class, *Yangin*, who were free citizens, and *Cheonin*, who were the lowest class of people. This rigid caste system was established by the building of the *Joseon* Dynasty. Particularly, *Yangban* as the elite group supported the implementation of Confucianism in *Joseon* society (Lee E. J., 2005: 34-38). Subsequently, Confucian values were adhered to in Korean society.

support its wars. In sum, the establishment of the modern state in Korea was in fact started under Japanese colonial rule.

After Japan lost World War II, and surrendered unconditionally, Korea was set free from Japanese rule on 15 August 1945. An anti-Japanese resistant movement group formed the Committee for Preparation of Korean Independence (*Joseon Geonguk Junbi Wiwonhoe* in Korean) during the period of 15 August to 7 September in 1945 to endeavor to rebuild an independent nation. This notwithstanding, Korean national sovereignty was not immediately established because of intervention by the USA, Russia, and other Western countries. In December 1945, the USA, the UK, and the Soviet Union met at the Moscow Conference of Foreign Ministers (hereafter referred to as "the Moscow Conference") to discuss issues of occupation and the establishment of peace on the Korean Peninsula. The major powers agreed to trusteeship of Korea until the re-establishment of an independent state and the creation of conditions for developing the country on democratic principles. The 38th parallel of latitude, which became a boundary between the newly created North and South Koreas, was proposed as a dividing line for trusteeship rule of Korea by the USA and the Soviet Union.

The agreement of the Moscow Conference on the formation of a provisional Korean government triggered an acrimonious debate in Korean society. In the immediate aftermath of oppressive Japanese rule, Korean society did not generally welcome a trusteeship under external powers. Right-wing groups staunchly opposed trusteeship because they regarded it as another form of colonial rule. Left-wing groups, however, considered it as a step towards establishing an independent state (Kim I. Y., 2008). This debate led to the emergence of anti-communism in Korean society and an ideological conflict between left and right forces with lasting effects on Korean politics and society (Lee H., 2012). Although some other political groups attempted to establish a united Korean nation without the dividing trusteeship rule, the ideological polarization over the trusteeship resulted in setting up two different nations, South and North Korea.

In South Korea, the American military administration was established during a period from September 1945 to August 1948 while the Soviet Union supported the building of a communist nation in North Korea from February 1946 to September 1948. In South Korea, the American military administration left in place previous systems such as the bureaucracy, the colonial banks and the oppressive state apparatuses that were established under Japanese rule. The continued use of Japanese systems brought the functional continuity of a disciplined

bureaucracy and a police system under strong military discipline; this resulted in bureaucratic and police repression (Koh, 2010; Kwon H. J., 1999).

The US military administration supported Rhee Syng-Man because he resisted Japanese rule in favor of Korean independence, which in turn won him legitimacy from a majority of citizens. His political stance in turn was also in favor of the American military administration (Han S. J., 1974). As a result, Rhee Syng-Man was elected as the first President, and on 17 July 1948, he declared the Republic of Korea under a new constitution without North Korean consensus. One month later in North Korea, Kim Il-Seong declared himself Premier of the Democratic People's Republic of Korea. In fact, many politicians did not support the formation of separate governments, but attempted to unify both as one national state. The establishment of two countries resulted in unification movements with intense ideological competition and conflicts between communism and liberalism. This continuously influenced South and North Korean societies.

The Rhee Syng-Man government sought to establish liberal democracy. However, his government did not account for pro-Japanese groups and had difficulty grappling with agrarian reform, which North Korea, in fact, achieved successfully. North Korea achieved legitimacy and success in society, the economy, and politics, but South Korea did not. Meanwhile, the Korean War began and destroyed the infrastructure of the economy from 1950 to 1953. This led to the rise of a "strong state" in South Korea and stronger ideological confrontation between the right and the left. Rhee Syng-Man focused strongly on anti-communism and sought reinforcement of presidential powers to strengthen his authoritarian regime at the same time, justifying these moves by stating they were necessary for national security (Cumings, 1984: 24; Han S. J., 1974; Koh, 2010).

The Korean War devastated South Korea's economy and the government was nearly completely dependent on economic aid from foreign countries. During Rhee's long mandate from 1948 to 1960, South Korea continued to receive a large amount of foreign aid and the population was outraged at government corruption and political repression. In the presidential election of 1960, Rhee Syng-Man won the election again, although the climate was in favor of the opposition candidate, Cho Byeoung-Ok. However, the presidential hopeful Cho died shortly before the election and then Rhee won the vote again. His wide margin of victory raised doubts that the elections had been rigged once, as was the case in the 1952 election. The populace protested against the election results, and on 11 April, a high school student who had participated in demonstrations was found dead in the city of Masan. That incident triggered huge demonstrations on 19 April. Demonstrators marched to *Kyungmudae*, the Blue

House, and demanded the invalidation of the presidential election and the overthrow of the dictatorship.

Consequently, on 26 April, Rhee Syng-Man resigned. After his resignation, the constitution was amended in favor of a parliamentary system to avoid the concentration of power in the hands of a president. Chang Myon took over the role of President, but his power was very weak and cleaning up after the political turmoil was not easy. On 15 May 1961, Park Chung-Hee led a successful coup d'état.

3.1.2. Industrialization

In the early post-war period, South Korea was one of the world's poorest countries. Industrialization in South Korea mostly began in the 1960s under Park Chung-Hee's rule. The basis for industrialization was laid down by Japanese colonial rule, under which modern law, a modern economic system, and an administrative bureaucracy were established. The colonial period also brought radical changes in the structure of industry and the labor market. First, manufacturing industries and facilities of industrial foundation were rapidly constructed due to Japan's involvement in the Manchurian Incident[7] in 1931 and the Sino-Japanese war[8] in 1937. To support these wars and World War II, a military supply infrastructure was established in Korea. The colonial government invested heavily in railways, ports, roads, communications, and other facilities, which prompted rapid industrial development. Secondly, colonial industrialization led to a significant change in the class structure. A new capitalist class was born under colonial industrialization. Japanese rule supported the strong role of government for productive management of the market, and market power was concentrated in a few big conglomerates. In addition, the number of urban workers grew under the war industry, and it had great impacts on the class structure, i.e. the birth of industrial workers (Hwang S. M., 2012; Haggard et al., 1997; Koh Y.S., 2008; Woo-Cumings, 1999). These conditions had lasting implications for South Korean politics, the economy, and society in spite of independence from Japan.

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[7] The war began when Japan sought territorial expansion over the Chinese territory of Manchuria. The Manchurian Incident escalated into the Sino-Japanese War.

[8] Japan continued the war with China from 1937 to 1941 in order to expand territory and power over the Korean Peninsula to Southeast Asia.

During the three years of American military occupation (1945-1948), the South Korean economy was mostly dependent on relief funds provided by the USA. This economic aid extended to the Rhee Syng-Man government, which was even more dependent on American aid. Furthermore, the economy was almost destroyed by the Korean War. After the War, the South Korean economy survived on foreign aid, which constituted nearly 70% of total imports and 75% of total fixed capital formation between 1953 and 1961 (Haggard et al., 1990: 3). Oh (1999: 35) portrayed Rhee Syng-Man's rule as "an almost totally nonfunctional society." Unstable economic conditions and authoritarian rule caused long-term dissatisfaction with the Rhee government. As a result, his government was unable to withstand the social onslaught that came with the April Revolution in 1960 (Cumings, 1984: 24-5). These unstable political and economic circumstances also gave cause to stage a coup. Park Chung-Hee came to power with a coup in 1961 on the pretext of the disoriented political, economic, and social system. Park himself called the coup "a revolution" because, according to him, South Korea was in such economic and political turmoil that an authoritarian regime was necessary for a brief time to support national progress in economy and politics (Haggard et al., 1990). His proclaimed revolutionary goals were the eradication of poverty, fighting communism for national security, and a developmental foreign policy, particularly with the USA (Kwon H. J., 1999: Cho S., 1990). Regarding this, the Park government prioritized economic development and led a transition from basic industry to mainly export-oriented light industry to build the basis for an authoritarian developmental state (Kim I. Y., 2000: 126-7).

Park Chung-Hee launched Five-Year Economic Development Plans that served as national economic plans for private and public investment and even channeled the limited capital resources into industries to achieve rapid economic development (Yoo and Moon, 1999: 265). The First Five-Year Economic Development Plan (1962-1966) was focused on light industries such as clothing, shoes, furniture, and consumer electronics. It meant to foster manufacturing and government-led, export-driven industrialization. In addition, South Korea was poised to enjoy privileged access to major markets in the USA.[9] Under these circumstances, the economic growth strategy soon became successful. The Second Plan

[9] South Korea was a strategic front, a bulwark of anti-communism in the Cold War period. Strategically for America, it was important that South Korea was protected against communism. For this reason, one important task for the USA was to help ensure that South Korea reached economic development and economic stability more quickly than North Korea. In this regard, the USA provided massive economic aid and supported economic development. Thus, Korea retained a competitive advantage over other underdeveloped countries (Im H. B., 1987: 243; Hwang S. M., 2012).

(1967-1971) was aimed at the development of heavy-chemical industries such as iron, nonferrous metals, shipbuilding, mechanics, electronics, and the chemical industry (Cho S., 1990; Kim S. Y., 2007). The Third Plan (1972-1976) invested in heavy-chemical industrialization, and the Heavy-Chemical Industry Promotion Committee was also established to effectively support the Plan (Koh, 2010: 21).

Meanwhile, the Park government reformed the banking sector to mobilize capital under the control of the government. Commercial banks privatized by the Rhee Syng-Man government were quickly nationalized between 1960 and 1963, and financial intermediaries were lined up under the direction of the Ministry of Finance. Until the early 1980s, most banks were state-owned so that the state could regulate capital inflows and outflows. To finance rapid economic growth, the financial sector opened the inflow of foreign credit under government regulation (Woo J. E., 1991: 84). As a result, the state was able to dominate economic development plans.

Although the Park government aimed at an export-driven economic strategy with light industry, it was not easy to find countries that would offer capital and technical support, as well as import South Korean products, because South Korea was viewed as one of the poorest countries with very low economic conditions, so trust could not yet be established in global markets. To find a way out of the impasse, Park Chung-Hee decided to enter the Vietnam War and to re-establish the Japan-Korea Treaty. These political decisions undermined attempts by the USA and international economic organizations to provide South Korea with more loans and access to American markets. Other countries started to import South Korean products, and Japanese capital flowed into the South Korean economy (Kim I. Y., 2006: 223; Jeong H. G., 2011).

On the one hand, the USA requested the deployment of South Korean troops to Vietnam and guaranteed the economic benefits it set as preconditions for South Korean participation in the Vietnam War. On the basis of its economic rewards, the Park government agreed to enter the Vietnam War in 1964. South Korea earned $283 million in trade with Vietnam between 1965 and 1973. In addition, South Korea obtained advantages in trade with the USA, so exports to the American market increased more than six-fold between 1965 and 1973 (Kim I. Y., 2000: 129-131).

On the other hand, the Park government re-established diplomatic relations with Japan. This was supported by the US State Department; however, this was not welcomed by South Korean society, although the Park government justified its action as a means to achieve rapid economic development. The re-established relations with Japan were considered in a

complex global political situation. At that time, America was readjusting its diplomatic policy, in particular, to reduce economic aid to Asian countries due to the dollar crisis. At the same time, however, communist countries, i.e. the Soviet Union, China, and North Korea, were achieving substantial economic development. As this was during the Cold War era, the USA had to show success in liberal countries, so the case of South Korea was a significant opportunity to prove a chance for success – as a newly developing liberal country, South Korea could achieve industrial development and still remain secure from the communist threat. Therefore, American strategists felt that one way to demonstrate this in light of the dollar crisis might be to re-establish diplomatic relations, which would accelerate South Korean economic development through the infusion of foreign capital. At that time, as critical economic aid from the USA was declining rapidly, the Park government also needed more capital to implement its Five-Year Economic Developmental Plan (Jeong I. J., 2001; Kim I. Y., 2000). Consequently, these circumstances resulted in the signing of the Japan-Korea Treaty on 22 June 1965.

Through such policy decisions, the government was able to maintain economic growth policies. South Korea gained a public and commercial loan of $35 billion in total from the deal. The government invested the capital in building railways and highways, which contributed to rapid economic development (Choi D. J., 1995; Kim I. Y., 2000: 129-31). In addition, between 1965 and 1972, earnings of South Korean firms in Vietnamese markets, salaries of exported labor such as miners, nurses, and sailors to Germany after 1963, and compensation for soldiers was approximately $750 million (Choi D. J., 1995: 207-11).

At the beginning of the 1970s, the Park government changed its development strategy from light to heavy-chemical industries under the Third Five-Year Economic Development Plan (1972-1976). The changing circumstances of internal and external politics impacted the new development strategy. The primary domestic factor was rising labor costs. Light industries made profits through cheap labor costs at the beginning of industrialization, so South Korean export industries were able to achieve a competitive advantage over those in other developing countries. However, by the 1970s, labor costs began to rise quickly. In addition, imports of machinery, equipment, and raw materials rendered the competitiveness of export industries vulnerable. The external factor was the dollar crisis in 1968 and the declaration of the Nixon Doctrine in 1969. Due to the dollar crisis in 1968, the American and global economy sank into a long recession. President Nixon insisted that Asian countries such as South Korea should be responsible for their own security. In June 1970, the USA unveiled a plan for the reduction of one-third of the U.S. forces in South Korea. This

increased anxiety over national security in South Korea. Then, in 1971, the American government announced a policy of import quotas. Such a new policy struck the South Korean economy hard, particularly the textile industry, which relied on 40% of its exports to American markets. In light of this, the government had to adjust its economic development strategy. The Park government attempted to maintain stable economic development through the development of the nation's heavy and chemical industries such as iron and steel, chemicals, nonferrous metals, machinery, electronics, and shipbuilding (Kim I. Y., 2000; Yoo and Moon, 1999). This economic-political strategy changed the country's basic economic structure, leading to the formation of *chaebols* (South Korean conglomerates). The relation between *chaebols* and the government became one of close interdependence.

Through successful economic growth under Five-Year Economic Development Plans, absolute poverty was virtually overcome in the 1970s. However, in the mid-1970s, the South Korean economy faltered. The second oil shock had a negative impact on rapid economic development. Growth rates fell from 9.6% between 1967 and 1971 to about 5.8% between 1972 and 1981 (see Table 3-1).

Table 3-1. Economic growth rate (in %)

Years	1962-66	1967-71	1972-81	1982-86	1987-91
Economic growth rate	7.8	9.6	5.8	9.8	10.0

Source: Park T. G. (2009: 21)

The retardation of growth was influenced not only by exogenous shocks. In fact, it resulted from domestic circumstances prior to the second oil shock. Haggard and Moon (1990: 217) attributed it to centralized bureaucratization throughout the implementation of Economic Development Plans. These Economic Plans were highly centralized in the Blue House and the Ministry of Commerce and Industry to achieve rapid economic development. Most plans were personally made by Park Chung-Hee, and the ways to discuss and criticize economic and political policies were very limited. In addition, legislative and political instruments were excluded from the *Yushin* (revitalization) Constitution[10] in 1972 (Collins, 1990).

At the end of the 1970s, South Korea saw the onset of economic crisis ensuing from a variety of international and domestic problems. The heavy-chemical industries were highly dependent on imports, which sharply increased foreign debt and interest rates (Hwang S. M.,

[10] This is dealt with in greater detail in Section 3.2.1.

2012). Eventually, the crisis resulted in a bailout from the IMF in 1979 and the unveiling of a plan for "Economic Stabilization Policies." The slowdown of economic growth precipitated social discontent against the dictatorship. On 26 October 1979, the chief of Park Chung-Hee's security services murdered the President, whose sudden death caused a temporary power vacuum and social chaos. Chun Doo-Hwan, who was in the military, quickly took political power through a coup d'état, oppressing civilian politicians under the guise of social stability and declaring himself President. His military regime's economic motto was openness and autonomy, economic liberalization, and stabilization.

The new regime swiftly attempted to reverse the economic crisis with the Fifth Five-Year Economic Development Plan (1982-1986) with the prime motive of escaping from the large national debt. South Korea became the fourth most indebted country in the world in 1981, while at the same time delivering rapid economic growth. Regarding this, instead of the "growth-first strategy" of the Park government, the Chun government focused on an economic strategy that centered on "growth on the basis of stability" (Koh, 2010: 39). Under the new growth strategy, the private sector was prioritized as a means of economic growth, in particular privatization of banks and strong competitiveness in markets. The new strategy was successful in part. It achieved a growth rate of 9.8% between 1982 and 1986, which meant an increase of more than 4% over those five years (see Table 3-1). The South Korean economy was booming again. However, the close relationship between the government and the conglomerates was not changed, which disrupted the establishment of a healthy economic system, and it grew to become one of reasons South Korea faced such difficulty during the 1997 Asian financial crisis (Koh Y. S., 2008: 229).

Until the beginning of the 1990s, the South Korean developmental strategy was solely based on the "growth-first-then-distribution" principle. In this circumstance, social problems were not exposed as structural problems in society. The Kim Young-Sam government (1993-1997) also continued a national focus on economic growth and considered globalization as a new national task, which would help continue economic development on the global level. Globalization indeed opened new opportunities for economic development and resulted in an acceleration of liberalization. President Kim sought South Korean membership of the OECD in 1993.[11] Joining the OECD required South Korea to accept some economic conditions, particularly economic systems such as financial market liberalization and the opening of markets to foreign investors (Kalinowski and Cho, 2009:

[11] South Korea joined the OECD in December 1996.

225). However, such an economic strategy resulted in the loss of government control over capital inflows and outflows. The *chaebols* were therefore allowed easier access to international financial markets and foreign credit than under previous military regimes. According to Sonn (2009: 31), such policy reforms led to the foreign currency crisis in 1997. From 1994 to 1996, total foreign debt more than tripled from $52 billion to $175 billion. The Kim government also allowed a significant relaxation of control over the financial sector to address liberalization process, which actually began under the Roh Tae-Woo government (1987-1992). Financial liberalization under the Kim government reduced entry barriers to financial activities, i.e. capital markets were liberalized and interest rates were deregulated (Chang et al., 1998: 736-7). In these circumstances, the economic role of the *chaebols* expanded very rapidly.

3.1.3. The Growth of *Chaebols*

The *chaebol* is a special, but dominant, economic form in South Korea. It is defined as having two important features, namely, family dominance and diversification. First, it is a large conglomerate and clusters many companies in a single family. These companies are owned, controlled, and managed by that family. Second, the conglomerate is diversified and functions in various sectors. For instance, Samsung has various subsidiaries in electricity, heavy machinery, chemicals, and financial industries as well as other industries (Shin and Park, 1999; Yoo and Lee, 1987). The growth of *chaebols* does not have a long history in the South Korean economy. Most *chaebols* existed as small enterprises until the late 1960s. For instance, Hyundai, Samsung, and LG were all founded during the period of Japanese colonialism. At that time, they were only local or regional firms, and Daewoo did not even appear until the late 1960s (Lim W., 2003; Woo J. E., 1991). However, *chaebols* grew very rapidly in a short period of time, and have even become the most important economic sector in South Korea. Samsung, Hyundai, and Daewoo are so large nowadays that the three are all among the top 50 corporations in the world. Before the 1997 financial crisis, the 30 largest *chaebols* accounted for 40% of South Korea's total output in 1996 (Chang and Hong, 2000: 429).

The radical growth of *chaebols* was based on a close relationship between the government and these conglomerates, initiated by the Park Chung-Hee regime (Kuk M., 2011). After instigating a successful coup, General Park summoned ten major business

leaders and struck a deal with them to create economic development. Through this deal, businessmen were exempted from criminal prosecution and received assurances about their property. While the government supported conglomerates to build an economic foundation and to expand the economy, conglomerates shared their benefits with the government (Woo J. E., 1991: 84). In doing so, total economic growth rate was increased. As a result, a shared destiny between the state and big business was established and developed.

On such a basis, rapid growth of *chaebols* began with the Five-Year Economic Development Plans, particularly the development strategy for the heavy-chemical industry in the 1970s (Yoo and Moon, 1999). The acceleration of economic growth was vital to legitimize the authoritarian political system of Park Chung-Hee. For this, he needed big conglomerates for effective and rapid economic development (Kim S. Y., 2007: 122). His government gave these conglomerates incentives such as preferential credit allocations, tax benefits, and government protection from foreign imports and investments to achieve political strategy in economic policies. Under these circumstances, *chaebols* were able to expand their size and hegemony in the economy. However, the government had not only offered incentives, but also levied sanctions on the *chaebols*. The control of the government resulted in the *chaebols* becoming heavily dependent on the government to expand their firms and to survive competition (Kwon H. J., 1999). In this environment, economic growth in South Korea was becoming increasingly interdependent on the close relationship between the government and *chaebols*.

This dependent relationship created unhealthy market structures. One negative economic influence was the imbalance in the size of corporations, because economic development was dependent on *chaebols*. In this regard, *chaebols* could be easily diversified and encroach more quickly on markets compared to small and middle-sized firms. The three fastest-growing *chaebol*s, Hyundai, Daewoo, and SsangYong, grew at an annual rate of 33%, 35%, and 34% between 1970 and 1975 respectively (Woo-Cumings, 2001: 353). Hyundai, for instance, diversified its economic activities into automobile and shipbuilding industries by establishing the Hyundai Motor Company and Hyundai Heavy Industries in 1968. After the oil crisis in 1974, the government focused more on the development of *chaebols* to recover from the oil crisis and to maintain rapid economic development. Hyundai Heavy Industries received more assistance than other South Korean shipbuilding companies between 1975 and 1980. Similarly, Hyundai Electronics Industries was developed under the Economic Plan between 1981 and 1985 (Kwon and O'Donnell, 1999: 280). *Chaebols* became indispensable for the South Korean economy and appeared to be "too big to fail."

In the 1990s, *chaebols* grew as global conglomerates. Owing to the Kim Young-Sam government's openness to globalization, financial markets were liberalized. These liberalized economic policies resulted in economic and financial control being loosened to open the inflows and outflows of capital and credit. Under such market conditions, *chaebols* attempted to expand their size and diversify into various economic activities. Given their excessive growth, it became difficult to arrest their expansion and control over markets anymore. At the end of the 1990s, however, such growth and the deformed economic system faced a structural problem, precipitated by the Asian financial crisis in 1997. *Chaebols* dominated economic growth, but simultaneously became a central cause for the 1997 financial crisis through the establishment of an unhealthy economic structure. After the crisis, the largest five *chaebols*, namely Samsung, LG, Daewoo, Hyundai, and SK, accounted for 20% of all outstanding debt in 1998 (Campbell and Keys, 2002: 374).

3.2. The Transition from Authoritarianism to Democracy

In studies of welfare states, democracy is accepted as a principle of the welfare state. Democratization generally expands citizens' rights. It is associated with the implementation of social policies. In the case of South Korea, after independence from Japanese rule and even after the establishment of a separate nation-state in 1948, the primary concern of governments was not the institutionalization of democracy, but economic development as well as the resolution of national conflicts emanating from social polarization between left and right ideologies (Choi J. J., 2001: 35). In these circumstances, South Korea had multiple difficulties in facilitating social consolidation. Many social and political scientists assert that real democracy in South Korea only began after the 1997 crisis, i.e. with the change of political leadership by President Kim Dae-Jung, during whose term the expansion of social policies was implemented. As such, the second section of this chapter examines the transition from authoritarianism to democracy in South Korea.

3.2.1. The Authoritarian State

The first national government under President Rhee Syng-Man (1948-1960) was mainly characterized by political and economic challenges. During his rule, the economy was almost entirely dependent on aid from the USA and other countries. Politics were polarized by

explosive conflicts between left (communist) and right (liberal and conservative) groups. Political instability grew, which led to unrest manifesting in street protests in April 1960. Rhee resigned on 26 April of that year.

Nevertheless, the political turmoil did not end. Park Chung-Hee staged a coup on 16 May 1961 and South Korea would exhibit tendencies of an authoritarian state from then on. When he led the coup, his proclaimed goal was to stabilize politics and to transfer power to the next civilian government. However, he retained political power, was inaugurated President in 1963, and built an authoritarian developmental state for the next 18 years. Until the mid-1960s, Park sought to practice "national democracy" and cultivate political legitimacy for his coup. He started to insist that economic development was a precondition to achieving political democracy. In his view, "real" democracy, above all else, can only be based on a healthy economy, and even unification of the nation would not be a primary state goal at that time. Such unification is, he argued, relevant and possible only after South Korea were to achieve greater economic development than North Korea. The Park government thus concentrated on economic development as a prime national goal. Meanwhile, North Korean provocation and espionage operations in the South were aggressive. Park regarded the national security crisis as a national priority and began to boost the nation's capabilities for self-defense (Kim I. Y., 2006). His government sought to rebuff ostensible security threats from North Korea, but it also substantially suppressed political opposition and subjected society to authoritarian control.

Park Chung-Hee justified the coup by elevating economic development and national security as his main priorities (KDI, 1999). The authoritarian state repressed political freedoms to control politics and economy. All political movements, including labor and citizens' movements, were pushed to the left or to communist political groups. The military regime fostered a strict anti-communist ideological campaign (Shin K. Y., 2006: 24). In other words, the military regime politically exploited anti-communist ideology to control society.

In fact, historically, anti-communism as a political ideology emerged during the independence movement against Japanese rule and was reinforced under the Rhee Syng-Man government. Anti-communism appeared during the Moscow Conference of 1945 in which the issue of the re-establishment of an independent nation was discussed. The Moscow Conference resulted in trusteeship for a while. Public opinion was largely against the trusteeship proposal, with an influential newspaper manipulating this public opinion. The main issue of the debate was the reconstruction of postwar Korea and the establishment of a provisional government. However, the newspaper concocted a news story that Russia

demanded trusteeship, but that America supported immediate independence. The newspaper's report thus divided public opinion into two political camps – those that supported the Moscow Conference, and those that did not. Communists and other leftist political groups supported Russia's position, arguing in favor of trusteeship rule for five years followed by a provisional government by the Republic of Korea. However, given the tense political circumstances, the trusteeship rule following Japanese rule was perceived as yet another type of colonial rule. This discussion led to emotional conflicts in society and politics, i.e. the agreement on trusteeship was understood as anti-patriotic and pro-communist. Such political actions resulted in the polarization of politics and society. Rightist political groups used the issue to gain the upper political hand. Anti-communism was fused with nationalist and patriotic feelings in Korea. In addition, the Jeju Uprising[12] on 3 April and the Yeosu-Suncheon Rebellion[13] on 19 October 1948 were exploited to unleash strong anti-communist public sentiments. The American military administration accused communist groups of manipulating the uprisings in the cities of Jeju, Yeosu, and Suncheon. Anti-communism was developed into a security narrative against violent disorders (Lee H., 2012).

Anti-communist ideology ultimately grew as a compelling political sentiment in South Korean society and became an ideology of extreme hostility and hatred, causing political exclusion (Choi J. J., 2001). This disrupted the prospects of democratic development and political pluralism. Indeed, after Park's successful coup, an Anticommunist Law was passed in 1961. In political rhetoric, anti-communism became an ideology used to defend the nation, but in reality it was a cover used by the Park regime to suppress criticism and opposition groups (Lee H., 2012). In other words, the Park government used anti-communism in a more sophisticated manner (Shin K. Y., 2006: 25). The introduction of anti-communist education in society and schools was exemplified. According to Han M. G. (1997), anti-communist education helped to internalize the notion of military threat from North Korea in society and the need to strengthen national security and suppress government criticism by describing it as allied with North Korea. Under these circumstances, the Park government repressed society rather effectively.

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[12] In Jeju Island, citizens protested against the establishment of separate nations; more than 14,000 citizens were killed in these protests.

[13] Communist political groups took over the cities of Yeosu and Suncheon and demonstrated against the Rhee Syng-Man government. More than 439 citizens were killed in this uprising.

However, the Park regime still lacked sufficient political legitimacy, and it attempted to offset this through rapid economic development. In spite of the lack of legitimacy, Park won in presidential elections in 1967 as well. Kim I. Y. (2000) has asserted that the reason for Park's victory was indeed this successful economic growth. In the second term, the government obtained legitimacy and won the nation's trust on the promise of maintaining economic development. However, Park Chung-Hee amended the constitution in 1969, just before the next presidential elections. The central motive for the Constitutional Amendment (*Samsungaehuen* in Korean) was to rescind one article, which ruled out the consecutive appointment of the president. This revision would allow Park to compete in the next elections in 1971 for a third term. He argued that South Korea needed strong leadership, which would maintain the pace of economic development and national security against North Korea. University students, opposition parties, and dissident leaders organized a campaign known as the "National Committee for the Struggle against the Constitutional Amendment." On 25 May 1971, an opposition party won elections for the National Assembly in spite of political oppression. Park suspended the constitution to retain his power. The military regime declared a state of emergency in December 1971, and launched an even more authoritarian political system by promulgating the October 1972 *Yushin* (revitalization) system. His purported political justification was an urgent communist threat from North Korea. He entered a third presidential term without elections and revised the constitution – the *Yushin* constitution, which established indirect presidential elections, an unlimited presidential mandate, and presidential powers to appoint one-third of the members of the National Assembly. Obviously, these were all pivotal in reinforcing presidential power (Kim S. Y., 2007; Jung and Kim, 2008).

Under the *Yushin* system, the National Assembly stopped functioning. President Park exercised absolute political power over administrative, legislative, and judicial affairs. There was no more civic discussion of democratic and other institutional issues (Ahn J., 2003: 167). In addition, the government declared Emergency Measures in May 1975, which were more arbitrary than the *Yushin* constitution, and oppressed democratic movements even more. Such political conditions fundamentally blocked the growth of democratic movements and institutions.

However, the military regime faced collapse with the sudden assassination of Park Chung-Hee on 26 October 1979. This assassination abruptly caused a temporary power vacuum. Martial law was immediately declared to avoid political chaos. Prime Minister Choi Gyu-Ha took over as acting president, and was then inaugurated President on 5 December

1979. Meanwhile, Chun Doo-Hwan gathered his political power with the help of the military. On 12 December, he staged a military coup and seized political power. After some time later, Choi Gyu-Ha resigned the presidency on 16 May 1980.

During the power vacuum, civil society resurged rapidly with high hopes for democratization, during the so-called "Spring of Seoul" in 1980. After the coup by Chun Doo-Hwan under the ostensible claim of saving the nation from chaos, however, new military forces proclaimed nationwide martial law. Political activities, including parliamentary action, political meetings, and demonstrations were prohibited, and an order for the closing of universities was issued. The new military leaders arrested leading politicians, activists, students, intellectual elites, and opposition figures. One incident in particular, the arrest of Kim Dae-Jung (a key politician against dictatorship), caused the Kwangju Uprising from 18 to 27 May 1980. However, the uprising did not spread nationwide. Martial law troops isolated the city, put down the demonstration with force, and massacred more than 200 civilians. In addition, more than 3,310 civilians were injured (Jung and Kim, 2008). Chun Doo-Hwan seized and controlled power through bloody suppression and was inaugurated President in September 1980 under the *Yushin* constitution. The *Spring of Seoul* ended, and hopes for democracy were frustrated.

The Chun government maintained its repressive policies until 1983. At the end of 1983, it adopted a so-called "appeasement policy" (liberalization measures) to relax control of society and political opposition. This took place because, first, Chun had enough of a sense of stability regarding his rule that political control and suppression could be relaxed, which in turn could improve the legitimacy of his government. Under the appeasement policy, political space for opposition parties and citizens started to open up. For instance, students expelled due to demonstrations were allowed to re-enter school, and professors dismissed on charges of opposition to the government were allowed to resume their positions. Second, the government needed to demonstrate a semblance of domestic peace worldwide to hold the 1986 Seoul Asian Games and the 1988 Seoul Olympic Games. Both international events served as cover-ups for the government's weak legitimacy (Jung and Kim, 2008; Pak S., 1998; Jeong H. G., 2011).

Under these political circumstances, politicians, labor unions, students, elites, and all other civil society actors attempted to participate in a democracy movement. Throughout 1984, the democracy movement surged ahead in every sector. The growth of the movement significantly affected politics and helped to build opposition parties. Many politicians were able to compete in the elections for the National Assembly in February 1985. It showed a

clear public desire for democracy, and the government was alarmed by the influence of social movements. The government initiated a discussion on the "new" political tasks of distribution and welfare (Kim I. Y., 2008). Political tension was growing to implement democratic reforms, and civil movements grew explosively until 1987, in the "June Democracy Movement" (*Yuwal Hangjang* in Korean). In June 1987, the aspiration for democracy erupted nationwide before the 1988 Seoul Olympics. With the whole world looking on, the Chun government was forced to demonstrate political stability. To avoid a political crisis, the government declared a plan for transition in the summer of 1987, and promised direct presidential elections (Kihl, 2005: 82). The year 1987 became a historical turning point toward democracy. However, it was not only about a transition to democracy – it also marked changes in the social structure of South Korea.

3.2.2. The Transition to Democracy

On 13 April 1987, Chun Doo-Hwan announced the *Hohuenjochi*, which meant a protection of the constitution. The *Hohuenjochi* allowed the possibility of indirect presidential elections through an amendment to the constitution. It certainly would have allowed Chun to maintain presidential power without a limited term. This led to large-scale demonstrations. Citizens protested against the announcement in the form of student demonstrations and hunger strikes by civic and religious leaders, and intellectual elite groups. Meanwhile, the death of two students following police shootings and torture in June 1987 resulted in an outbreak of nationwide pro-democracy protests on 10 June 1987. Demonstrations for democracy, known as the June Democracy Movement of 1987, spread to students, laborers, and citizens, as well as to the middle strata of society more generally.

The 1987 pro-democracy movement had two important implications for South Korean society and the progress of democracy. First, politically, it meant the beginning of democratization. After the demonstrations, Roh Tae-Woo, the leader of the ruling party, announced the "Special Declaration for Grand National Harmony and Progress towards a Great Nation," which promised direct presidential elections, including a revision of the constitution, democratic reforms, and liberalization of political space for freedom of press and autonomy for academic institutions. In other words, the June Democracy Movement in 1987 effected a political change, a transition from a military dictatorship to party politics (Lee I. Y., 2012: 47).

Second, a new civic group in society, so-called *Minjung* (the people or the general public), was born out of diverse issues related to the environment, consumer protection, transportation, government monitoring, gender inequalities, and so forth. The *Minjung* movement not only called for class struggle, but also involved various citizen groups. It included people who participated in the movement for democracy. As Choi J. J. (2008: 130-1) has stressed, *Minjung* was not limited to the Marxist notion of class, but involved various classes such as workers and farmers, and diverse strata of society such as the *Seomin Kyechung* (common people), who were politically oppressed and economically alienated. On the other hand, *Minjung* meant a discourse of a common destiny. Under Japanese colonial rule and since the establishment of a modern nation, the people, *Minjung*, have struggled for freedom and democracy, which gave South Korean society a strong sense of common destiny. Particularly, the intelligentsia, the urban middle class, and students initiated a discourse for the establishment of a *Minjung* movement. They created an effective alliance between workers, farmers, the populace, and intellectuals (Choi J. J., 2008).

After June 1987, South Korean society experienced numerous changes. The 1987 democracy movement was a starting point for practical experiences with democracy. First, the direct presidential election took place in 1987, which was won by Roh Tae-Woo. Second, municipal elections were held in 1988, in which opposition parties won and constituted a small government in the National Assembly (the *Yoso Yadae)*, which meant small government and large opposition (Choi J. J., 2001).

Democratic Development

In the first direct presidential election of December 1987, Roh Tae-Woo was elected President. Although the Roh government (1988-1992) inherited power from a military regime, his government transitioned from a strongly authoritarian to a democratic one because of strong social demands for greater democracy in South Korean society. Cha (1993: 850) demonstrated that the Roh government was a "semi-authoritarian" regime, which had to undergo transitions to democracy. The atmosphere created by citizens' strong demands for democracy compelled the government to respond in democratic ways. His government accepted the fundamental rights of the people, reforms toward a more democratic economy, and the introduction of a minimum wage system, as well as reduced government intervention in worker-based relations.

During the campaign for the presidential election of 1987, Roh Tae-Woo introduced "popular democracy." Although this was vague, he promised a democratic political process and a welfare society that would ensure a decent standard of living for "ordinary people." He campaigned with the slogan "the common man, Roh Tae-Woo" to show that he would not simply replace a military regime (Kihl, 2005: 88-9). Although the political atmosphere expected to build a democratic government using a presidential candidate from a democratic party, Roh Tae-Woo nevertheless won the presidential election. The main reason for this was default, as the major opposition politicians, Kim Dae-Jung and Kim Young-Sam, split into two parties, the Party for Peace and Democracy (PPD) and the Reunification Democratic Party (RDP). There was, indeed, political endeavor to unite behind a single presidential candidate to prevent the Roh from creating military power and building a democratic government, but it failed. Rather, throughout the presidential election, a clear political antagonism emerged between the southeast and the southwest. Voters also split between the two candidates, which were based on regions, and this political tendency continued in the elections for the National Assembly in 1988. The parliamentary election in 1988 showed that South Korean parties were obviously divided on the basis of regional interests; this regional antagonism continues to exert strong influence on current South Korean politics. The *Youngnam* region supported Roh Tae-Woo and the Democratic Justice Party (DJP), *Jeolla* provinces allied with Kim Dae-Jung and the PPD, *Gyeongnam* provinces backed Kim Young-Sam and the RDP, and *Chungcheong* provinces favored Kim Jong-Pil and the New Democratic Republican Party (NDRP) (Kihl, 2005: 89). Choi J. J. (2001) contended that it was a half-done democratic transition, because party politics developed along regional antagonisms.

Despite Roh's presidential election victory, in fact, a *Yoso Yadae* phenomenon (a ruling minority and an opposition majority) developed in the twelfth National Assembly elections of April 1988. The DJP of Roh Tae-Woo failed to win a majority, securing only 25 out of 229 seats in the National Assembly, with the PPD of Kim Dae-Jung winning 70, the RDP of Kim Young-Sam 59, Kim Jong-Pil's NDRP 35, and Independents 10 seats (Kim H. N., 1989: 486). For the government, this election result produced major difficulties in pushing for new programs under a key legislative structure while, for the opposition, it would have been a good time to control the government through its legislative majority. Under this political circumstance, President Roh attempted to break the deadlock in parliament. He managed to build a coalition of three parties – the DJP, the RDP, and the NDRP – in January 1990 and

founded a new conservative Democratic Liberal Party (DLP). The PPD of Kim Dae-Jung found itself isolated and became the major opposition party.

There is no controversy that the 1987 June Democracy Movement opened an orderly and progressive transition from authoritarianism to democracy. However, a new era of democratic coalition was built during the 1987 presidential election and the 1988 parliamentary election, in which a ruling conservative coalition formed through the merger of three parties in 1990. In other words, parties merged and split repeatedly. The birth, growth, and demise of political parties was dominated and determined by three contenders – Kim Young-Sam, Kim Dae-Jung and Kim Jong-Pil – until the end of the 1990s (Lee Y. K., 2006). Voters supported politicians, especially three Kims, on the basis of their region of origin, which ultimately led to regional antagonism in politics. Notwithstanding, democratic progress was steady.

The DLP nominated Kim Young-Sam as their next presidential candidate for the 1992 election, and he eventually won. His victory demonstrated that South Korea had established democracy through an orderly and peaceful transition of power (Kihl, 2005; Park S., 1998). In spite of the peaceful transition, his victory in the presidential election was criticized because Kim Young-Sam had run as a candidate for the coalition-leading DJP party. This was seen as a form of political defection; Kim Young-Sam essentially had left the opposition and joined the ruling party, which strongly supported continuing rule by the military regime. Since things happened in the way they did, civil society was doubtful that he could break away from the authoritarian system (Kim S., 1997; Park S., 1998).

Kim Young-Sam's government (1993-1997) set economic revitalization and political reform in the context of globalization (*Sekyehwa* in Korean) as its top priority (Cha, 1993: 851). He sought to respond to external political and economic conditions in order to bring South Korea's labor practices up to international standards and norms, such as the ILO principles, with the goal of joining the WTO and the OECD (Kihl, 2005: 152). However, the government encouraged intense implementation of neo-liberal policies so as to respond to the demands of such international organizations. The politics of globalization weakened the state-led economy, leading to a post-developmental state. In addition, economic liberalization accelerated due to the 1997 crisis (Kim Y .T., 2012). The new government under Kim Dae-Jung would ultimately accept those changes as well.

3.3. The Growth of Labor and Civic Movements

One influential factor in the establishment of European welfare states is associated with labor and civic organizations (Stephens, 1979). Their development produced a political consensus that supported the development of state-based welfare programs. In the case of South Korea, industrialization transformed the class structure and forces as well; movements for democracy resulted in the birth of new civic groups in various sectors and spheres. However, class struggle did not directly connect with the establishment of a labor party and the implementation of welfare programs in the case of South Korea. Nevertheless, working-class and civic groups set up agendas for social welfare policies. This section investigates the growth of labor and civic movements and their role in politics and the development of social welfare policies in South Korea.

3.3.1. The Labor Movement

The Korean economy was based on rural agriculture, with almost 90% of people working in that sector before the beginning of Japanese colonial rule. During the colonial era, it was forced to transition from a monarchical dynasty into a modern state and from an agricultural into an industrial economy. The change of economic structure resulted in the growth of urban labor, particularly during Japan's war industry during World War II. However, by that time, workers focused more on national independence movements than systematization for the class struggle in Korea (Kwon H. J., 1999: 32). A politically conscious working class grew, but it participated in the resistance against Japanese colonial rule.

After liberation from Japanese occupation, labor movements were exposed and split into two ideological antagonistic camps, i.e. socialism vs. liberalism, or communism vs. anti-communism. The first trade union, known as the *Joseon* National Council of Trade Unions (JNCTU), was founded in October 1945. The JNCTU worked very actively within progressive and radical political groups. In contrast to the JNCTU, the Korea Trade Unions (KTU) was established in March 1946 with an anti-communist agenda. The JNCTU was dissolved after the introduction of the first unified South Korean government, because its political stance on socialism resulted in a violent clash with the government. On the other hand, the KTU connected itself to the Rhee Syng-Man government and the Liberal Party. After the introduction of the Trade Unions Act in 1953, the KTU was formally recognized.

Its long-term activities were closely associated with political conditions, which were anti-communism and liberalization. The political positions of the KTU were made clear when the KTU declared their support for Rhee Syng-Man at their main convention in April 1954 and campaigned on his behalf in 1956 for his presidential re-election. In such close relations, the top position of the KTU became a gateway to politics rather than the KTU working for the interests of the working class (Kim D. C., 1995). The KTU became a central instrument of the trade unions in South Korea and the root of the Korean Federation of Trade Unions (KFTU), which was founded in 1960 as a pro-government trade union federation.

The working class had indeed been mobilized by the rapid industrialization process. After Park Chung-Hee's successful coup, however, the government revised the labor law with the assumption that trade unions or labor disputes would disrupt rapid industrial development. The revised labor law had a significant effect on the structure of the working class in South Korea. Trade unions had to get permission from the administration to organize a trade union at the company, and political activities were prohibited to prevent political resistance against the military regime (Choi eds., 2001; Kim D. C., 1995; Koo, 1991). This political situation disrupted efforts to organize comprehensive industrial trade unions, but spurred the development of company trade unions, where workers were swiftly organized.

In these circumstances, a single incident sparked the growth of working-class organizations. On 13 November 1970, a garment worker, Chun Tae-Il, set himself on fire because of poor labor conditions. His words were: "Workers aren't machines! The Labor Act ought to be kept on the labor market! I hope that my death is worth it!" His protest was against low wages, unbearable working conditions, and the government's repressive labor policy (Im H. B., 1987: 254). It initiated a democratic labor movement for labor rights above all in the manufacturing sectors, where the government had placed its prime focus for economic development and exploited the extremely cheap labor force; this gradually caused frustration and industrial unrest among workers. Thereafter, labor movements arose in other sectors as well, but until the end of the 1970s, workers were not systematically organized (Kim D. C., 1995). They struggled individually or in small groups for basic labor rights and living wages (Park S., 1998: 58), and they were unable to gain political leverage as a working class. In this situation, workers got support from other activists, such as religious and academic groups. They helped workers to recognize systematic class conflicts and the need to struggle for labor rights themselves. By doing so, the labor movement expanded rapidly in the late 1970s, although, in the *Yushin* constitution of 1972, trade unions lost political freedom in many ways. Labor conflicts increased, and the working class began to challenge

the specific form of labor relations through the politicization of labor problems (Chang D. O., 2002: 11).

Dissatisfaction with labor conditions produced massive strikes to demand improvements and labor rights for overtime work. In poor labor conditions without a social security system, the livelihoods of workers were in danger. Nevertheless, the 1979 coup by Chun Doo-Hwan and the emergency martial law of 1980 changed little for the labor movement, and it continued to be strongly repressed in the same way as under previous governments. The new government reformed the Labor Relations Act in December 1980. According to this act, an important point for the labor movement was that only company-level trade unions were allowed. It had changed the form of organization from sectoral unions to enterprise unions. In doing so, the strength and membership of trade unions decreased (Choi eds., 2001; Kim D. C., 1995).

A critical juncture for labor movement occurred during the June Democracy Movement of 1987, as social solidarity was expanded and workers secured some space for organized labor activities. Following the June Democracy Movement, the "Great Labor Protests" continued from July to September 1987. These protests also affected the development of trade unions. Workers organized trade unions rapidly and their militant strikes were very effective. They even often first got into a labor dispute, then brought forward a negotiation package, and bargained for the improvement of various points, such as a position of the business' profit, improvement of working conditions, equal treatment of office and production workers, and improvement of welfare programs (Choi eds., 2001; Kim D. C., 1995). In doing so, labor disputes effectively produced agreements about labor conditions through negotiations with firms. Successful negotiations increased the confidence of trade unions. Increased labor disputes expanded the density of regional and occupational trade union committees. Labor strikes involved demands for higher wages, which had not only an economic, but also a political aspect. Political pressure on the military regime and the economic damage to the conglomerates testified to a growing labor movement and the expanded ability of trade unions to win labor rights. In these circumstances, the conglomerates demanded government intervention to control labor disputes on the basis of their close relationship. However, the intervention of the government resulted from a different worry; labor disputes were seen as political activity. Labor groups and their actions were seen as a threat to the state, which the military regime connected with national security in a sense of anti-communism (Kim D. C., 1995: 101). In this context, working-class power between 1987 and 1996 was marked by the confrontation between enterprise unions and

individual capital on the company level on the one hand, and between the state and organized workers at the national level on the other (Chang D. O., 2002: 12).

Although the empowerment of the working class increased, the labor movement did not focus on enhancing working-class political power, but concentrated more on labor rights at enterprises. Many new and powerful trade unions were formed at large-sized enterprises, e.g. *chaebols*. Their organizations produced successful negotiations with employers at the enterprise level effectively and efficiently, but it caused weakened solidarity with small and medium-sized firms' trade unions, and limited the capacity to resolve macro-level structural problems of the labor market.

After the Great Labor Protests of 1987, enterprise unions, especially trade unions of *chaebols*, which were large even relative to the size of firms, became larger and more powerful. From then on, the size of trade unions became an important factor in collective bargaining with employers. The size of unions became one reason to create different wage levels among small, medium, and large-sized firms and led to discrimination within the working class. This systematization had a significant role in the fragmentation of labor groups. Kim D. C. (1995) stressed that such working-class mobilization meant that trade unions developed the character of interest groups, but did nothing to develop their class identity. In other words, labor groups had a possibility during the June Democracy Movement and the Great Labor Protests of 1987 to establish political power as a united working class. However, as Kim D. C. (1995) contended, workers were not ready to develop their own organizational power in politics for a comprehensive working class. Instead, they became politically supported candidates as labor groups, not as the organized working class, throughout the 1987 and 1988 elections.

These groups faced a challenge when the democratic camp was divided into two groups during the first direct presidential election. These groups' leadership was divided over the choice between Kim Young-Sam and Kim Dae-Jung for the presidency. Activists perceived the election as an important step towards democratization, but democratic groups were mired in internal ideological and strategic feuds regarding the election. In such political circumstances, workers were fragmented among various labor groups and could not develop into a united political force as a working class. They remained as fragmented individual citizens (Kim D. C., 1995; Choi eds., 2001). In other words, although unions were very strong, they could not be politically effective and systematic. This is an important factor that hindered labor groups from becoming dominant players in the expansion of social policies in South Korea.

However, there was a debate in 1988 on the establishment of comprehensive trade unions, which would be democratic and would identify labor groups as working class. The goal was to demand revision of the Labor Act and to establish a democratic trade union confederation. Discontented labor groups realized that the KFTU did not actually serve the interests of all workers, so they perceived a need to establish a new democratic labor confederation. In January 1990, the "*Chonnohyup*" (Korean Trade Union Congress) was founded and declared its goal as the transformation of the labor movement from "cooperative unionism" to "democratic unionism" (Kim D. C., 1995: 503). With *Chonnohyup* as the central actor, trade unions that supported the concept of democratic unionism turned their focus on revision of the Labor Act. The Act had been revised in 1989, and *Chonnohyup* began working on reforming the prohibition of multiple trade unions, third-party interventions, and the formation of trade unions in public service and education (Choi eds., 2001: 472). Meanwhile, labor groups also founded the "National Workers' Committee for the Implementation of the ILO Labor Regulations and Revision of the Labor Act" in 1991 by joining the ILO. The committee underlined existing problems with the Labor Act and criticized various legislation as being against the ILO's basic conventions. The committee also filed a petition to the ILO calling for the revision of the Labor Act. The ILO urged the government to review and revise the Labor Act. In 1993, a representative of the Ministry of Labor (MOL) finally announced the government's readiness to reform the Labor Act.

In light of these changes, the National Labor Unions Delegate Conference was organized to build the basic structure of democratic trade unions, which was to become the Korean Confederation of Trade Unions (KCTU). The KCTU was established in November 1995 to overcome the fragmented nature of the trade union movement at the national level, but it was illegal because, according to the Labor Act, multiple trade unions were still prohibited. Regardless of its status, membership of the KCTU increased from 861 unions and 391,000 members in December 1995 to 896 unions and 490,000 members in December 1996 (Kwon and O'Donnell, 1999: 286). The establishment of the KCTU had particular impacts in a number of ways (Choi eds., 2001: 437): first, democratic labor unions at individual enterprises were unified under the umbrella of a single group. Second, the KCTU organized industrial unions and established a labor party. It meant that the KCTU endeavored to confirm its identity as working class. Third, it transitioned from militant unionism to populism, which focused on political struggles for democracy and social reform. At the start, militant unionism spread as a dominant strategy to oppose abusive suppression of the state and employers. During the expansion of the labor movement, however, militant unionism

was jettisoned as it became clear that militant unionism was unsuccessful in empowering labor despite its organizational strength and mobilization capacities. Labor militancy increased due to organized workers at *chaebols*, who had a strategy of "first strike and then secure negotiations." Trade unions at large-sized firms had strong, organized power such that they could engage in militant labor disputes. In fact, this was an effective and successful strategy. However, such a strike strategy was only successful at large-sized enterprises and only for their members. The militant strikes did not bring any structural change to the labor market. In this regard, the labor union's strategy had to be adjusted in order to comprehensively include labor rights for all workers and influence the structure of labor markets (Lee Y. K., 2006).

Meanwhile, the Kim Young-Sam government carried out a "new paradigm of workers' and employers' relationship" and established a Labor Relations Council (LRC) in 1996. The central issue was "participation and cooperation" for stabilization of the labor and economic markets. Through the LRC, the government attempted to reform the Labor Act, which included four important points that labor groups wanted changed: first, the legal recognition of only one trade union federation (the FKTU, which had been sponsored by authoritarian regimes); second, restrictions on third-party interventions in company relations; third, continuation of legal sanctions against trade union participation in political activities; and finally the legalization of layoffs. It seemed that the government was attempting to make the labor market more flexible through the reform, and labor groups were against these changes (Choi eds., 2001; Kwon and O'Donnell, 1999). Nevertheless, the Kim government passed the revised Trade Union Act on 26 December 1996, without notification of other members of the National Assembly. This caused a major strike by the KCTU and the FKTU, which lasted until January 1997. After violent opposition between politicians and laborers, the National Assembly discussed and negotiated legislation surrounding the Labor Act and then partly corrected this legislation, which was still rejected by labor groups.

In the parliamentary elections in April 1996, labor unions obtained an opportunity to ensure the victory of a labor candidate. The KCTU organized its own political party, the Democratic Labor Party (DLaP), in 2000 and nominated Kwon Young-Gil, a former president of the KCTU, as its presidential candidate. The union was frustrated by its coalition with political parties and was skeptical about accomplishing its political goal. This endeavor failed, but in 2004, the DLaP succeeded in gaining 10 seats in the National Assembly (Lee Y. K., 2006). Through this victory, labor groups used the opportunity to develop their political position as representatives of the working class.

3.3.2. Civic Movements

Civic movements grew swiftly during the 1980s. Until the beginning of the 1980s, it had a more political character and was predominantly led by students, intellectuals, religious leaders, and politicians, and almost exclusively focused on political struggles for democracy. In the wake of the 1987 June Democracy Movement, however, citizen movements spread in society, and around various domestic political and social issues, such as monitoring legislators' performance, campaigning for women's rights and the environment, and calling for democratic reforms and corporate governance practices. Civic groups often distanced themselves from leftist ideological groups and attempted new strategies in various social spaces. Depending on the issues, they joined political parties, non-government organizations, and many other citizen groups to promote institutional reforms and alternative policies in politics, the economy, and social welfare (Lee and Arrington, 2008). This set civic movements apart from radical political movements. Some high-profile examples of activities by civic groups include the establishment of the Citizens' Coalition for Economic Justice (CCEJ) in July 1989 to bring about economic justice; in 1993, environmental groups merged to form the Korean Federation for the Environment Movement (KFEM); and in 1994, progressive activists and intellectuals formed the People's Solidarity for Participatory Democracy (PSPD), which focused on social policy reforms.

Those civic organizations attempted to raise public awareness through non-violent methods such as campaigns, public litigation, and petitions for legislation. Activists influenced national politics and policies, and recommended reforms (Shin K. Y., 2012: 298). Politically, for instance, civic groups organized a petition to the Assembly for an Anti-Corruption Law in 1996. This put corruption on the agenda as a major topic in South Korean politics and affected the election campaign of 1997. However, the enactment of the Anti-Corruption Law failed to be put into effect in the 2000 National Assembly. Nevertheless, through such activities, citizens recognized that the goal of democracy is not just to change the government, but also to achieve political transparency. Civic organizations arranged the Citizens' Coalition for General Elections, and this led to watchdog activities against corruption and other misconduct among politicians. They made a list, known as the "blacklisting movement," and informed voters about who was corrupt. Moreover, this blacklisting movement had an impact on the 2000 parliamentary election results. The

emergence of such civic activities in the 1990s represented a significant realignment of political development and social change (Lee and Arrington, 2008; Shin K. Y., 2012).

In the economic realm, the civic movements had an influence on the promotion of economic justice. Especially since their growth from the 1970s onwards, *chaebols* dominated most domestic markets in a close relationship with the government. The CCEJ attempted to initiate more transparency and accountability through economic reforms and to target *chaebols* by exposing their illicit and undemocratic business practices. As part of this activity, the PSPD mobilized "Small Shareholders" to address citizens' rights as investors vis-à-vis the unfair business practices of dominant shareholders, in particular *chaebols*. This civic movement increased the scope of democracy in South Korean society and significantly curtailed the entrenched power of the state and *chaebols* in the South Korean economy (Lee and Arrington, 2008: 81).

In social welfare policies, one campaign by the PSPD in 1994 for the improvement of levels of the minimum cost of living serves as a good example. The PSPD set an agenda, called the "Improvement Movement of the Minimum Cost of Living." This was aimed at improving and securing the minimum standard of living costs for all citizens, drawing national attention for revising the existing public assistance system, the Livelihood Protection System (LPS), and improvement of the national social security system (Jung I. Y., 2009: 65). Although the movement was not successful, the activity had a significant impact on the emergence of the debate over social policy issues. The empowerment led to the enactment of the National Basic Livelihood Security Act (NBLSA) in 2000, which became a new modern public assistance system.

3.4. The 1997 Asian Financial Crisis

In the wake of the 1997 crisis, South Korea experienced unprecedented economic and social disruptions, which resulted in tremendous restructuring of not only its economic system, but also its social policies and politics. Particularly, the crisis became proved to be a watershed in the development of the national welfare system in South Korea. The social welfare system was expanded even though economic conditions were unfavorable, while other Asian countries that were hit equally hard by the financial crisis reduced their social expenditure. This section examines the impact of the 1997 crisis and the structural changes in South Korea, needed to understand the reform process of social policies.

3.4.1. Impacts of the 1997 Asian Financial Crisis

Most East and Southeast Asian countries enjoyed sustained economic growth until the onset of the 1997 crisis. The crisis spread from Thailand to other East Asian countries, notably Indonesia, Malaysia, the Philippines, Taiwan, Singapore, and South Korea (Croissant, 2004c; Cumings, 1998). Throughout the crisis, Asian economic development models were questioned; the crisis had highlighted their respective structural problems and policy distortions (Corsetti et al., 1999; Johnson, 1998; Haggard 2000). At the time of high economic growth rates, Asian banks and companies heavily borrowed dollars, and massive private capital rapidly flowed into Asia, so domestic economies were increasingly dependent on foreign investment. In particular, five East Asian countries – Indonesia, South Korea, Malaysia, the Philippines, and Thailand – were particularly hard hit. Total foreign bank lending rose by 24% from 1995 to 1996. The sudden withdrawal of foreign finance shocked domestic financial markets (Radelet and Sachs, 2000: 111-2). Moreover, the banking systems were mismanaged, and there were problems of crony capitalism and moral hazard in politics and the market system. Crony capitalism involved a distorted market structure entailing corruption, nepotism, and excessive bureaucratic rigidity. South Korea's *chaebol* system was emblematic of such crony capitalism (Cumings 1998; Haggard, 1999; Woo-Cumings, 2000). In the case of South Korea, prior to the onset of the crisis, the economy was continuously growing. However, this rapid economic development was halted by the 1997 crisis. Other structural problems were revealed in South Korea as well, particularly corruption and a mismanaged banking system, a lack of transparency in corporate governance, the shortcomings of state-managed capitalism, and a lack of elementary social security programs (Radelet and Sachs, 2000).

The general consensus on the origins of the crisis blames weak financial and unhealthy corporate sectors with *chaebols* as the central cause, particularly the absence of transparency, high moral hazard, and failure of the rule of the law (Lee and Han, 2006: 307). In fact, the unhealthy structure of the market system was caused by the government itself because it created a structural incentive for firms to rely on bank financing until the 1980s to accelerate economic growth (Woo-Cumings, 2000: 2-25). The government heavily intervened in the policymaking process of banks and businesses, and it was tolerant of excessive investment by businesses, especially *chaebols*, for the sake of economic development. Banks did not

consider risks when they lent capital to the conglomerates because they trusted the government, which would cover economic crisis for the banks. In other words, the main responsibility would belong to the government if corporate investment and bank advances became insolvent. In such an unhealthy relationship in the economic system, consequently, the government and the private economic sector created a common risk leading up to the crisis. Meanwhile, the South Korean economy began to be integrated into the international and global financial markets, which systematically affected domestic economic issues and could no longer be controlled by the government (Koh et al., 2007; Kuk M., 2011).

The financial crisis in South Korea began with the bankruptcy of Hanbo in January 1997, which was the first case of bankruptcy of a *chaebol* in a decade. Sammi Steel and Kia Motors (which was the third largest automaker in South Korea) went bankrupt one after another in March. The collapse of the *chaebols* was a major economic shock, because they dominated such a large part of the economy. Prior to the crisis, the value of the largest 30 *chaebols* altogether accounted for 16% of GNP, 46.3% of total assets, 45.9% of total sales, 13.1% of total value-added and 4.2% of total employment in South Korea (Borensztein and Lee, 1999: 16; Shin and Chang, 2003: 32). After the crisis, *chaebols* represented a major share of privately held debt, with 47.9% for the top thirty conglomerates and 29.8% for the top five *chaebols* (Shin and Chang, 2003; List-Jensen, 2008). On 21 November 1997, the Minister of Finance announced a request for funds from the IMF. In the fall of 1997, South Korea itself was on the brink of bankruptcy. Real per capita GDP fell by 8% and more than 1.5 million workers lost their jobs. Unemployment rose from 2.6% in 1997 to 7.0% in 1998. At its peak, the unemployment rate was 8.8% in February 1997 (Ministry of Labor, 2005). South Korea borrowed emergency funds from the IMF and the World Bank, totaling $57 billion. In response to the IMF conditions for a rescue package, South Korea implemented eight main reforms: tightened monetary policy, more open capital markets, the restructuring of the financial sector, major reserve management and exchange rate policy reforms, the restructuring of trade policy, more flexible labor market policies, more open fiscal policy, and increased data publication (Kihl, 2005: 155-8).

The impact of the crisis on South Korea was not only economic misery, but also social pain. There were pronounced increases in social problems such as homelessness, crime, school dropout rates, and divorces (Hur J. J., 2002: 40). The political and social changes the crisis brought to South Korea were as wide and as deep as the country had seen in many years.

3.4.2. The New Government and Reform Policies

Prior to the financial crisis, the New Korea Party (NKP) held a majority in the parliament. However, the opposition leader, Kim Dae-Jung, was elected as President in December 1997. This election result showed widespread frustration with the ruling party in the midst of the financial crisis (Lim and Jang, 2006). Kim Dae-Jung's victory signaled a need to overcome the new economic challenge, to initiate far-reaching domestic reforms under the IMF's guidance, and the consolidation of democracy. His is considered the first democratic government, because an opposition party candidate won the elections for the first time. Kim Dae-Jung's victory meant the breakdown of the traditional configuration of political power since the establishment of the modern state (Song B., 2006). The philosophy of Kim Dae-Jung, which was published in a document entitled *DJnomics: A New Foundation for the Korean Economy* by the Korea Development Institute (KDI), promoted harmony between economic development and the consolidation of a democratic political system:

> "Democracy helps to create a transparent and sound society based on the strength of the people, voluntary participation and a strong sense of civic responsibility. Furthermore, democracy produces the motivation necessary for developing a market economy by unleashing the full initiative and creativity of the people. Similarly, a market economy promotes economic growth and provides the foundation needed for developing a sound democratic society by allowing fair and just rewards for the capabilities and contribution of individuals. A democratic political system and a market economy are as inseparable as two wheels of a cart. They are essential for creating a sustainable and dynamic society." (KDI, 1999: 36)

For Kim Dae-Jung, in other words, South Korea should have a "parallel development of democracy and a market economy" predicated not just upon economic growth, but also on simultaneous democratic development. Through his emphasis on democratic development, Kim Dae-Jung attempted to differentiate his government from previous governments, which had only emphasized national security and economic growth.

As a first national task, President Kim Dae-Jung had to demonstrate reform policies. In response to the 1997 crisis, the government had to urgently initiate reform in four major sectors: finance, corporate governance, labor law, and the public sector.

Financial reform: the financial sector was at the center of policy reforms because the economic crisis began with a banking crisis. The reforms focused on an overhaul of its regulatory and supervisory processes. The government implemented credit controls and intervened in the management and policymaking processes of the financial sector to achieve rapid economic development since the Park Chung-Hee government. Before the crisis, the financial sector was controlled by the government as an instrument of the country's monetary policy (Mathews, 1998: 753; Mo and Moon, 1999: 153). Meanwhile, problems of mismanagement expanded and, in late 1997, banks were unable to repay their debt, particularly foreign loans. As a solution to this setback, the banking system was separated from the Ministry of Finance and Economics (MOFE). The government carried out reforms to restore the confidence of depositors, investors, and creditors; to restore solvency, profitability, and liquidity in the financial system; to reinforce the government's crisis management capacity, which actually enhanced privatization of the financial sector; and to introduce international standards of regulation and supervision as well as capital market development (Chang and Chae, 2004).

Corporate reform: the IMF Accords contained several clauses aimed at reforming the structure and operations of *chaebols*. After the presidential election, Kim Dae-Jung met with the leaders of the top five *chaebol*s and reached a deal on reforms (Mathews, 1998: 754). In January 1998, the government issued "Five Restructuring Measures for the Business Sector" consisting of five main principles: (1) enhancing transparency, which included minimizing government interference and upgrading voting rights for minority shareholders; (2) eliminating cross-loan guarantees by the amended Fair Trade Act, requiring debt guarantees among the top 30 business conglomerates to be phased out by March 2000; (3) improving financial structures to reduce the high debt levels of *chaebols* to manageable levels; (4) restructuring of *chaebols* and boosting efficiency for small and medium-sized firms; and (5) improving the management of the banking system (KDI, 1999: 20).

President Kim Dae-Jung expressed his strong commitment to reform the corporate sector in his National Liberation Day speech on 15 August 1999:

> "Without restructuring the corporate giants, the *chaebols*, the most problematic element in our economy, economic reforms cannot be completed. The times have changed. The concentration of economic power

> in the hands of the *chaebols* is no longer accepted by the market.… I am determined to go down in Korea's history as the President who first accomplished *chaebol* reforms and straightened things out in the economy for the middle and working classes."

In other words, he wanted to increase transparency and accountability of *chaebols* including in the areas of corporate governance and competition policy, although how this would be done was still ambiguous (Haggard et al., 1999: 209).

Labor reforms: the 1997 crisis also involved high unemployment levels. A crucial issue in labor policy was flexibility, which was inconsistent with the principle of lifelong employment; South Korean employment culture had long been based on just such a lifelong employment principle. However, in the wake of the crisis, South Korean labor policy was confronted with a structural change of the labor market. As a first step, firms had to reshuffle their management system, including mass layoffs, to recover from massive economic deficits. In doing so, conflict with workers was to be expected in the form of labor disputes.

To resolve such disputes, on 15 January 1999, Kim Dae-Jung formed the Tripartite Commission (TC) to help workers and conglomerates form a consensus regarding the reforms of labor policies. The commission was composed of two labor federations (the FKTU and the KCTU), major business associations (the Federation of Korea Industry and the Korean Employers' Federation), government officials (the MOFE and the MOL) and four major political parties (Haggard et al., 1999: 211-2). The commission agreed on layoffs, the improvement of labor conditions for temporary workers, and reforms of social policies (Mo and Moon, 1999: 155). The tripartite social accord was favorably considered as a significant social consensus, unprecedented in the history of business-labor relations in South Korea. Nevertheless, the agreement on layoffs was not welcomed at the company. For this reason, KCTU leaders criticized the TC and the delegation resigned. The KCTU denounced the accord and staged a general workers' strike. However, the National Assembly accepted the tripartite accord (Koo, 2000: 246), and restructuring of the labor market began; the strategy of the labor movement also readjusted to the new conditions.

Public sector reforms: public sector reforms entailed the privatization of the public sector, the reduction of employees, and efficient management. The structure of the central government was not changed much, but the government planned a reduction in the number of public employees, which was decreased by 13.2% between 1997 and 2002 (Yun eds., 2002: 262) as the government sought to reduce administrative costs. In addition, state-owned

companies were reformed through privatization and managerial reforms. For instance, 20 public enterprises of 109 state-owned companies were privatized in 1998 (Chang and Chae, 2004: 430). The Kim Dae-Jung administration also quickly opened the public (as well as the private) sector to foreign capital.

These reforms, which were also demanded by the IMF, were aimed at improving the efficiency of the market and at eliminating the lack of transparency in corporate management and government intervention in the financial sector. They also facilitated the privatization of the public sector and flexibility within the labor market (Chang and Chae, 2004). South Korea overcame the 1997 crisis by doing so. Major reforms enhanced economic liberalism, privatization, and the flexibility of the labor market. Welfare reforms since the crisis, on the other hand, strengthened state institutions for welfare policies, which counters the neo-liberal assertion that market-driven globalization renders social policy marginal in economic development (Kwon H. J., 2005).

Rising Social Problems and Welfare Reforms

Before the 1997 crisis, social policies were not crucial social issues, and were neglected due to rapid economic development. A national strategy for social protection did not exist. Social protection in South Korean society was generally provided by private and informal sectors, such as the family, the community, and company-based welfare (Haggard, 2000: 186). Indeed, employment included welfare protection by firms, lifelong employment was a common condition of hiring, and finding a job was not difficult until the onset of the crisis. In this circumstance, the national welfare system did not become the center of attention, because being employed meant that people could afford any costs or, in case of need, they had support from the private and informal sectors.

However, the 1997 crisis brought this rudimentary national system for social security under pressure, although national social policies had been in place, mainly including public assistance and four national social insurance systems. Their function was rather ineffective, however, because these schemes were not comprehensive, primarily covering civil servants, public-sector workers, and the military. This was clearly revealed during the crisis, in which the unemployment rate increased unprecedentedly, jumping from 2.6% in 1997 to 8.6% in February 1999. In fact, the poverty rate for households soared to 9.4% in 2000. Moreover, social inequality rapidly widened, and income inequality for families increased from 0.28 in

1997 to 0.32 in 1999 according to the Gini coefficient (Jung I. Y., 2009: 58-9). The 1997 crisis also clearly exposed the limits of the social security system, including national social insurance mechanisms, which did not cover social distress. As noted above, this problem was not just one of poverty, but also led to increasing unemployment, homelessness, crime, school dropouts, and divorce rates (Haggard, 2000; Hur J. J., 2002).

Consequently, rising social problems associated with the crisis triggered reform of the social welfare structure in South Korea (Jung I. Y., 2009). The Kim Dae-Jung government introduced the notion of "productive welfare," which proposed a reorientation of welfare policies, and brought national attention to the expansion of the national welfare system. "Productive welfare" is defined in terms of three reform initiatives: first, basic human rights for a decent minimum standard of living; second, the right to work and participate in society; and third, welfare pluralism that emphasizes human capital investment (Lee H. K., 2004: 293). In other words, the idea of *productive welfare* was oriented towards the implementation of continued economic development as well as social justice. Its premise was the expansion of welfare programs, and thus triggered a debate on the future of the South Korean welfare state model for the first time in South Korean society.

Chapter 4: The Pre-1997 Development of Social Welfare Policies

South Korea was one of the world's fastest growing economies, but was also one of the countries hardest hit by the 1997 crisis. The country simply had to deal with the weaknesses of its social safety network. The national debate ignited by the crisis was not only important in the restructuring of the economy, but also in the expansion of its national welfare policies. While the economy had been growing rapidly for decades, South Korea's welfare policies did not manifest significant development, but did take on the contours of a basic structure, i.e. national insurance schemes and a public assistance, of a welfare state. This chapter will explore the historical development of four national insurance schemes – the IACI, the NHI, the NPS, and the EI – and a public assistance program – the NBLSS – to understand the historical development of social policies prior to the crisis as a foundation, which paved the way for the possibility of the expansion of the welfare state system after the 1997 crisis.

4.1. The Historical Development of Welfare Policies Prior to the 1997 Crisis

The historical sequence of the introduction of national insurance schemes in South Korea is similar to other welfare states. Initially, the Livelihood Protection System (LPS) was introduced as a public assistance scheme in 1961, Industrial Accident Compensation Insurance (IACI) in 1963, Health Insurance in 1977, the National Pension Scheme in 1988, and lastly Employment Insurance (EI) in 1995. These national insurance schemes were residual programs, in that they benefited only targeted groups of people. Due to the prioritization of economic development as the main national goal, social policies were neglected for decades. The paradigms of economic growth under consecutive authoritarian regimes, which were subsumed under the motto "growth-first-and-distribution-later", sidelined concerns for social welfare policies.

The first social policy was the *Joseon* Poor Relief Law (JPRL), which was based on the Japanese relief law of 1932 and introduced in 1944 under Japanese colonial rule. In fact, it was not introduced as a modern welfare scheme, but as a colonial policy and a support program for wartime mobilization. After independence, the American military administration carried out a relief policy, which was still based on the JPRL, to bring about political stability quickly and easily in South Korea. Under American administration, there was no concern for

the structural improvement of the quality of life, because the political motive of the military administration focused, first of all, on building an unassailable bulwark against the communist threat for the USA (Park B. Y., 2005; 71-74). In practice, the Rhee Syng-Man government concentrated on building a stable national state and, for that matter, it had no intention of reforming public assistance, including other social welfare schemes. The public assistance scheme could only provide an emergency aid for the absolutely "poor." In any case, after the Korean War, economic conditions worsened such that the government could not afford to expand its coverage. The public assistance scheme was simply implemented as emergency aid (Lee I. J. et al., 1999). Nevertheless, the JPRL remained as the only welfare program until the military regime of Park Chung-Hee put the LPS into effect in 1961.

The establishment of a modern welfare system thus began under the Park Chung-Hee government. Park's social principle in his "Revolutionary Pledges" was to protect the people from poverty and to build a welfare state. However, the establishment of a welfare state did not mean building a structural welfare system, but more as a means of escaping absolute poverty.[14] In practice, his first priority was rapid industrialization and job creation. His perspective on social policies was based on the idea that economic development accompanied by full employment could bring about the conditions for a welfare state (Oh J., 1990). As a result, the introduction of social policy programs was limited, and an actual budget for the LPS was only first secured in 1969 (Lee H. K., 1993: 175).

The dominant ideology regarding social welfare among the ruling elites of the time was captured by a statement of a member of the Supreme Council for National Reconstruction (SCNR) in 1961:

> "South Korea has extreme poverty, countless unemployment, social discontent and unrest and so on. In those circumstances, to rebuild a strong state, political corruption has to be eradicated and social justice realized. For this to come about, first of all, modernization accompanying a strong political power group and industrialization has to be achieved. Thus, the goal of health and social policies should be promoted without disruption of industrialization." (Quoted in Park B. H. 2001: 15)

In other words, the ruling elites believed in a trickle-down effect of economic development, so social welfare polices did not attract much political attention.

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[14] The absolute poverty rate was 40.9% in 1965 (Ku I. H., 2004: 59).

However, this elite perception changed slightly after the presidential elections of 1963. Against his own expectations, Park Chung-Hee won the election with a slim majority of votes, winning by 1.42%. The regime's political reaction to this dwindling popularity was thus to pay more attention to social policies (Park B. H., 2001). Under those circumstances, Park addressed the establishment of a welfare state in his New Year's administration speech of 1962 for the first time, and it became more specific after his narrow victory in the presidential elections. Indeed, between 1961 and 1963, 19 acts[15] in relation to welfare programs were enacted.

After Park's speech, a Social Security System Council (SSSC) was organized in March 1962 for the purpose of establishing a social security system under the Ministry of Health and Welfare (MOHW). The SSSC was composed of four main groups: a comprehensive welfare system team, a public assistance team, and two insurance teams for medical care and labor welfare. The SSSC had a significant effect on laying down the foundation of social insurance systems. Indeed, a health insurance act and an industrial accident compensation insurance act were enacted in 1963. As a result, the IACI scheme was implemented in 1963; however, the Health Insurance scheme came only much later, in 1977.

Having said that, the Park government was cautious when discussing social policies because for them, the most urgent task was the national alleviation of poverty. The government put a top priority on economic growth, and welfare policy schemes were provided to limited groups of people such as teachers, professors, public servants, and the army. The main beneficiary of welfare policy programs, above all, was the army, as a reward for lending a supporting hand to the successful coup (Hwang G. J., 2003; Song H. K., 2003; Shin K. Y., 2002). Through partial implementation of welfare policies for selective groups, Park Chung-Hee oversaw a process of establishing a limited welfare state and achieved some measure of political legitimacy (Kang M. S., 2006; Park B. H., 2001). Under his regime, social welfare was viewed in terms of "self-support" or "self-reliance" and independence from national aid. Welfare programs were implemented in terms of "the principle of less eligibility." Above all other things, the regime aimed for income increases through rapid economic development, so that each person could satisfy their social needs. In this regard, the

[15]These included the passing of the Public Officials Pension Act in 1960; the Livelihood Protection Act, the GI Bill, the Social Security Act, and the Child Welfare Act in 1961; the Disaster Relief Act in 1962; and the Military Pension Act, the Industrial Accident Compensation Insurance Act, and the Medical Insurance Act in 1963.

government used welfare policies strategically to prevent increasing social expenditure (Lee H. K., 1993; Park B. H., 2001).

Although the Chun Doo-Hwan government also stressed social policies carried over from the Park Chung-Hee government, it also announced the *Bockji Gukga Goensoel*, which means "the establishment of the welfare state" in Korean. This government slowly increased the budget for welfare policies, but its view of welfare schemes was no different from the preceding regimes. To justify the military coup, as the Park regime did previously, Chun promised democratization, the establishment of a welfare system, and the expansion of social justice as political tasks of the coup. And in fact, during his term in office, the Elderly Welfare Act, the Children Welfare Act, and the Disabled People Welfare Act were all introduced (in 1981) and revised (in 1984). Nevertheless, Chun worried that these policies could quickly bring about social discontent with the new military regime. Therefore, the government introduced and reformed welfare policies in a passive manner (Kim T., 2008: 832). In other words, it only attempted to implement welfare programs if they helped economic development, secured the regime's political legitimacy, and could be achieved with minimal cost (Ahn and Kim, 2010).

Nevertheless, the growth of civic and labor movements eventually threatened the military regime and paved the way for the June Democracy Movement of 1987 to become a political turning point. The movement resulted in the "Special Declaration for Grand National Harmony and Progress Towards a Great Nation" in which the government promised a democratic transition to a new government with direct presidential elections in 1987. These momentous political changes opened up an opportunity for change in welfare policies as well, and the newly elected Roh Tae-Woo government responded to citizens' demands in this area. The National Pension Scheme was introduced in 1988, and Health Insurance was reformed for all citizens by 1989, which were actually promised in 1986 under the Chun government. Roh undertook these political promises in the election campaign in order to rally the middle class in particular (Hwang G. J., 2003). During his term, the government introduced and reformed welfare policies not only for targeted members of the middle class, but also for disadvantaged groups of people. For instance, the Employment Promotion Act for the Disabled was enacted in 1990, which required employers to hire disabled employees at least as one percent of all workers at companies with 300 or more employees. In addition, a plan for the introduction of employment insurance was contained in the Seventh Five-Year Economic Development Plan (1992-1996) (Kim and Seong, 1993).

The expansion of social policies continued under the Kim Young-Sam government. This included, first, the introduction of the EI scheme in 1995 and, second, the expansion of a pension scheme to the universal National Pension for farmers, fishermen, and the self-employed in rural areas. After the government's participation in the Copenhagen World Summit for Social Development in 1995, interest in social policies peaked. President Kim used his political rhetoric to demonstrate the need for the "globalization of the quality of life." Moreover, in 1996, his government announced a new welfare policy paradigm known as the "Basic Plan of National Welfare for Improvement of the Quality of Life during Globalization." Various committees debated the development of welfare systems, but the financial plan ultimately failed (Park B. H., 2001). In reality, the Kim Young-Sam government did not achieve significant development in the social welfare system (Hwang G. J., 2003).

Social expenditure increased very minimally and slowly. As Table 4-1 shows, however, social expenditure increased rapidly after 1997, when South Korea had to address the Asian financial crisis. The government tightened the budget, but social policies expanded.

Table 4-1. Social expenditure as a percentage of GDP

Year	1990	1992	1994	1996	1997	1998	1999	2000	2001	2002
Social Expenditure (%)	3.2	3.32	3.49	5.79	6.23	7.85	8.83	7.54	7.81	7.61

Source: Ministry of Health and Welfare (2014)

Above all, four national insurance schemes − the IACI, the NHI, the NPS, and the EI − and a public assistance program were comprehensively expanded and structurally reformed under the Kim Dae-Jung government. In terms of welfare policies, scholars have credited his government for making serious and rigorous efforts in the social policy arena for the first time in South Korea's history (Ku I. H., 2007). This involved not only the expansion of national insurance programs, especially the expansion of coverage under the four social insurance schemes and rapid increases of the welfare budget, but also improvements in the quality of welfare programs. As a new paradigm of welfare reform, Kim Dae-Jung brought out the idea of "productive welfare" (Song H. K., 2003: 421). The concept of productive welfare in South Korea was oriented towards building a "South Korean welfare state model." Productive welfare focused on harmonization between development and welfare; productive and preventive welfare; the participation of various actors; and the physical and psychological satisfaction of citizens (Park B. H., 2001: 17). It marked a transition from the

residual welfare programs that provided limited coverage to selective groups to a universal welfare system guaranteeing social security to all citizens.

In addition, in 1998, Kim Dae-Jung organized the tripartite commission of Labor-Employers-Government Committee, "which was able to produce a broad-based social consensus for economic reform while strengthening the welfare state" (Kwon et al., 2010: 6). This commission can be considered the first sign of democratic cooperation in South Korea since its establishment as a modern state. This is meaningful not only in the progress of social consensus, but also in progressive democratization in social policies and politics; the relationship between state, business and labor had become very antagonistic during the militant democratic movement. As such, there existed no broad social consensus for a stable democracy. The committee was responsible for institutionalizing cooperation between labor, management, and the bureaucracy in order to overcome the 1997 crisis. It made the expansion of the national welfare system a core policy goal. Furthermore, other issues, in particular the unification of the NHI funds, the expansion of the EI to include all workers, and the financial restructuring of NPS, were also implemented under the Kim Dae-Jung government (Park Y. S., 2008: 5; Kim Y. M., 1999). The development of the four social insurance schemes and the public assistance scheme will be illustrated in the following sub-chapters to further describe the process of their introduction and policymaking and decision.

4.2. Industrial Accident Compensation Insurance

Generally, IACI is the first policy measure to be enacted in welfare states. During industrialization, employers often faced industrial accidents including occupational injury. The need to compensate for their employees' injuries or death frequently exposed companies to financial troubles and crises. Occupationally injured workers also had to suffer from the health difficulties caused by injury without the necessary medical treatment and income replacement. Since these conditions could interrupt continuous economic growth, these circumstances inevitably raised the need for social security to reduce extreme difficulties for employers and employees alike (Kim J. G. eds., 2012; Kim and Yoon, 2012: 16).

Most industrialized countries introduced IACI when they reached a certain level of industrialization and when industrial accidents became a serious social problem. However, interestingly, the IACI system in South Korea was introduced when industrialization had just

begun – the Park Chung-Hee government introduced the scheme even before the maturation of the industry in 1963. At the beginning of the 1960s, 60% of Korea's total labor force was in agricultural industry and just 10% in the industrial workforce. The level of industrialization was noticeably low and the industrial working class had not yet formed. South Korea also lacked the mature industrial economy and politics necessary to afford the IACI scheme and other social welfare programs. Nevertheless, Park's government implemented the IACI as the first social insurance program because Park saw IACI as a precondition for industrialization for achieving the First Five-Year Economic Development Plan (1962-1966) (Kim and Yoon, 2012: 17).

Prior to the introduction of the IACI, occupationally injured workers were generally compensated under the Labor Standards Act (LSA), which was enacted in 1953 to safeguard injured workers. Article 8 of the LSA stipulated that employers provide compensation to workers who had a work-related injury or disease, handicapped workers, or to those who died due to a work-related accident. This included the formation of prototypical compensation benefits such as medical care benefits, temporary disability benefits, permanent disability benefits, and survivor's benefits (Kim and Yoon, 2012: 18). However, in reality, application of the law was relaxed in the 1950s, making the LSA was impractical to implement in a market system. There were four main shortcomings: first, there was no enforcement ordinance to inspect companies for fair accident compensation under the LSA; second, just after the Korean War, the industrial foundation was almost entirely destroyed, and most employers could not afford to pay compensation for industrial accidents; third, the LSA was a new policy, and most employers and employees alike were unaware of it (Woo M., 2007); and finally, labor groups were very weak in demanding compensation rights. In some cases, employers ignored industrial accidents, or rather blamed workers for being careless at work (Kim and Yoon, 2012; Woo M., 2008). In doing so, workers were not protected from industrial accidents and their occupational injuries were not compensated for either. Moreover, the government did not regulate such conditions. Thus, the provision of compensation rights for a work-related accident was contingent on the discretion of individual employers.

However, this situation changed under Park Chung-Hee's regime. After the coup of 1961, Park set up, first of all, the SCNR as a transitional institution until the inauguration of the President in 1963. Under the SCNR, the military regime embarked on its "revolution" goals. In 1962, the regime reformed the LSA in order to manage and control labor and the market. Next, the SSSC was organized in 1962, with a mandate to build a welfare system

including social insurance systems and social service programs belonging to principles of the "Revolutionary Pledge." The SSSC played a role as an advisory board for the MOHW and was composed of experts, such as professors and technical commissioners, from the private sector to design social welfare policies without influence from the military's ruling elites (Woo M., 2007). The SSSC eventually researched, reviewed, and designed draft plans for social welfare programs. In March 1962, it examined three possible social insurance alternatives: the IACI program, an unemployment insurance system that, in fact, became the current employment insurance system, and health insurance (Kwon H. J., 1999: 80).

Most of all, the labor insurance group of the SSSC proposed the introduction of two public insurance systems, i.e. unemployment insurance and the IACI. However, the national financial situation would not allow the implementation of both insurance schemes, so the government had to decide which program should be implemented first. After careful consideration, the government introduced the IACI for various reasons. First, it would be easier to fund and implement than the other alternative programs. The IACI scheme was based on a mechanism in which employers would be required to make financial contributions and the government would manage them to provide compensation for occupationally injured workers. As a result, there would be no financial obligations for the government except for some initial administrative support until the system was implemented. Second, unemployment insurance was perceived quite negatively in South Korean society. Unemployment was not viewed as a social problem, but as an individual problem. At that time in Korean society, the unemployed were understood to be people who would be able to work unless they were injured (Kim and Yoon, 2009; Kwon H. J., 1999).

Due to undeveloped democratic institutions, participation in the policymaking process for the IACI was limited to a very few institutions, such as the SCNR, the SSSC, the MOHW, and related government ministries. Only these institutions could share their views and discuss its introduction. As such, the introduction of the IACI was not based on consensus with workers, employers, and governmental agencies. Only the SSSC was tasked with addressing the necessity and nature of the IACI scheme (Woo M., 2007; 2008). This accelerated by the government's timetable for the introduction of the IACI scheme, which, in short, was implemented with the strong support of the President. In fact, there were no active actors to introduce the IACI, and ministries, workers, and employers did not immediately agree to it.

Government officials were not in favor of the introduction of the IACI due to budgetary constraints. The SSSC persuaded ministries with two rationales. First, it promised not to cause financial burdens. For two years (1963 and 1964) at the early stage of its

implementation, the government itself would take on financial responsibility for the scheme. Indeed, as Table 4-2 shows, the government did not have to invest in the IACI after the two years. Second, the IACI scheme would function as a countermeasure against poverty through protection of injured workers. Ministries changed their negative stance on the IACI and then began to convince other stakeholders, employees, and employers (Kim and Yoon, 2012: 22; Woo M., 2008).

Table 4-2. The Plan of the IACI (for its introduction)

Year	Number of people	Size of company	Finance (Won)	Outlays by the National Treasury (Won)	Charge on employers (Won)
1963	90,000	More than 500	37,221,000	15.900,000	21,321,000
1964	90,000	More than 500	150,126,000	22,200,000	127.926,000
1965	150,000	More than 100	263,230,000	0	263,230,000
1966	150,000	More than 100	263,230,000	0	263,230,000
1967	400,000	More than 16	690,390,000	0	690,390,000

Source: Ministry of Labor (2004a: 23)

Workers' groups were passive at the beginning of the discussion on the introduction of the IACI. Employees did not have information on the IACI, so that they could not see the need for its introduction. In practice, after 1953 workers were almost entirely dependent on the LSA or a civil suit in the event of an industrial accident at the company. However, financial and time costs were too high and workers lost almost every case. Labor groups endeavored to improve labor conditions and rights, but under political pressure of the regime, such attempts did not easily succeed; labor groups thus concentrated on improvement at the company and on labor disputes to apply leverage in order to lead successful negotiations. Large-scale collective actions were carried out with effective results, but only at large-scale firms, and this in turn resulted in growth of the labor movement primarily resulting from large trade unions at large-sized enterprises. But in doing so, labor strikes did not create structural changes in the labor market as a whole, but only created changes case-by-case at the individual company, where large conglomerates had company-based welfare programs. Workers at small and medium-sized enterprises were often excluded from benefits. Such imbalanced development opened the perceived need for comprehensive welfare programs. Under these circumstances, the government promised to extend coverage of the IACI not

only to large-sized, but also to small and medium-sized companies. As a result, workers for the latter ultimately agreed to the introduction of the IACI (Kim and Yoon, 2012: 21; Woo M., 2008).

Employers were also hesitant to support the introduction of the IACI system, because large-sized companies were already legally mandated to compensate employees for work-related injuries in accordance with a collective bargaining agreement or the LSA. In addition, they were wary of the government's management of the IACI and its ultimate assumption of financial responsibility of the scheme. To dispel these fears, the government argued that the scheme could take over securing workers against industrial accident risks. This was appealing because, in many cases, firms went bankrupt when they faced major accidents at the company. Consequently, employers agreed on the function of the IACI as well and did not object (Kim and Yoon, 2012: 21-22).

Consequently, in 1963, the IACI act was established and, in 1964, went into effect for the workers of large-sized firms. In the initial introduction phase, the IACI covered workers at companies with more than 500 employees. Until 1972, the IACI gradually expanded to cover companies with 30 or more workers. After the 1997 crisis, the IACI was reformed and its coverage was expanded to all workers in 2000 (Kim and Yoon, 2012: 40-42; Woo M., 2008). Table 4-3 presents a chronological expansion of its coverage.

Table 4-3. Chronological Expansion of the IACI Coverage

Year	Number of workers in company
1964	More than 500
1965	More than 200
1966	More than 150
1967	More than 100
1969	More than 50
1972	More than 30
1973	More than 16
1982	More than 10
1987	More than 5
2000	All workers

Source: Ministry of Labor (2005)

However, despite the expansion of its coverage, the real application rate was still low, with 50.9% of all workers in 2000 (Kim J. W., 2010: 72). Notwithstanding, the crisis opened up

the possibility to reconsider welfare programs. In this context, reform of the IACI was not only about the expansion of coverage, but also about a qualitative evolution, such as the introduction of benefits for occupational rehabilitation, which supports injured workers to return to the company, a rise in compensation level, and a relaxing of payment requirements (Kim J. G. eds., 2012: 36-45).

4.3. National Health Insurance

After the establishment of the SSSC in 1962, the team reviewed and researched health insurance for the introduction of a new program. The result was that the NHI Act was renamed the Medical Insurance Act and was passed in 1963. However, its implementation failed due to poor economic conditions and apathy on the part of the ruling elites, who saw health welfare policies not as a political priority, but as a future outcome of economic development (Joe Y. J., 2008b). Notwithstanding those circumstances, the health insurance team of the SSSC attempted to persuade the ruling elites and politicians of the necessity of the health insurance program. As a result, the Health Insurance Act was accepted, but an article on its "compulsory" implementation and its "immediate" introduction was rejected. The government rationalized the delay by citing a lack of financial support (Lee I. J. et al., 1999).

A more substantial discussion on the NHI scheme started at the beginning of the 1970s. According to Kim Chung-Ryum, the chief of the presidential secretariat in the years 1969-1979, the development of welfare policies was considered for the Third Five-Year Economic Development Plan (1972-1976) in spite of the ambivalent stance towards welfare schemes. However, the ruling elites assumed that employment could replace welfare programs if people could be self-supporting themselves. Thus, the priority for them was economic development, and government concern for the moral hazard surrounding such programs could possibly induce another problem. In this context, the government prepared itself to support people in finding jobs themselves, to be self-supporting, and to escape poverty through work. In addition, since South Korea was feeling the economic impact of the global oil shock of 1973, the government felt it could not afford to introduce a new welfare program. The government's inaction on welfare policies did not change.

Nevertheless, the political situation did change with political tensions between South and North Korea. These political tensions and the competition with North Korea proved

decisive in finally stimulating a political condition conducive to the NHI scheme. In the 1970s, North Korea was much more successful in economic development and diplomacy than South Korea.[16] The North, for instance, succeeded in joining the Inter-Parliamentary Union and the World Health Organization in 1973, as well as the Conference of Non-Aligned Countries in 1974. This demonstrated its good diplomatic relations with other countries. In addition, the North Korean regime extensively promoted the success of its medical care scheme. It introduced a free medical care system in 1952 and expanded it to cover the whole nation in 1972. Kim Il-Sung, who was the first national leader of North Korea, criticized the lack of a medical security system in South Korea (Joo J., 1999: 397; Woo M. S., 2004; Kang M. S., 2006). This political competition with North Korea compelled Park Chung-Hee to accelerate plans for the introduction of the NHI program. Besides, the South Korean economy had been growing during the early 1960s and mid-1970s.

In these circumstances, South Korea could now realistically afford the implementation of the NHI program and even a mandatory health insurance program (Lee I. J. et al., 1999: 328-9). Park demonstrated his political willingness for the introduction of the NHI through the appointment of a new Minister of the MOHW in December 1975. Since the previous Minister was against the NHI system and strongly opposed it in the regular session of the National Assembly in November 1975 (MIF, 1997: 77), President Park needed someone to replace him who would promote the development of the health policy. He carried out a cabinet reshuffle in December 1975 and appointed a Minister for the MOHW, Shin Hyun-Hwak. Shin was entrusted with the introduction of the NHI scheme, the resolution of labor and management problems, and the improvement of labor rights and conditions. Park announced the launch of the national health care system in his New Year's press interview of 1976 and then, in February, he demanded a review of the implementation of the NHI scheme (Joe Y. J., 2008b: 77).

In his New Year speech to the press, President Park addressed two points. First, social policies would be improved during the Fourth Five-Year Economic Development Plan (1977-1981). Second, a national health system would be implemented in the next year for all citizens to receive inexpensive medical services (Kim S. Y., 1995). Through President Park's force of will, the policymaking process worked quickly and effectively. As a first progressive step, the Health Insurance Act was revised in 1976. In October, the amendment to the

[16] According to Breidenstein and Rosenberg (1975: 172), annual average growth rates of GNP from 1954 to 1962 were 22.1% in North Korea while they were 4.7% in South Korea. Gross industrial output from 1954 to 1970 (71) was better in North Korea with a 23.5% increase, while South Korea had only 15.3%.

"National" Health Insurance Act was subsequently accepted in the National Assembly without much controversy and the act was promulgated in December (Joe Y. J., 2008b: 76).

Until the final decision in September 1976, however, political circumstances were not favorable to the implementation of the NHI. The MOHW, in particular, was in conflict with the Economic Planning Board (EPB) and other ministries, which saw the implementation of the NHI as a source of financial difficulty and an unnecessary economic burden. On the one hand, the MOHW itself convinced the EPB and the other ministers, arguing that the NHI scheme could succeed without being a burden on the national economy. On the other hand, it was strongly emphasized that the introduction of the NHI was a decision forcefully demanded by Park Chung-Hee (MIF, 1997: 82; Joe Y. J., 2008b: 78; Woo M. S., 2007). In other words, while it is true that there was obviously some political support within the ministries to introduce the NHI, the emphatic role played by Park Chung-Hee was decisive for NHI implementation. In a later interview, Shin Hyun-Hwak praised Park's determination.

> "At that time, I thought that it would be really difficult for the Ministry of Health and Social Affairs [the MOHW's successor] to pass the proposal of the mandatory medical insurance [the NHI] scheme through a Cabinet Council, for no ministry supported the Ministry of Health and Social Affairs.… I had no option but to ask the President to call a meeting of the departments concerned. So a meeting presided over by the President was held at the Presidential Mansion. Every Minister except me opposed it … Despite these negative responses from other departments, President Park finally decided to do it. The medical insurance system would not have been achieved without the President's determination and commitment to it." (Joo J., 1999: 392)

As a result, the amendment to the NHI Act was accepted without a veto from the National Assembly or opposition from other interest groups and became mandatory in 1977. However, it was initially only introduced for employees at large-sized enterprises with more than 500 employees. Subsequently, coverage gradually increased. In 1979, it expanded to cover government employees, private school teachers, and companies with more than 300 employees. In 1981, coverage expanded to companies with more than 100 employees. In 1988, the Roh Tae-Woo government expanded it once again to regional and rural residents, as well as private-sector workers in firms with 10 or more employees. In 1989, it extended

the NHI to the whole nation (Lee J. C., 2003: 48). Within ten years of its first implementation, the scheme covered 94.2% of the whole nation (see Table 4-4).

Table 4-4. A Chronological Expansion of the NHI

Year	Coverage	Coverage in %
1963	Enactment of the Medical insurance law	-
1977	Mandatory implementation of medical insurance for employees at enterprises with more than 500 employees	8.8
1979	Extension to government employees, private school teachers, and employees at enterprises with more than 300 employees	21.2
1981	Implementation of regional medical insurance (for three geographic areas) and for employees at enterprises with more than 100 employees	29.7
1988	Extension of regional medical insurance for rural residents (agricultural and fishing regions)	69.5
1989	Extension of regional medical insurance for urban residents (became National Medical Insurance)	94.2
1998	Merger of insurance companies' system into one single company (Initially for public servants, private school teachers, and workers in 227 regional companies)	-
1999	Passage of the National Health Insurance Act	-
2000	Implementation of complete integration of HI societies (but not in financial management, which was postponed to 2003)	-
2003.07	Integration of financial management of the NHI	

Source: South Korean National Statistical Office (1995: 517, cited in Joe Y. J., 2008b: 83); Lee J. C. (2003); compilation by the author.

Significant reform of the NHI was conducted under the Roh Tae-Woo government, which led the NHI to a universal coverage system. In 1988, coverage increased to around 40% of the population and, by 1989, had expanded to include 94% of South Korean citizens. In other words, it expanded very quickly and widely in only two years. This can be explained in two ways. On the one hand, the progressive expansion of the NHI was related to the development of democracy through the June Democracy Movement, which sought to break military regimes. The victory of the June Democracy Movement in 1987 improved prospects for democracy and the people's ability to freely express their social and political needs. In light of this, the Roh government had to respond to the fact that the political power of civic and labor groups had grown more powerful than before. On the other hand, several policy issues

and social changes played out in favor of a rapid expansion of coverage. First, the government's mismanagement of public and private hospitals led to the accumulation of structural problems over time. In such circumstances, social demands for the reform of existing health policies began to increase. Second, in comparison to the 1970s, average per capita income had improved, so citizens began to press for welfare benefits. In such ripe and volatile political conditions, the government had to demonstrate some steps towards democratization as a political response (Hwang G. J., 2003: 6; Seo N. K., 2009).

Apart from the reforms regarding the NHI's coverage, another crucial controversial issue dealt with the imbalances in how the system was funded and managed, which depended on the size of insurance funds of the NHI. During the process of the NHI's introduction, the MOHW studied the Japanese medical insurance system, using it as a model in which a larger portion of the budget was covered by employers and employees. Like the Japanese model, the insurance scheme of South Korea was not pooled into one single fund, but employees were covered in different insurance funds according to occupational and regional employment conditions (Joo J., 1999: 391). During the policy-learning process, the government did not have enough time to fully evaluate the NHI system; instead, during the policymaking process, South Korea simply adopted a large part of the Japanese medical insurance structure. Subsequently, the management system of the NHI came to depend on each insurance fund, and it encompassed 373 funds by December 1996. Over time, the rich funds were getting richer and the poor ones were getting poorer. In doing so, almost all small insurance funds faced financial difficulties, and the situation worsened after the 1997 crisis. The inefficient management system attracted strong criticism, though the movement for unification had already begun in the late 1980s.

The NHI's financial deficit worsened from 1997 to 1998. In 1997, a large number of the NHI's funds were merged into one fund (Lee J. C., 2003). A civic movement grew up around the issue of unification of the NHI's funds. An umbrella group, "South Korea Solidarity for Unification and Expanded Coverage of the NHI," was established in 1995 with more than 44 organizations. Due to the crisis, many insurance funds faced financial deficits and structural problems from the inefficient management system. Consequently, in November 1997, the government reorganized regional insurance funds and occupational insurance funds for government employees and private school teachers into one fund. In 1999, the unified National Health Insurance Act was passed, and in 2000, all health insurance funds were eventually integrated into one single system (Lee J. C., 2003: 49; Song Y. J., 2009).

4.4. The National Pension Scheme

Initially the pension scheme was introduced for preferred groups such as government employees in 1960; it was the reformed to include military personal in 1963, i.e. after the successful military coup of Park Chung-Hee. Afterwards, the expansion of its coverage was hindered until substantial discussion on the National Pension opened at the beginning of the 1970s in connection with the Third Five-Year Economic Development Plan (1972-1976). This Plan aimed to transform the country's developmental strategy from light manufacturing to heavy and chemical industries. The government needed more capital to execute this new strategy of economic development. However, financial conditions prohibited any efforts to immediately carry out the strategy. As a result, the government got the idea to reform the pension program as a strategy to mobilize domestic capital, thus maintaining economic growth.

In fact, the weak financial circumstances resulted from the economic strategy of light manufacturing in the 1960s. Economic development was generated through light industry, which led to manufacturing-driven and export-driven industrialization, but also allowed the inflow of foreign capital into the South Korean economy. This economic strategy resulted in the accumulation of more and more national debt. In doing so, at the beginning of the 1970s, the government faced major financial pressures stemming from the burdens of interest and principal repayments. Continuing economic growth required a substantial amount of national resources. To find a way out of the impasse, Park Chung-Hee instructed the KDI[17] to develop policy alternatives. In November 1972, the KDI proposed an old-age pension program, which was presented as a means to mobilize domestic capital (Hwang G. J., 2007; Lee S. Y., 2007). National pension subscribers would save their fund for around 20 years to receive pension benefits. In other words, the government could mobilize national savings at the beginning of the pension program in an official way. Nevertheless, the main motive of the establishment of the pension system was to support the economic policies of the time. In 1973, the pension act for teachers in private schools and for workers was accepted, but nevertheless, due to high inflation rates and deteriorating economic conditions owing to the global oil shock, the government decided to eventually delay the implementation of the pension program (Jeong H. W., 1998; Kwon H. J., 1999; Kim S., 2005; Kim Y. H., 1998).

Moreover, political competition with North Korea was another reason for postponing the reform of the pension program into the NPS. At that time, North Korea revised its tax system and rescinded the collection of direct tax. North Korea's propaganda of "a country without taxes" portrayed an image of a country with better political and economic conditions than South Korea; indeed, politics in South Korea was still unstable until the 1960s. In addition, politicians, students, civic groups, and labor unions vehemently opposed the authoritarian military regime. In those circumstances, Park's drive to stabilize the society amid such economic and political uncertainty meant the postponement of the expansion of the NPS (Yang J. J., 2007: 101-102; Lee S. Y., 2007). Ultimately, while the NPS failed to be put into effect in 1973, two years later the preferential pension scheme for teachers at private schools was implemented.

The second serious debate on the NPS began in the 1980s with government plans for the Fifth Five-Year Economic Development Plan (1982-1986), including the implementation of the postponed NPS (Oh J. S., 1987). The South Korean economy was in fairly good shape and matured to the point that the government felt it could afford the expansion of the pension scheme (Jung and Walker, 2009). In 1984, the "Preparatory Committee for the Introduction of the National Pension Scheme" was organized and started working with the MOHW and the KDI on an amendment to the Pension Act (Oh J. S., 1987). In December 1986, the amended National Pension Act was endorsed by the National Assembly, and in 1988, the NPS as a comprehensive social insurance program was implemented under the Roh Tae-Woo government (1988-1992).

However, results stemming from the implementation of the NPS did not occur suddenly. A swift, two-year implementation had already been promised by Chun Doo-Hwan in a press conference in 1986 From then on, the National Pension legislation improved quickly. However, before the 1986 announcement of the pension policy, it was not an important concern of President Chun. Nevertheless, his stance changed after his diplomatic tour of European countries (the UK, Germany, France, and Belgium) in that same year. The Deputy Prime Minister of the EPB and the Senior Presidential Secretary for Economic Affairs convinced President Chun. It was they who outlined a strategy for a balanced development of the economy and social policies for sustainable national development like those of European countries (Sa Gong-Il, interviewed in August 2007).

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[17] The Korea Development Institute (KDI) was established in 1971 as a research institute under the EPB and was charged with formulating and designing the Five-Year Economic Development Plans as a national think tank (Henderson et al., 2002; Kwon H. J., 1999).

In addition, from 1986 onwards, pro-democracy civic and labor movements started to become more radical. Citizens became increasingly aggressive and militant in street demonstrations and labor disputes, and also expressed their demands for improved welfare policies as part of democratization generally. Under such pressure, the Chun government had to loosen its repressive policies and address these issues so as to forestall political crisis and to bring about societal and political stability. In reaction to these demands, the government planned welfare programs, particularly the National Pension Scheme and a national health insurance scheme, as well as the establishment of a minimum wage (Park Nung-Hoo, interviewed in July 2007). In spite of these changes and promises, the government was unable to defuse the political tension. The June Democracy Movement of 1987 brought about the transition from authoritarianism to democracy with a promise for the first direct presidential election.

In doing so, welfare policies became a crucial issue in the presidential election of 1987. Roh Tae-Woo campaigned on a platform of promising to implement the NPS. However, the promise of the pension scheme was less about the consolidation of a welfare state and more of an electoral strategy targeting middle-class voters. Roh exploited the pension program as an attractive election slogan, saying "a little burden – a big reward," for the presidential electoral victory (Jeong H. W., 1998: 202). Consequently, Roh Tae-Woo won the presidential election and implemented the NPS in 1988. However, it was initially introduced for private sector workers at companies with 10 or more employees and applied voluntarily for the rest of the working population. One year later, in 1989, the NPS was reformed to become compulsory for all wage earners and covered about 4.2 million workers. In 1992, its coverage was extended to companies with five or more employees and pension insurance covered around 2.3 million more workers than it did in 1989 (Choi Y. J., 2006: 551; Yang J. J., 2004: 197). In 1995, the pension scheme was further expanded under the Kim Young-Sam government for all employees and also for farmers and fishermen in the regions. Yet it still covered only 42.4% of the employed population (see Table 5-5). In April 1996, the Kim administration organized the "Public Pension Development Plan" to implement and update the reformed NPS (Yang J. J., 2004: 198). However, the pension reform proposal by the Kim Young-Sam government only came into effect after the 1997 financial crisis, when it became a universal public pension scheme for all citizens in 1999. At that time, the government expanded the NPS to more farmers, to the self-employed, those with short-term contracts, and from residents of urban areas to every citizen (Kwon H. J., 2005b). The number of citizens covered by the NPS increased from 4.43 million in 1988 to 16.25 million in 1999

(Jung and Walker, 2009: 428). After the reforms in 1999, the coverage of public pensions had increased so markedly that more than 80% of the labor force was covered in 2000 (Choi Y. J., 2006: 551). Table 4-5 below shows this development.

Table 4-5. Coverage of the National Pension Scheme, 1980-2000

Year	(A) Employed population, in thousand [2]	All public pension contributors [1]				
		National pension	Government employees	Private school teachers	(B) Total	B as % of A
		Thousands of people				
1980	13,150	-	648	89	738	5.6
1985	14,667	-	697	124	821	5.6
1988	16,728	4,433	767	141	5,341	31.9
1990	17,983	4,652	843	154	5,649	31.4
1995	20,385	7,497	958	181	8,636	42.4
2000	21,020	16,210	909	211	17,330	82.4

Notes: 1) Excludes contributors to armed forces pensions. 2) Aged 18 or over.
Source: National Statistical Office (2005), Choi Y. J. (2006: 551)

After the 1997 crisis, South Korea received a financial bailout from the IMF and the World Bank, which demanded political reforms and the restructuring of the banking system, corporate governance systems, and the labor market. Along with this conditionality, the World Bank also stipulated the need for the establishment of a social security system, including reform of the NPS. In December 1998, the "Work Committee for the Improvement of the Public and Private Pension Scheme" was organized to carry out these reforms. There were two central directions in restructuring the scheme. First, the poor management of pension finances was addressed through a revision of the Public Capital Management Fund Act. Second, the framework of the public pension scheme was changed in line with the demands and conceptions of the World Bank (Yang J. J., 2008: 145). These reforms notwithstanding, the reform of the National Pension Act in 1998 led not only to the establishment of the NPS as a universal social insurance system via the expansion of its coverage to all citizens, but also sought financial stabilization via the modification of pension receipts, as Joo E. S. (2008: 154) has pointed out.

4.5. Employment Insurance

The EI scheme was introduced in 1995. EI was implemented in South Korea as the most recent social insurance scheme, similar to other welfare states. The first attempt to introduce such a scheme was undertaken by the Park Chung-Hee regime in 1963 under the name of Unemployment Insurance (UI). Due to poor political and economic conditions, however, the scheme was not implemented. The government was concerned about the possibility of unemployment benefits leading to disincentives to work, the erosion of the country's work ethic, and other forms of moral hazard. Consequently, the government took a "safer" way, and the IACI was introduced instead of the UI system (Kwon H. J., 2005b).

Substantive discussions on the UI scheme restarted at the end of the 1970s. The MOL was under pressure from rising unemployment rates, which slowly rose from 5.6% in 1979 to 7.5% in 1980 (MOL, 2007). The introduction of the UI scheme as part of the Fifth Five-Year Economic Development Plan was recommended. However, the UI system went unimplemented in spite of its acceptance and its significance in the debate to mitigate labor market problems. Ruling elites and politicians continued to express their concern over its potential economic consequences, such as decreased motivation to work, the threat of prolonged unemployment, its impact on the underdeveloped industrial structure, and the burden to companies if the UI was introduced (Yoo K. S., 2011; Jeong H. M., 2008). Moreover, the government still perceived unemployment not as a serious social issue, but as an individual problem. After all, in the 1980s, the economy had continued to grow, meaning that willing workers were easily able to find employment on the labor market. In this regard, the government, the labor unions and other interest groups perceived unemployment as a minor social issue and concentrated their efforts more on improving labor conditions at the company and labor rights, such as revising labor acts and increasing wage levels rather than implementing social welfare programs. Only the MOL continued its efforts to introduce the UI scheme.

However, at the end of the 1980s, workers, politicians, and ruling elites acknowledged that unemployment was the result of structural problems on the labor market, such as imbalances in the supply and demand of manpower, support of employment adjustment for industrial restructuring, and reinforcement of vocational training programs. In addition, domestic economic conditions began to worsen in 1989 due to the global economic recession, inflation, labor disputes, and high wage increases. Under these circumstances, unemployment

was becoming a crucial issue in the society. As a political response, the issue of the UI scheme came to the fore, but the concept of unemployment was still perceived quiet negatively. The government changed the scheme's name to Employment Insurance to improve the image of social insurance (Jeong H. M., 2008). The renaming of the insurance scheme is indicative of measures to ameliorate the employment structure and to enhance workers' professional competence under the program. As a result, the EI scheme encompassed vocational training programs, employment stabilization, and other similar programs (Keum eds., 2006: 13-14). However, the EI was not introduced at that time.

The introduction of the EI scheme was seriously debated at the beginning of the 1990s. The government had passed the Seventh Five-Year Economic and Social Development Plan (1992-1996), which involved reforming social insurance systems, improving income distribution, public assistance, and social welfare services, and introducing the EI scheme. In June 1991, the EPB opened a policy consultation meeting with relevant ministries, academic groups, and labor and management representatives to discuss the introduction of EI. A final decision was made at an economic ministers' meeting in August 1991 for implementation by around the mid-1990s. The Korea Labor Institute (KLI) was responsible for formulating the EI scheme. On 18 May 1992, the KLI established the Employment Insurance Research Commission, composed of 28 scholars and observers from the government, business, and labor groups (MOL, 2007; Yoo G. S., 1999: 4). During the National Assembly and presidential elections in 1992, politicians campaigned on the platform of implementing the scheme in 1995. In December 1993, the EI Act was endorsed by the National Assembly and the program was implemented on 1 July 1995, initially at firms with more than 30 workers when president Kim Young-Sam was inaugurated.

The process of the introduction of the EI scheme was led with the MOL and the KLI as central figures. At the beginning of 1994, the MOL began to mediate differences of opinions on key issues concerning EI. However, since its budgetary plan was not part of the government's budget, its realization was financially difficult. Thus, the MOL sought to persuade other ministries to secure such expenses and underscored the initial political promises, addressed by the politicians' commitment during elections to implementation of the EI scheme in 1995. However, the political conditions were not conductive to policymaking in favor of realizing the EI scheme. The MOL recognized how difficult it was to introduce EI with coverage for companies with more than 10 workers. After careful

thought, the MOL considered the possibility of downsizing the scope of its coverage.[18] The MOL wrote a new proposal with redefined coverage for firms with more than 30 workers, under the proviso that coverage would be expanded by 1998 to companies with more than 10 workers in order to gain the political support of labor groups to introduce the EI scheme. As a result, the MOL established a political compromise for coverage (MOL, 2007: 326-7).

The EI scheme was composed of three central programs. First, it instituted employment stabilization to support job creation, employment adjustment, and to increase hiring, job placement and counseling. Second, it included programs for job skills development to encourage employers to offer vocational training to employees, insured workers to strive for self-development, and the jobless to pursue skill enhancement training so as to improve their employability. It also supported lifelong vocational development for all workers so as to prevent them from becoming unemployed and to assist in re-employment. Finally, it offered unemployment benefits, providing cash payouts to the jobless for a certain length of time to sustain their livelihoods, support their job-seeking activities, and enable re-employment (Ahn H. S., 1998; Hur J. J., 2001; Yoo K. S., 2011: 19-33). Each program's coverage was introduced differently. Unemployment benefits began to cover workers in firms with more than 30 employees in 1995, and were expanded to workers at firms with more than 10 employees in January 1998. Job skills development and employment stabilization started to cover workers at firms with more than 70 employees in 1995, and was expanded to workers at firms with more than 50 employees in January 1998 (MOL, 2007: 327). The financial benefits of the EI scheme were expected to encourage employers and employees to develop their job skills and the unemployed to improve their occupational skills to help them re-enter the labor market (Jung and Park, 2011). Participation in these programs gradually increased and coverage expanded year after year.

The dramatic change and development of the EI scheme was threatened by the 1997 financial crisis. After the crisis, the unemployment rate increased rapidly from 2.4% in 1997 to 7.0% in 1998 (Statistics Korea database, accessed in 2013), while the EI scheme covered 31.9% of all workers and 20.6% of all employed persons in 1997 (Kang S. W. et al., 2004: 29). Amid the financial and economic turmoil, the EI scheme was quickly reformed in 1998

[18] At that time, the EI aimed at coverage at firms with more than 10 employees in first drafted plan. Interested actors discussed the optimum level of coverage for more than 5 or 15 employees. Labor groups emphasized the need to first introduce the program at companies with more than 10 workers in 1995 and then to expand to companies with more than 5 workers. Conglomerates called for firms with more than 150 workers initially introducing vocational training programs. Two different opinions were also held among the ministries. While

and rendered comprehensive in order to respond to the growing social risks[19] (see Table 4-6).

Table 4-6. Coverage Extension of the EI Scheme

Date	Unemployment benefit	Job skills development and employment stabilization
1 July 1995	≥ 30 employees	≥ 70 employees
1 January 1998	≥ 10 employees	≥ 50 employees
1 March 1998	≥ 5 employees	≥ 50 employees
1 July 1998	≥ 5 employees	≥ 5 employees
1 October 1998	≥ 1 employee	≥ 1 employee

Source: Ministry of Labor (2001)

This rapid growth was influenced not only by the crisis. The changes were partly brought about by the fact that the IMF demanded a reform of the program, especially to strengthen job training programs and to provide support to the unemployed, as conditions for the financial bailout required by Korea in the wake of the crisis (MOL, 2007: 339-340).

4.6. National Basic Livelihood Security Scheme

The NBLSS was implemented as a new modern public assistance in 2000. It replaced the LPS, which had been in place for about forty years. It was a significant response to the growth of poverty. In addition, the weakness of the LPS as a social safety net was revealed after the 1997 financial crisis (Jung and Park, 2011).

The LPS was characteristically a typical residual and selective welfare program, based on the market-based liberal capitalist mechanism in terms of the self-reliance of beneficiaries and the principle of less eligibility (Hwang G. J., 2006). The LPS was only conducive to the protection of livelihood, and was provided to only two social groups, i.e. the "absolute" poor and those unable to work. It covered a minimum level of relief (Lee I. J. et al., 1999). The entitlement conditions applied to people who were unable to work, and to people aged below

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the Ministry of Commerce and Industry Resources agreed with conglomerates' view, the MOL though that it should be introduced for companies with more than 10 workers (MOL, 2007: 325-6).

18 or over 65 years. The scheme covered allowances for medical care, educational costs, and other limited living costs (Jung I. Y. 2009: 56).

The NBLSS was therefore enacted as a political response to the weak social security system. The critical entitlement conditions of age and the inability to work called for by the LPS were replaced by the provision of security for a minimum standard of living, irrespective of age and the ability to work. The development of the NBLSS was significant for a number of reasons (Jung I. Y., 2009; Kim Y. M., 2006; Lee H. J., 1999; Son K. I., 1999). First, it was designed to guarantee a right to a minimum income, which is a basic civil right for a basic standard of living. The replacement of the term "protection" by "security" is a significant change because it underscores the state's responsibility for social safety and welfare. Second, the scheme represented a transition from residual to institutional welfare. The LPS covered selected groups of people under 18 and over 65, or those unable to work. The NBLSS, however, covers all citizens' earning less than the minimum standard of living. Securing the minimum standard of living by the state is presumed to be a citizen's right. Third, the pay level was extended to include working-age, able-bodied people as the recipient group.

Notwithstanding these improvements, the program suffered from a number of critical weaknesses due to the underlying work-related condition. The Self-Support Program (SSP) that belongs to the NBLSS emphasizes work incentives in order to prevent long-term dependency on public assistance. In other words, recipients who are able to work must become independent from any support from the SSP of the NBLSS within 5 years. It enhances employment incentives for those able to work with the help of a self-support program. Regardless of these advances, there has been no change in opinion that the new system marked a significant development in social welfare policies under the Kim Dae-Jung government.

In fact, the movement of the reform or introduction of a new modern public assistance occurred in the mid-1990s, with citizen groups playing a major role (Jung I. Y., 2005; Kang S. W. et al., 2004; Moon J. Y., 2008). This movement started with a petition for ensuring a minimum national standard of living in 1994. In particular, a non-governmental organization, the People's Solidarity for Participatory Democracy (PSPD), was a central actor in the policymaking process of the NBLSS.

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[19] In spite of the rapid expansion of the EI's coverage, some groups continue to be excluded from covereage, e.g. part-time employees who work less than 80 hours a month, and daily workers who are employed for less than one month.

The PSPD led a social policy movement, called the "national minimum life standard movement" in 1994. The movement drew national attention to the general inadequacy of social policies in a bid to secure a minimum standard of living for all citizens. The small benefits provided within the LPS failed to meet the constitutional right of all citizens' to happiness. The PSPD filed an appeal to the Constitutional Court, but the public lawsuit was rejected (Jung I. Y., 2005; Moon J. Y., 2008; Kang S. W. et al., 2004). Nevertheless, this action helped to draw attention to the minimum standard of living in South Korean society. From 1996 to 1998, the PSPD petitioned for a revision of the Livelihood Protection Act and for the reform of the LPS. This movement continued to petition for the introduction of the NBLSA (Kang S. W. et al., 2004: 33). In spite of these efforts, the implementation of the new public assistance ultimately failed.

However, a political turning point was reached when South Korea faced the 1997 financial crisis. A rapid increase in social risks such as unemployment and poverty resulted in public concern for the need to secure a minimum living. Economically and socially disadvantaged low-income groups grew particularly rapidly, and were to be rescued by way of public assistance (Jung I. Y., 2005: 9). In July 1998, the PSPD, 23 civic organizations, and several members of the National Assembly, including a member of the National Assembly from the ruling party that opposed the NBLSS, petitioned for the NBLSA. The possible legislation of the NBLSS was discussed with the MOHW in order to mediate differences in opinions (Kang S. W. et al., 2004). In March 1999, the Solidarity for Enactment of National Basic Livelihood Security Act (SENBLSA) was organized, comprising 64 citizen organizations, including the PSPD, the KCTU, the KFTU, Lawyers for Democratic Society, the Representative Council for the Religious, and the Association of South Korean Women's Organization. The aim was to gather political support for the promulgation of the NBLSA (Jung I. Y., 2005). Action centered around persuading the Presidential Office, the Office for Government Policy Coordination, the MOL and the MOHW. Second, it focused on education and public relations concerning the benefits of the NBLSS to low-income classes. Third, it sought to on draw attention to the introduction of the NBLSS. However, the enactment movement failed to implement the new modern public assistance again because ministries and politicians insisted that the government was unable to afford any budgetary increases for social expenditure (Kang S. W. et al., 2004; Moon J. Y., 2009).

Under these circumstances, President Kim Dae-Jung delivered a speech in Ulsan on 21 June 1999 that became a critical juncture in the ultimate implementation of the NBLSS (Jung I. Y., 2005; Moon J. Y., 2008, Kim and Kwon, 2008; Kang S. W. et al., 2004; Yeo Y. J. et

al., 2004). President Kim announced, “the basic law for a national basis of livelihood should ensure that the middle class and common people can live in peace.” Before his speech in Ulsan, ministries were against its enactment. The Ministry of Planning and Budget (MOPB) was reluctant on account of its financial difficulties. As such, the ruling party was not in favor of it either. After the President’s announcement, however, ministries and the ruling party changed their stance very quickly. On 22 June, the government immediately convened a meeting of a working group and planned the introduction of the NBLSS among ministries and members of the National Assembly (Moon J. Y., 2009; Kang S. W. et al., 2004). Eventually, in August, the National Assembly passed the NBLSA. In February 2000, the enforcement ordinance and regulations of the NBLSA were announced for implementation.

In the legislative process, the first tentative draft, established by the SENBLSA, was agreed on as the content for general items. In reality, however, ministry agencies had the political power to revise most articles. The MOHW and the MOPB in particular played a decisive role. In doing so, progressive items were omitted from the SENBLSA. The content of the NBLSS was greatly diminished compared to the first draft (Yeo Y. J. et al., 2004). Due to neo-liberal views among the ruling elites, the NBLSS included structural limitations that were criticized in terms of “workfare.” For instance, the pay level was disputed with the SENBLSA in terms of a “suitable minimum standard of living.” Methods of the means test, the construction of administrative infrastructure, housing benefits, and the SSP for “being able to work” interrupted comprehensive coverage under the roof of public assistance (Kang S. W. et al., 2004). However, in short, the introduction of the NBLSS has been praised as an enhanced outcome of public policymaking. President Kim himself commended it as a major achievement during his term (Jung and Shin 2002: 275; Kim and Kwon, 2008).

Chapter 5: Analyzing the Development of the South Korean Welfare State System

The 1997 Asian financial crisis created a variety of changes and challenges in South Korea. It ignited a national debate that was important not only in restructuring the economy, but also in the rapid expansion of social welfare policies. In addition, a change in the government's leadership and the corresponding political debate generated many progressive ideas in policymaking and decision processes. This changed political environment opened the door for the active engagement of civic and labor groups, whose demands and policy preferences were accepted in part in reform processes under the Kim Dae-Jung government. The question, therefore, is how and to what extent the crisis influenced the development of the national welfare system in South Korea. To answer the main research question, this chapter analyzes the interactions and relations among various actors in the aftermath of the 1997 crisis. After dealing with the post-crisis general political, economic, and social policy conditions in Section 5.1, Sections 5.2 and 5.3 address the various actors and their interactions in the context of global and domestic conditions. Finally, Section 5.4 concludes the chapter, outlining the process of the establishment of the welfare state system in South Korea.

5.1 In the Wake of the 1997 Asian Financial Crisis in South Korea

In South Korean society, economic growth stalled, and social problems, such as a growth in unemployment, a rapid collapse of the middle class, and rising crime rates, were dramatically exposed in the wake of the financial crisis of 1997. It was South Korea's most thoroughly penetrating crisis since the Korean War (1950-1953). The general dynamics stemming from the 1997 financial crisis generated not only a significant restructuring of labor and economic markets, but also a political change in favor of genuine democracy and advanced national welfare policies. This section briefly deals with the processes of welfare reforms and restructuring, in relation to the economy, politics, and social welfare.

5.1.1 Changes in Politics, the Economy, and Society in South Korea

Since the establishment of South Korea as a modern state, it had been ingrained with the political values of authoritarian and military rule. In politics, a conservative party retained hegemony in the National Assembly and in policymaking and decision processes until the 1997 financial crisis, when the political leadership changed democratically for the first time in South Korean history. Democratic change was made possible because structural problems and the accumulated effects of economic mismanagement under previous governments were brought to the fore by the crisis (Kim B. K., 2003). In particular, economic mismanagement was related closely to the *chaebols*, which dominated the domestic market of South Korea. Their close relationship to the government resulted in the establishment of an unhealthy market structure, i.e. a monopoly of *chaebols*. It was necessary to restructure the economy. However, this was no easy matter because the country's economic problems were entwined with a number of other issues. These included corruption in the economy and politics, stakeholder power, the restructuring of domestic firms (especially *chaebols,* which were too big to be adequately regulated by the government), and bureaucratic politics. Against this backdrop, the new democratic government led by President Kim Dae-Jung carried out reforms to overcome the 1997 financial crisis and changes in politics, the economy, and welfare policies.

The Economy and the 1997 Financial Crisis

When the economy slid into deep recession following the 1997 crisis, society was faced with multiple challenges. Above all, economic development was halted and the economy registered negative growth in the year when the crisis hit. Real per capita GDP growth after the crisis dropped from 4.5% in 1997 to -6.7% in 1998 (World Bank, 2000: 53, see Table 5-2).

The effects of the crisis became clearly evident with the bankruptcy of Hanbo Steel – one of the top *chaebols* – at the beginning of 1997. In fact, its insolvency sent shock waves through the domestic economy. Until the crisis, *chaebols* were deemed "too big to fail," but following Hanbo, six more of the top 30 *chaebols* went bankrupt in 1997. South Korea was thrown into economic turmoil and the government applied to the IMF for a bailout in December 1997. The crisis created financial problems due to the country's overreliance on

foreign capital. In addition, the structural problems in the economic system of South Korea were considered one of the main causes of the financial crisis. However, it is all too easy to explain the causes of the crisis merely in terms of the high ratio of short-term foreign debt and a number of *chaebol* bankruptcies (Chang H. J., 1998: 1557). Why was the crisis able to take hold in South Korea?

The common explanation is that the general causes of the onset of the crisis were a high level of foreign debt, problems of moral hazard and crony capitalism, mismanagement of the banking sector, and financial liberalization (Kim B. K., 2003; Lim W., 2003; World Bank 2000; Woo-Cumings, 2000; Yang J. J., 2002). It was revealed, for instance, that one of the central problems was political corruption, which had facilitated the rapid growth of *chaebols*. In the case of Hanbo Steel, the President's son, Kim Hyeon-Cheol, and government officials were allegedly involved in Hanbo's controversial entry into the steel industry and in the extension of low-rate loans, even though the firm had developed a well-managed financial and business system (Chang H. J., 1998: 1556). In fact, companies and politicians had started developing an unhealthy relationship at the onset of rapid industrialization. As a result, structural problems arose and became more entrenched in the economic system.

As their economic development strategy, authoritarian governments especially regulated investments in the automobile, steel, semiconductor, and shipbuilding sectors. This was made possible by the government's involvement in banks' decisions to provide funding to firms, which Stiglitz (1999: 2) criticized as the nature of market failures when the government strongly controls the market. The government forcefully controlled the banks, which in turn cultivated close ties with the government and politicians so as to receive privileges. Building personal connections with politicians and government officials became a major source of patronage for conglomerates. Consequently, these connections enabled firms to receive credit without formal deposit insurance. As a result, growing structural problems, moral hazard, high debt rates, and economic mismanagement became entrenched in and reinforced the complex relationship among political economic actors, more precisely known as cronyism (Chang H. J., 2000: 775; Stiglitz, 1999: 2).

The World Bank (2000) also saw moral hazard as a main cause of the 1997 financial crisis in Asian countries. As Woo-Cumings (2001: 361) emphasized, "late" developing or "new" industrializing countries focus more on "results-oriented" strategies rather than on "rule-oriented" policies, leading to the structural vulnerability characteristic of most development paths. In this context, the case of South Korea had such a developmental path with the growth of *chaebols*. In the absence of transparent institutions and processes,

chaebols were able to rapidly expand, diversify in various sectors, and dominate domestic markets. Meanwhile, the state developed a way to execute Park's goal of achieving rapid economic development. In addition, there was another notable point that facilitated the establishment of an unfair market system. Given close state-business ties and the inefficient mechanisms of control over *chaebols*, there was no way to assign responsibility for business failures (Kihl Y. W., 2005). Against this backdrop, the restructuring of corporations involved the need not only to overcome the financial crisis, but also to enact fundamental structural reforms in the South Korean economy. How were these structural problems ingrained in the economy?

The South Korean economy grew without a capitalist class. After the Korean War and until the 1960s, it depended on foreign aid and then on foreign loans in the late 1970s and the 1980s. Authoritarian governments strongly regulated economic policies with *chaebols* in order to achieve tangible economic results. Conglomerates had to rely on credits from banks firmly controlled by the state. Such an arrangement compelled corporations to endeavor to maintain good relations with the government. However, such complex and close relationships among the government, businesses, and banks negatively influenced restructuring processes, because small changes in the economic system could dramatically affect resource allocation (Woo-Cumings, 2000: 17-8). As Lim W. (2003: 48) explained, "the economic power of the *chaebol* could be converted to political power, seriously distorting the political as well as the resource allocation process." After the 1979-80 economic crisis, the Chun Doo-Hwan government attempted to restructure the *chaebol* system that took shape under Park Chung-Hee's rule. However, all attempts ultimately failed. *Chaebols* even diversified within the financial sector, creating affiliate finance companies. Ownership of the banking sector by the top 30 *chaebols* increased by about 30% in 1988 (Lee C. H. et al., 2000: 13).

In the 1980s, the relationship among the government, *chaebols*, and banks was weakened by the liberalization of the financial market. At the early stages of economic development in the 1960s and 1970s, the government controlled financial instruments such as interest rates and credit allocation (Hahm J. H., 2003: 79-81). Commercial banks were nationalized during Park Chung-Hee's term to effectively implement economic growth strategies. At the beginning of the 1980s, however, privatization of commercial banks provided South Korean non-bank financial institutions, such as insurance companies, regional banks, and securities companies, with alternative financing sources, especially by *chaebols* (Hahm J. H., 2003). At the beginning of the 1990s, the Kim Young-Sam government accelerated financial liberalization and allowed the indiscriminate allocation of

loans to *chaebols* (Lim and Jang, 2006: 15-6). One crucial problem in this liberalization process of the financial market was not the adequate supervision of commercial banks, but of merchant banks (Lee C. H. et al., 2000: 23). Non-bank financial institutions were not adequately supervised, in spite of the increasingly important role they played in the financial market (Hahm J. H., 2003: 91). Indeed, loans and discounts by non-bank financial institutions increased from 36.7% in 1980 to 63.5% in 1995 (and 62.1% in 1998); at commercial banks, they decreased from 38.8% in 1980 to 23.9% in 1995 (and 27.9% in 1998) (Hahm J. H., 2003: 85). In these circumstances, problems of moral hazard and mismanaged financial markets were intensified.

However, following South Korea's democratic transition in 1987, governments not only focused on economic growth, but also attempted to regulate economic concentration in order to enhance economic democracy. The Roh Tae-Woo and Kim Young-Sam governments developed restructuring plans in corporate sectors and made unsuccessful policy efforts to lessen the economic dominance of *chaebols* (Mo and Moon, 2003). Eventually, support from the government led to high indebtedness and poor financial performance (Haggard, Pinkston and Seo, 1999: 208). The unsuccessful efforts to reduce *chaebols*' economic dominance by previous governments were dramatically revealed in the crisis period prior to Kim Dae-Jung's election and collapsed under his government.

The newly elected Kim Dae-Jung government launched political restructuring programs, which focused on financial, corporate, labor, and public policies. These policies were also addressed by the IMF in the context of three agendas: domestic austerity programs, further liberalization, and the reform of corporate governance (Republic of Korea, 1997). One key restructuring task was to reform the financial sector, which was closely related to the corporate sector. The government sought to shut down unviable commercial banks and non-bank financial institutions and to force mergers and acquisitions in business sectors. In addition, the government stepped back from the bank decision-making process, limiting its role to supervising financial institutions (Shin and Chang, 2003: 56-7).

In the corporate sector, the reform of *chaebols* was critical to overcoming the crisis. Indeed, even before the presidential election, candidate Kim Dae-Jung met *chaebol* leaders to discuss restructuring issues. Reform plans could not be implemented without the support of *chaebols*; overcoming the crisis required restructuring the economic system, which would negatively influence the *chaebols*' management. Once elected, President Kim first attempted to conclude a negotiated deal with *chaebol* leaders over five principles of corporate restructuring: (1) the enhancement of accounting and managerial transparency; (2) resolution

of "mutual debt guarantees among *chaebol* affiliates"; (3) the improvement of financial structures; (4) the streamlining of business activities; and (5) the strengthening of accountability among managers (Mo and Moon, 2003: 128). According to Haggard, Pinkston, and Seo (1999: 203-4), the implementation of the restructuring programs under the Kim Dae-Jung government was made possible not only on account of the economic turmoil, but also due to the skillful and practical exploitation of political power by the President despite his criticism regarding the implementation of neo-liberal reform policies.

Politics and the 1997 Financial Crisis

The crisis became a political turning point along with the presidential election in South Korea on 18 December 1997, since a conservative party dominated the government and the National Assembly. In fact, the June Democracy Movement of 1987 overthrew the dictatorship and facilitated a transition from authoritarianism to democracy simply by conducting the first direct presidential election. Notwithstanding the democratic opening, involving increased activity by civic and labor groups, the political transition to democracy failed to meet popular expectations. The reason for this failure was generally explained in the context of regional antagonism (Choi Y. J., 2002), which meant that politicians based their political support on regions, among Gyeongsang (southeast), Chungcheong (northwest), and Jeonla (southwest) provinces. According to Croissant (2002), regional antagonism had played a crucial role in South Korean politics and also influenced the election results since the 1987 presidential election. In a similar vein, Choi Y. J. (2002) stressed that regional antagonism had ordinarily been used as one of the political strategies under authoritarian governments. Why is it that regional antagonism has played such a special role in South Korean politics?

Regionalism-based politics began under Park Chung-Hee's rule. President Park gave priority to developing the Gyeongsang region, which was his home province, and ensured that people from Gyeongsang held key positions in the inner power circle of the government (Croissant, 2004a: 368-70). However, regional antagonism did not appreciably emerge until 1987. It became a decisive part of South Korean politics by the 1987 presidential election, when it was exploited in a bid to win votes. In the electoral campaign, there was a heated triangular competition among Kim Young-Sam, Kim Dae-Jung, and Roh Tae-Woo. Kim Young-Sam and Kim Dae-Jung were both leaders of the opposition against the previous military regimes. However, the two Kims divided their supporters into different parties – the

PPD was led by Kim Dae-Jung and the RDP by Kim Young-Sam – when running in the election. Ultimately, coalition or political negotiation between the two progressive politicians would have been necessary for them to win the election against Roh Tae-Woo, a soldier who inherited political power from Chun Doo-Hwan's military regime. Nonetheless, the negotiations failed between the two opposition leaders, and this resulted in the division of opposition-supporting voters into separate camps. Shin K. Y. (2007: 128) noted that this occurred because the prime motive of both politicians was to win the election, rather than to bring about democratic reforms. In the rivalry between the two Kims, regional differences further manifested themselves and deepened between the southwest (Jeonla) provinces that constituted Kim Dae-Jung's support base and the southeast (Gyeongsang) provinces that rallied behind Kim Young-Sam. As a result, Roh Tae-Woo was elected with 36.6% of the vote; Kim Young-Sam obtained 28% and Kim Dae-Jung 27%. The election results proved that the division between the main opposition parties led to a failure to establish a "democratic government" (Han S. J., 1988). According to Kim S. S. (2013), regionalism has been ingrained in politics as one of the dominant impacts on elections since the 1987 presidential election, in which citizens' hopes were dashed and the result was contrary to citizens' expectations.

Regionalism-based politics was also exposed in the 1992 presidential election. Kim Young-Sam led a merger of three parties – the DJP of Roh Tae-Woo, the RDP of Kim Young-Sam, and the NDRP of Kim Jong-Pil – into the DLP. Although Roh Tae-Woo won the presidential election, he had little power with a minority ruling party in the National Assembly, even if Kim Jong-Phil's party supported him. Thus, the ruling party sought to bolster his weak position. Kim Young-Sam had the second largest vote in the 1987 presidential election, but his party received only 59 seats in the National Assembly, which was the second largest opposition party and thus had no chance of winning the election (Shin K. Y., 2007: 128-130). Kim Young-Sam allied his party with the ruling party of Roh Tae-Woo to avoid being shut out of power altogether (Lee H. Y., 1993). In doing so, Kim secured the support of Gyeongsang and Chungcheong provinces as well as of the ruling party; this eventually enabled him to win the presidential election of 1992.

Meanwhile, regionalism did not just signify region-based politics, but also involved ideological conflicts between democratization and anti-democratization (Choi J. J., 1996; Croissant, 2004a). Since his early political activities at the end of the 1950s, Kim Dae-Jung had led opposition movements that were in favor of political reform and democracy. His efforts thrived in politics while, in the political climate that witnessed his rise to prominence

and the expansion of democratic movements under authoritarian regimes, the ruling juntas felt threatened and moved to diffuse his political power. Especially Kim Dae-Jung caused the Kwangju Uprising of May 1980,[20] and this cemented the strong political connection between Kim Dae-Jung and the Jeonla provinces. In these circumstances, his political background and regional affiliation with the Jeonla provinces where he was born took on a symbolic meaning against the governing conservative party. In other words, while the government used regionalism as a political strategy to put pressure on the pro-democracy movement, regional support for Kim Dae-Jung became a pro-democracy movement, especially in the Jeonla provinces. As a result, the political strategy of playing regional differences for political power was repeatedly used in elections, and a conservative party was responsible for the domination of the National Assembly for almost 30 years. Given this background, Kim Dae-Jung's election victory in 1997 carried a significant political meaning for democracy, because it constituted the transfer of power from a conservative authoritarian party to a minority opposition (Kwon and Holliday, 2007; Shin D. M., 2003).

However, the dynamics of regional voting changed little. Kim Dae-Jung also formed a coalition with another opposition candidate, Kim Jong-Pil, who participated in General Park's military coup in 1961 and remained a member of the authoritarian regime, with his support coming from the Chungcheong provinces. In spite of his democratic credentials, Kim Dae-Jung's political alliance brought him under fire from his erstwhile allies, particularly civic and labor groups, and proved to be a hindrance in eradicating the legacies of authoritarian politics. According to Shin K. Y. (2012: 299), however, his political alliance with the leader of the ULDP was a pragmatic election strategy because both parties had political bases that were too small to win the presidential election separately. Against this backdrop, in spite of difficulties with initial reforms to manage social consultation, President Kim Dae-Jung accepted the progressive policy agendas put forward by civic and labor groups,[21] the main forces behind his victory.

To sum up, the change of political leadership was a decisive factor in deepening democratization. In South Korean political culture, strong leadership influenced politics and political institutions in which the ruling party and elites monopolized policy decisions.

[20] After the assassination of Park Chung-Hee, Chun Doo-Hwan staged a coup and attempted to restore the *Yushin* rule in a power vacuum. Demonstrations were staged against the military coup and Kim Dae-Jung was arrested for provoking national insurrection in which Kwangju, the capital of the home province of Kim Dae-Jung, was also implicated (Park S., 1998) and was followed by the massacre of civilians.

President Kim Dae-Jung brought a progressive political ideology to his administration and restructured the policymaking and decision processes that had previously been monopolized by the ruling elites (Kwon and Holliday, 2007: 244-5). A consultative group – a labor, business, and government commission – was established under his office to promote social cohesion. Kwon and Holliday (2007: 255) described the establishment of the Tripartite Committee (TC) as "a shift to corporatist decision making." The TC concluded a total of 90 agreements for structural adjustments in labor, industrial, and social welfare policies. Regarding changes in politics and other sectors, the victory of Kim Dae-Jung has often been interpreted as the first genuine democratic government since the establishment of a modern nation in South Korea.

Increasing Social Problems after the 1997 Financial Crisis

A total of 7,643 firms went bankrupt amid the crisis from November 1997 to April 1998. Small and medium-sized corporations were most likely to be affected (Chang Y. S., 2009: 112). The unprecedented insolvencies of firms resulted in rapidly rising levels of unemployment, and a bottleneck in managing these bankruptcies brought on wage reduction. This directly influenced the life circumstances of thousands of people.

One major problem was the rapidly increasing unemployment rate. Before the crisis, the labor market generally achieved full employment and the idea of "welfare through work" remained valid (Ahn B. Y., 2009). However, the 1997 crisis broke South Korea's "Golden Age" of market stability, i.e. low inflation and low levels of unemployment. Table 5-1 shows the rapid increase in the unemployment rate following the crisis: unemployment rose from 2.6% immediately before the crisis to 5.6% at the beginning of 1998, and grew dramatically to 8.4% one year later. In 2000, when South Korea had overcome the crisis, the rate of unemployment fell to 3.8%. In addition to unemployment, poverty also increased rapidly, from a rate of 8.6% in 1997 to 19.2% in 1998 (see Table 5-2). In other words, the crisis resulted not only in a loss of jobs and declining wages, but also in weakened middle class families (Kim and Moon, 2000: 69-70).

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[21] The increasing support for the democratic movement, particularly after the June Democracy Movement of 1987, opened up a close socio-political connection, and civic groups in a coalition with other civic organizations, religious, and labor groups influenced political elections more and more (Kim H. R., 2004).

Table 5-1. The unemployment rate in South Korea, 1996-2008 (%)

1996	1997	1998 (Q1)	1998 (Q2)	1998 (Q3)	1998 (Q4)	1999 (Q1)	1999 (Q2)	1999 (Q3)	1999 (Q4)	2000 (Q1)	2000 (Q2)	2008
2.0	2.6	5.6	6.8	7.4	7.4	8.4	6.6	5.6	4.6	5.1	3.8	3.2

Source: Ministry of Labor (2004b); Statistics Korea (accessed 28 April 2015).

Table 5-2. The poverty rate in South Korea, 1996-1998 (%)

	1996	1997	1998
Real per capita GDP growth		4.5	-6.7
Poverty (urban)	9.6	8.6	19.2

Source: World Bank (2000: 53).

Other social problems, such as income inequality, crime, and divorce, soared as well. During the period of the financial crisis, the traditional family structure and its functioning also changed. For instance, the divorce rate rose from 1.7% in 1996 to 2.5% in 1998, and domestic violence and abandonment of the elderly and children greatly rose in conjunction with family dissolution. Furthermore, socially negative behaviors such as alcoholism, home runaways, and suicide worsened (Seong K. R., 2002: 504-5). The crisis thus induced not only a deepening economic crisis at the national and individual level, but also the division and dislocation of entire social and individual lives previously unprecedented in South Korea.

In the face of unrelenting social problems, South Korean society recognized that unemployment could no longer merely be seen as an individual problem, but as a structural problem in a mismanaged economic and political system. Private social safety nets acting as welfare programs did not function because the national economy faced a more serious crisis than it ever had before. Such conditions induced citizens' need for national welfare systems.

5.1.2. Social Welfare Reforms: Towards an Institutional Social Welfare System

Until the onset of the Asian financial crisis of 1997, a mantra of "growth first, distribution later," i.e. a welfare policy paradigm of "welfare through work," was dominant in South Korea (Ahn B. Y., 2009: 233). However, the Kim Dae-Jung government, brought in by the crisis, instigated a new paradigm of social welfare policies.

5.1.2.1. General Welfare Conditions in South Korea

Welfare systems are generally understood in two ways: they are based on either public or private funding. As Table 5-3 shows, Sweden and Germany have high levels of gross total social expenditure and public welfare compared to other countries. The share of public welfare was 94% in Japan, which was higher than in the UK and the USA, but the percentages of gross total social expenditure and gross total private social expenditure were lower than for both European countries. This meant that the coverage of the Japanese social welfare system was still more limited than that of other countries. The share by the Japanese government decreased further, from 94% in 1997 to 86% in 2001. The government's diminished share was a general tendency in welfare policies, as Table 5-3 shows. However, this change did not apply to all cases, because South Korea increased the role of its government in welfare policies remarkably, from 50.7% in 1997 to 68% in 2001. Nevertheless, Sweden and Germany still maintained a higher average of social expenditure than other countries, and these countries' public outlays as a share of total social expenditure is higher as well. In this regard, a welfare state is understood as a state that has taken some responsibility for social welfare policies. However, the extent of the responsibility taken by the state is debatable. Table 5-3 shows different countries' levels of social expenditure, which are closely related to economic and political conditions and cultural values in the given society.

Table 5-3. Gross total social expenditure in an international comparison, 1997 (2001) (% of GDP)

	Sweden	Germany	S. Korea	Japan	USA	UK
Gross public social expenditure	31.8 (29.1)	26.4 (27.2)	4.3 (6.0)	14.0 (18.6)	14.7 (15.8)	21.2 (20.6)
Gross mandatory private social expenditure	0.4 (0.4)	1.2 (1.1)	2.4 (0.7)	0.5 (0.5)	0.4 (0.4)	0.4 (0.8)
Gross voluntary private social expenditure	2.6 (2.5)	1.0 (1.8)	1.8 (2.2)	0.4 (2.5)	7.8 (9.7)	3.4 (5.3)
Gross total social expenditure	34.8 (32.0)	28.6 (30.1)	8.4 (8.8)	14.9 (21.6)	22.9 (25.9)	24.9 (26.7)
Public share in gross total social expenditure	91.4 (90.9)%	92.3 (90.4)%	50.7 (68.0)%	94.0 (86.0)%	64.3 (61.0)%	85.0 (77.1)%
Private share in gross total social expenditure	8.6 (9.1)%	7.7 (9.6)%	49.3 (32.0)%	6.0 (14.0)%	35.7 (39.0)%	15.0 (22.9)%

Source: OECD database (accessed in April 2015)
Note: Gross indicators include taxes and social contributions (social security contributions and contributions to private institutions, i.e. private funds and NGOs) and gross expenditure represents social benefits before taxes (Adema, 2001: 8).

In the case of South Korea, as Table 5-3 shows, social expenditure was the lowest in public welfare, but the highest in private welfare in 1997. However, as Table 5-4 shows, social expenditure increased in public welfare, while private welfare decreased. Moreover, in 2001, the percentage of social expenditure was higher in public and lower in private welfare than in the USA (see Table 5-3). Remarkably, the significant increase in social expenditure started after the 1997 crisis, which counters the neo-liberal assertion that market-driven globalization renders social policy marginal in economic development (Kwon H. J., 2009). Although gross total social expenditure decreased from 9.2% in 2003 to 8.7% in 2005, the role of the government generally increased in welfare policies, as Table 5-4 shows.

Table 5-4. Gross total social expenditure in South Korea, 1997-2011 (% of GDP)

	1997	2001	2003	2005	2011
Gross public social expenditure	4.3	6.0	6.1	6.4	9.0
Gross mandatory private social expenditure	2.4	0.7	0.6	0.6	1.2
Gross voluntary private social expenditure	1.8	2.2	2.5	1.7	1.4
Gross total social expenditure	8.4	8.8	9.2	8.7	11.6
Public share in gross total social expenditure	50.7%	68%	66%	73.6%	77.6%
Private share in gross total social expenditure	49.3%	32%	34%	26.4%	22.4%

Source: OECD database (accessed in April 2015).

Table 5-5 gives a breakdown of social expenditure in South Korea. Public welfare is divided into social welfare services such as housing and child welfare, social insurance programs, and public support, including public assistance. Most social expenditure is linked to national social insurance schemes, which shrank after the 1997 crisis and then expanded again in 1999. Private welfare is divided into corporate and private welfare services. In general, total social expenditure grew, and was complementary to public and private welfare policies. On the one hand, public social expenditure decreased in 1997 and 1998, reflecting the need to recover from social and economic turmoil; on the other hand, it was synchronized to expand company-based welfare programs to compensate for the decline in public support (see Table 5-5). After 1998, company-based welfare programs declined from 44.8% to 28.9% of the total, and public welfare services, social insurance, and public support increased. This growth indicates that the government took greater social responsibility and began to oversee the expansion of the national welfare system.

Table 5-5. Breakdown of social expenditure in South Korea, 1996-2001 (%)

	1996	1997	1998	1999	2000	2001
Company-based welfare [1)]	25.9	33.4	44.8	28.9	38.0	28.9
Private welfare services	0.3	0.3	0.3	0.4	0.6	0.7
Public welfare services [2)]	16.2	15.2	12.0	15.0	14.0	14.0
Social insurance [3)]	49.6	44.0	37.7	48.6	39.5	45.4
Public support [4)]	8.0	7.1	5.2	7.1	8.0	11.0

Source: Koh et al. (2003: 113)

Notes: 1) Compulsory, retirement allowance, maternity leave benefits, and sick leave benefits
2) In-facility protection, in-house protection, workers' welfare
3) Pension, health protection, industrial accident insurance, employment insurance
4) Public assistance, refugee protection, disaster relief aid

Public welfare programs were mainly provided by the government and, in part, by non-profit organizations such as religious groups and civic organizations that acted as representatives in the implementation of welfare services (Kim J. W., 2007). Welfare facilities of religious foundations received over 55% of their total funding from government subsidies (Koh K. H., 2006: 69). As Table 5-5 indicates, social expenditure by the government mostly centered on social insurance. The rate of social expenditure for social welfare services decreased from 16.2% in 1996 to 14.0% in 2001. Indeed, government subsidies to religious foundations increased by 0.3% between 2001 and 2003, but financial support from religious groups decreased from 12.0% in 2001 to 10.6% in 2003. In contrast, the financial commitments of non-profit organizations and citizen groups increased from 14.9% in 2001 to 16.4% in 2003 (ibid.: 69). It seems that the role of religious groups experienced no significant increase, although they managed welfare facilities and welfare activities that continued to focus on poverty alleviation. On the other hand, the increasing engagement of citizen groups in the 1990s is noteworthy. According to Kim Y. M. (1999), this change accelerated in the 1990s with the expansion of labor and citizen movements and with the transition to democracy triggering their active engagement and ideas for welfare reform. The remarkable impact of citizen groups was visible in the introduction process of a modern public assistance system, which was enacted in 1999 (this will be explored in further detail in Section 5.3).

Private welfare is composed of company-based and voluntary welfare. It is provided by companies, non-profit or non-governmental organizations, and individuals such as families and relatives (Kim J. H. et al., 2004: 17). As Table 5-5 shows, the high level of company-based welfare in private welfare is remarkable. Company-based welfare accounted for the biggest share of private social expenditure in South Korea. This signifies that the idea of "welfare through work" was in function. Company-based welfare schemes covered workers belonging to the company, including their family, but coverage depended on the size of the company. Large-sized enterprises could more easily afford to provide welfare programs than small and medium-sized enterprises, which offered fewer programs or less labor welfare. Kim J. H. et al. (2004) stated that the reason for the development of company-based welfare systems was not a drive to provide a social safety net, but the desire

to control labor and promote production growth, all in a context of underdeveloped national social welfare programs.[22]

Tables 5-6 and 5-7 illustrate expenditure rates by company size. The nature of company-based welfare programs depended on the size of companies, because companies offered welfare programs for productivity maintenance and sustainable growth. In 1997, public social expenditure accounted for 50.7% of gross total social expenditure (see Table 5-3), which implies that companies provided crucial welfare services for their workers, playing an important role in the social safety net in South Korea at that time.

Table 5-6. Growth in implementation rates of mandatory social expenditure in enterprises (%)

	NHI		IACI		Pension		EI	
Year	SMS	LS	SMS	LS	SMS	LS	SMS	LS
1986	98.7	99.4	85.5	90.9	-	-	-	-
1990	99.1	99.3	87.4	89.0	98.1	99.4		
1995	97.7	100.0	84.3	85.0	99.1	99.8		
2000	99.7	100.0	96.4	98.1	99.7	99.8	97.3	98.8

Note: SMS = small and medium-sized enterprises, LS = large enterprises
Source: Kim J. H. et al. (2004: 58)

As Table 5-6 shows, mandatory welfare expenditure rates increased to over 96% regardless of the size of the company by 2000. The coverage of social insurance is not fully related to the size of the company, because social insurance programs are managed by the national welfare system. In addition, the national welfare system had been transformed into an institutional one after the 1997 crisis, so social insurance policies were expanded to an unprecedented degree and most employees became covered. There was a minor coverage gap between small and medium-sized enterprises vis-à-vis large enterprises, but it was not dramatic, unlike the voluntary company-based welfare.

As Table 5-7 shows, the voluntary company-based welfare schemes were significantly associated with the size of the company. Workers in large enterprises received more welfare benefits than those in small and medium-sized enterprises. The benefits are

[22] During the Japanese colonial period, South Korea had insufficient time to develop a modern welfare system but, at the same time, faced strong ideological opposition to communism. Moreover, South Korean ruling elites abused liberalism, holding it out as a contrary ideology against North Korea. In doing so, policy

broken down into encouraging savings, student grants, an intra-company labor welfare fund, funded childcare costs, and vacation. These benefits were twice as large for workers in large enterprises compared to those in small and medium-sized enterprises. Some financial aid from the company-based welfare schemes particularly affected household financial assets, such as low-cost housing, health care, and student grants. South Korean cultural values place great meaning on having a house and a good education, so people save money to buy a house and to invest in education for the next generation. On the other hand, however, health care benefits decreased regardless of the size of the company. It appears that as the NHI program has developed its coverage, companies needed to offer fewer benefits for health care. One remarkable point is company-based welfare expenditure on student grants; while up to 82.7% of those employed at large enterprises received this benefit, only 36% of those at SMS received student grants. South Korean society heavily invests in education (Seth, 2002), meaning that student grants have a great influence on household finances. As Mok K. H. (2003) highlighted, governments in East Asian countries, especially tiger countries, set out to establish an educational system as a foundation to strengthen the competitiveness required for economic development. In these circumstances, such company-based welfare programs resulted in polarization among labor groups and divided them by the size of the company. Those employed at large enterprises were able to retain their welfare programs and focused more on the improvement of labor conditions than on a comprehensive structural restructuring of labor rights in relation to social welfare. In doing so, these groups adhered strongly to the idea of "welfare through work" in society.

initiatives in social welfare were generally interpreted as political grievances against the regime (Woo M. S., 2007: 166).

Table 5-7. Growth in the implementation rate of voluntary social expenditure at the company (workers receiving the benefit as % of all workers in the firm)

Welfare program	Low-cost housing		Health care		Meal benefits		Cultural and leisure benefits	
Year	SMS	LS	SMS	LS	SMS	LS	SMS	LS
1986	21.0	45.8	66.6	81.3	77.1	88.3	61.2	83.6
1990	20.8	44.7	63.6	82.0	86.4	91.2	61.2	84.0
1995	24.6	47.8	59.0	77.7	81.0	83.7	49.5	71.3
2000	23.8	45.1	48.2	72.5	75.4	83.3	38.9	61.0

Welfare program	Insurance benefits		Family event		Encouraging savings		Student grants	
Year	SMS	LS	SMS	LS	SMS	LS	SMS	LS
1986	19.1	27.3	77.8	95.8	17.9	40.1	33.8	74.7
1990	21.5	30.5	84.3	94.8	20.8	40.9	53.7	86.8
1995	17.9	25.3	72.3	91.7	10.2	29.3	42.5	84.4
2000	18.0	31.6	73.2	91.3	2.7	9.2	36.6	82.7

Welfare program	Intra-company labor welfare fund		Cost benefit of childcare		Vacation benefits		Employee stock ownership	
Year	SMS	LS	SMS	LS	SMS	LS	SMS	LS
1992	10.1	18.9	1.2	3.4	23.7	53.2	2.5	4.4
1995	5.5	17.3	1.5	2.8	17.9	50.1	0.9	3.2
2000	4.8	12.5	1.3	6.8	15.2	39.0	1.1	1.7

Note: SMS = small and medium-sized enterprises, LS = large enterprises

Source: Kim J. H. et al. (2004: 59)

As Table 5-7 shows, most forms of benefit have decreased with regard to coverage[23]. One crucial point is that, while gross mandatory private social expenditure increased from 2.4% in 1997 to 2.5% in 2003, gross voluntary private social expenditure decreased from 1.8% in 1997 to 0.2% in 2003 (see Table 5-4). On the other hand, total social welfare expenditure in

[23] The benefits for family events at small and medium-sized enterprises is an exception to this. However, the average benefits were still higher at large enterprises so it seems that small and medium-sized enterprises attempted to offer a difference.

South Korea increased over the same period. Gross public welfare expenditure increased from 4.3% of GDP in 1997 to 6.0% in 2001 and to 6.5% in 2003. It seems that company-based welfare systems contributed more to national social insurance systems. Still, social expenditure by the government was not as high as other welfare expenditure because private welfare was replaced by public outlays. Total private social expenditure fell to 25.8% of total social expenditure in 2007, while gross public social expenditure increased. In other words, the pattern of welfare policies changed in the aftermath of the crisis; the role played by South Korea's government in social welfare grew in importance, while that assumed by private actors diminished.

5.1.2.2. Salient Outcomes of Structural Reforms in the National Welfare System

Amid unprecedented and increasing unemployment in the 1997 financial crisis, the functioning of the welfare system was put to the test like never before. The Kim Dae-Jung government established the Quality of Life Promotion Committee under the Presidential Secretariat (QLPCPS) to implement policy ideas and propose a philosophy for the reform of welfare policies, which came to be known as "productive welfare." During his term, the national welfare system underwent radical institutional expansion.

Productive Welfare: A Transformation of the Welfare Paradigm under the Kim Dae-Jung Government

The idea of "productive welfare"[24] was one of three central tenets – along with democracy and a market economy –[25] the Kim Dae-Jung government stressed and it became a central

[24] The concept of "productive welfare" by the Kim Dae-Jung government is unrelated to and precedes the concept of Holliday (2000), who presented a concept of the "productivist welfare regime/capitalism" (this will be addressed in greater detail in Section 5.2). Holliday's concept posited that East Asian countries neglected the development of the welfare system because of economic growth strategies. Instead, welfare policies were used as strategies for broader economic and political policies, so the welfare system was developed restrictedly. However, President Kim described "productive welfare" in the context of the harmonized development of social welfare and the economy as a whole.

[25] Kim Dae-Jung presented a concept of the "democratic market economy." He argued that economic development was mainly pursued by the past governments that were based on an authoritarian political system, so democratic ideas were neglected and unhealthy institutional mechanisms were established, in particular corruption. In this regard, the "democratic market economy" uses democracy to help to create transparent and sound institutions and "produces the motivation necessary for developing a market economy" (Kim Dae-Jung, 1999: vi). According to President Kim, "a democratic political system and a market economy

guiding idea in social welfare policy reforms. This concept of productive welfare was based on the notion of the integrated, parallel development of both democracy and a market economy. It sought to avoid a dichotomous debate on "market vs. welfare," or "growth vs. distribution" in favor of a complementary, cooperative relationship and a balance between sound income distribution, growth, and welfare in the market (QLPCPS, 2002). In this regard, the concept of productive welfare emphasized the political objectives of welfare policies.

The welfare paradigm of productive welfare by the new government promoted four strategies to accomplish its goals: (1) fair primary distribution through the market; (2) redistribution through the government; (3) social investment in an overlapping area of the government and the market to promote self-reliance; and (4) the establishment of a foundation for the promotion of quality of life (QLPCPS, 1999; 2002: 28-31). Furthermore, the government presented three central issues in welfare reform policies: (1) securing a minimum living standard, which included reform of social assistance and national social insurance schemes and expansion of social services; (2) welfare through work, which was related to employment creation, the enlargement of labor welfare programs, the development of labor-management relations, and the promotion of female economic activity, which in turn was intended to promote self-support and self-reliance; and (3) improvement of the quality of life for all citizens, which meant not only the expansion of welfare programs or budgets, but also the improvement of economic systems, health systems, cultural benefits, and environmental safety (QLPCPS, 1999; 2002: 31-5). The government went about securing citizens' lives in a way that changed the idea of welfare from a residual to an institutional system in the sense of social rights. The policy goal of productive welfare entailed a "great transformation of the welfare paradigm"[26] (QLPCPS, 1999, 2002). The announcement of these policy reform principles initiated a vigorous debate on various welfare paradigms in South Korea. Previous governments had also dealt with the development of the welfare state, but their efforts never turned out to be major subjects of social and political discussion. The declaration of the policy principles issued by the QLPCPS and the subsequent expansion of

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are as inseparable as two wheels of a cart. They are essential for creating a sustainable and dynamic society" (Kim Dae-Jung, 1999: vi). The concept of a democratic market economy by Kim Dae-Jung was contrasted with the concept of an authoritarian bureaucratic economy, which Kim criticized for its lack of democratic decision-making processes (Kim J. B., 2012). In this context, the Kim Dae-Jung government attempted to restructure the *chaebol* system as well as the economic and labor structures. Here, however, it focuses on the concept of productive welfare.

[26] This was a book title by the QLPCPS, which outlined the idea of *productive welfare*. The government followed the QLPCPS ideas in attempting to develop national welfare systems.

the national welfare system created a sensation in the character of the South Korean welfare system and the future of its developmental course.

However, there have been different perspectives on the future of the South Korean welfare system through the establishment of the new paradigm. First, some scholars criticized the principle of productive welfare and its reform paradigm as too "neo-liberal." Moreover, the idea of productive welfare was attacked as "welfare to work", i.e. in the sense of "workfare" (Joe Y. H., 2002a; 2002b; Kim Y. B., 2002). Another perspective, as Kim Y. M. (2002a; 2002b) emphasized, was that the responsibility of the state expanded and via unprecedented welfare reforms transformed itself into a welfare state. Indeed, Table 5-4 shows increasing gross total social expenditure and an increasing public share. This restructuring exhibited a "mixed" welfare state drawing from various welfare regimes. Third, Nam C. S. (2002) described the character of reform under the Kim Dae-Jung government as one for a "conservative" welfare regime. Welfare restructuring resulted in a universal welfare system, but challenges surrounding its implementation and coverage for all workers and citizens still rendered class inequalities. However, despite these differences of opinion, there is broad consensus over the government's expansion and development of welfare programs.

Development of Public Assistance and the Four Social Insurance Schemes

Reforms of social insurance systems and the introduction of a new modern public assistance system were conducted with social consensus, carried out by President Kim Dae-Jung. According to Kwon and Holliday (2007: 244-5), the change of political leadership was made possible through social expectations for policy change that arose from social problems such as rapidly rising unemployment, a decline in full-time employment, and growing inequality (which had grown under previous governments). In this regard, people wished for a new government that was not involved with the authoritarian military power and could overcome the financial crisis. Kim Dae-Jung became the first president from an opposition party, and he brought a progressive political ideology to the fore, attempting to open up policymaking and decision processes to civic and labor groups in order to achieve social consensus. In this regard, a pivotal corporatist body was established in February 1998, the Tripartite Committee

(TC).[27] Its establishment was a progressive political institution that rejected the dictatorial path, but sought a social corporatist method of discussion, compromise, and settlement to overcoming the 1997 financial crisis (KLI, 2002: 1).

The TC, along with other stakeholders, built a social consensus over various sectors of the economy, politics, and social welfare, in particular flexibility of labor markets, restructuring of *chaebols*', the improvement of labor-business relations, and the expansion of social security systems, although stakeholders had held divergent positions. The first agreement, the "Social Pact for Overcoming the Financial Crisis," containing over 90 issues, was proclaimed on 9 February 1998. However, after the first great compromise, the function of the TC became controversial, because the KCTU, one of the major labor unions in South Korea, rejected the outcomes of negotiations with other stakeholders, and then the two major labor unions – the KCTU and the KFTU – and the Korean Employers' Federation (KEF) all left the committee when they failed to achieve their goals. In spite of the conflict, the TC still concluded agreements on 35 issues in welfare policies and reinforced the idea of social consultation (KLI, 2002: 92-102).

In the TC, high-level interactions among civic, labor, and business groups, the government, and politicians transformed policymaking and decision processes. The consultation process was open for the wide political participation of a variety of actors in South Korean society. Even so, the activities undertaken by the committee entailed complex and different perspectives on reform issues; various actors obviously had different interests and political stances. All this notwithstanding, the role of the TC was meaningful in bringing about social consensus on reform policies for the first time in South Korean history.

Various actors played different roles in the reform processes of welfare policies to improve public assistance and the four social insurance systems. First, progressive civic groups played a remarkably pivotal role in the introduction of the NBLSS, which replaced the previous social assistance system (the LPS, 1961-1999). Civic groups had sought to enact the NBLSA since the beginning of the 1990s, and indeed, the Act was successfully integrated into the system of social welfare provision in 2000.

Second, the government and the TC as central actors participated in the reform process of the EI and the IACI. In the wake of increasing unemployment and the flexibility of the labor market, which was strongly demanded by the IMF and business groups, expansion of

[27] The TC was organized as a political consultation body in an emergency financial crisis condition. Its political status has been established as a part of the president's cabinet since 1999 under the Act on the Constitution and Management of the Tripartite Committee.

the social safety net became an important concern to protect workers, who were dismissed temporarily or even for the long term. First of all, the government reformed the EI system. The application conditions for unemployment benefits were relaxed, for example, to protect unemployed persons. Employees in greatest need of social support were those who worked for small and medium-sized enterprises – precisely where the benefits of EI – unemployment benefits, job skills development, and employment adjustment – were most limited. The government, in this regard, reformed the EI four times in 1998 to respond to unemployment problems, by which time all workers were covered. The IACI was also reformed in 2000 to cover all employees. By expanding its coverage, the government abandoned the exclusion of workers not employed in full-time jobs and initiated social services such as care services and rehabilitation. The IACI's character is more apparent than other social insurance systems. There is no moral hazard issue for recipients, and firms assume the financial responsibility; in this way, an outright confrontation between stakeholders was not generally experienced.

Third, pivotal issues of NHI reform included the unification of independent NHI funds, the extension of coverage, and a reasonably affordable average contribution rate. There had already been attempts to reform the management of NHI funds at the beginning of the 1980s and in the 1990s. However, the political and financial conditions were not conducive to unifying NHI funds, and stakeholders were strongly opposed to one another. These efforts continued for many years, but they were accelerated and implemented by the Kim Dae-Jung government, which, in fact, had been a campaign promise during his presidential campaign (Shin Y. R., 2006).

Finally, the pension scheme is a pivotal welfare scheme that help elderly people lead a stable life after retirement and also presents opportunities for mobilizing capital. For these reasons, the structure of the pension scheme has generally been debated as a central issue in welfare state policies. Under the Kim Young-Sam government, there were already serious issues of depletion of the pension fund and expansion of its coverage. However, its development was still limited to cover citizens. Under the Kim Dae-Jung government, reform designed to keep the pensions system sustainable was discussed with the MOHW as a central body. The new government first, reformed the pension scheme to create universal coverage for all citizens in 1999. These reform processes and decisions took place in an environment involving complex interactions between the government, civic groups, and global institutions (particularly the IMF and the World Bank, which were able to intervene in the reform process of the pension scheme as one of their bailout conditions).

In conclusion, domestic political and economic conditions, including the impact of globalization, greatly influenced the expansion of welfare systems after the 1997 crisis. To understand the specific complex dynamics of various actors, the following section will examine both the global and domestic conditions that affected how policymaking and decision processes were initiated and concluded.

5.2. Global Conditions Surrounding South Korea: After the 1997 Crisis

In the process of globalization, most reforms and new policies were framed in the sense of economic and political liberalization, which mainly deals with strong private property rights, free markets, and free trade (Dobbin et al., 2007: 450; Harvey, 2005: 2). Globalization ignited a debate about the withering of welfare states around the world, which was exacerbated by fierce competition in the global economy (Rhodes, 1996; Rodirk, 1997; Scharpf, 2000). However, South Korea developed a different pathway, i.e. the expansion of social welfare policies and comprehensive reforms to universal welfare systems. This section mainly deals with the global conditions of the time to help outline the process of the development of the South Korean national welfare system amid the 1997 financial crisis. The first section presents the process of globalization in social welfare policies of South Korea in relation to the economy and politics. The second section discusses the impact of global governance organizations, especially the IMF and the World Bank, on policymaking and decision-making processes of welfare reforms.

5.2.1. The Impacts of Globalization on the Social Welfare Policies of South Korea

The impact of globalization in South Korea began with industrialization accompanying an export-oriented economic growth strategy under the Park Chung-Hee government (Kim and Kim, 2003: 344). However, domestic markets were still protected under the government even though South Korea was not immune from the forces of globalization. Instead, the globalization process was steered by the *Segyehwa* policy, which means globalization policy in Korean, under the Kim Young-Sam government (1993-1997), and this was connected with the 1997 financial crisis (Kim and Kim, 2003; Kong, 2005).

The *Segyehwa* Policy of President Kim Young-Sam (1993-1997)

In the case of South Korea, neo-liberal globalization was slowly integrated into the economic system until the 1980s. The government did not permit the integration of foreign direct investment (FDI) in domestic markets, but intervened to mediate market forces by setting multiple prices in both export and import markets, while Singapore and Malaysia had invited in multinational companies (Kong, 2000: 160; Stiglitz, 2002: 102). In doing so, the market was protected in South Korea (Amsden, 1989: 13). Domestic markets were dominated by domestic corporations, mainly the *chaebols*. Through the state-led industrialization process and concentrated support to large firms that could quickly and effectively expand and diversify their business, economic growth could be rapidly achieved and sustained.

The Park Chung-Hee government was against rapid liberalization. His government pressured domestic markets to limit their openness so that they could be protected, and trade and financial markets were liberalized slowly, unlike in the other tiger countries (Kong, 2000: 148). Kong (2000: 151-2) explained how limited globalization was made possible in South Korea. The USA opened its markets more generously to South Korean products than to other countries in order to support economic growth in South Korea, which was one of the strategies of American foreign policy in the Cold War. In other words, it can be stated that until the 1980s, the USA's economic policy was rather tolerant with respect to South Korean goods. However, this "tolerant" US economic policy changed when the Cold War ended in the early 1990s. The US economic policy began to press for faster liberalization and multilateral engagement in other countries through the Uruguay Round/WTO and APEC (Kong, 2000). The changing global environment, especially the political relationship with the USA, influenced South Korea's economic policy and other national policies.

In spite of rapid economic growth in East Asia, national policies were strongly influenced, depending on global politics. Amsden (1991) spelled out why East Asian countries were unable to dominate policy formulation in the economy and global markets without the influence of foreign actors. According to her (1991: 284), a late-industrializing state was generally forced into a situation of introducing foreign investment, because the plight of a low-wage country is that it cannot compete in labor-intensive industries against the higher productivity of a higher-wage country. This also applied to the case of South Korea. South Korea's domestic markets were under pressure to open up to foreign investment for the continuation of stable economic growth. Indeed, one striking influence of the global

economy was the dramatic increase in both inflows and outflows of FDI during the 1980s and 1990s (Kim and Kim, 2003). Foreign investment increased more than threefold from 1995 to almost US$7 billion in 1997; this meteoric rise paved the way in part for the 1997 crisis in South Korea (Ministry of Finance and Economy, 1999: 346).

Since the start of economic growth in the 1960s, South Korean economic policies involved two contrasting views by domestic economists, between protection and the liberalization of markets. Under the Park Chung-Hee government, Keynesian-style economists influenced economic policy decision-making processes, so that domestic markets could be well protected from the impact of rapid liberalization. However, the subsequent military regime by Chun Doo-Hwan abandoned the old idea of a developmental state and decided to ally with neo-liberal economists, who had been influenced by the emerging ideologies of marketization and privatization (Kim Y. T., 1999: 445). Nevertheless, opening the domestic market could not be accelerated, because the bureaucracy (in which Keynesian-style economists were dominant) still regulated the markets and the long internal debate within the bureaucracy between neo-liberals and Keynesian-style economists in the decision-making process of economic policies hampered the spread of global liberalization in economic policies (Kim Y. T., 1999: 451). With the inauguration of President Kim Young-Sam, however, an accelerating process of the deregulation and liberalization of the economy was expected. Indeed, President Kim Young-Sam's economic policies resulted in further liberalization and the rapid global integration.

Rapid globalization took place following the Uruguay Round of the GATT in the Kim Young-Sam government (Kihl Y. W., 2005; Shin D. M., 2003). During the Uruguay Round, South Korea was pressured to open the rice market and, eventually, negotiated a settlement regarding agricultural trade to open the rice market. Subsequently, South Korea faced increasing international pressure to open other domestic markets (Kihl Y. W., 2005: 126). Against this backdrop, President Kim Young-Sam adopted globalization policies, ascribed to the '*Segyehwa*' policy in Korea, in 1994 to respond to the challenge arising from joining the WTO. In addition, his government pushed for South Korea's membership in the OECD, a venture that eventually succeeded.[28] It became necessary to fully integrate the domestic

[28] In 1989, South Korea participated in the OECD /Dynamic Asian Economics Workshop to discuss policies among NIC economies. Thanks to the Workshop, the South Korean government became interested in the OECD and its policies. Finally, in January 1992, the South Korean government announced its long-term objective to enter the OECD (Euh Y. D., 2008: 16).

economic system, which meant stepping up global integration in policymaking and decision processes (Kim and Kim, 2003).

The *Segyehwa* policy was announced by President Kim Young-Sam on his way back from the Asia Pacific Economic Cooperation meeting in Canberra, Australia on 17 November 1994 in Sydney. Subsequently, the Presidential *Segyehwa* Promotion Committee (PSPC) was established on 21 January 1995, and the *Segyehwa* policy took shape. The PSPC began to crystallize into definite political strategies in all realms for the globalization policy, which led to the publication of a policy report "The View of the Strategy of *Segyehwa.*" Ultimately, 169 related pieces of legislation were enacted and reformed (National Archives of Korea).[29]

The main political goal of the *Segyehwa* policy was, according to President Kim Young-Sam, to raise the country's quality of life up to global standards of excellence by enhancing Korea's global competitiveness and maintaining economic growth (Lee, H. K., 1999: 31). President Kim stressed that South Korea had succeeded remarkably in modernization and industrialization since the 1960s, but was not capable of facing the challenge of globalization in increasingly fierce, borderless, global competition (Shin G. W., 2003: 10). Thus, a significant political strategy was required to improve global relations in various realms. The *Segyehwa* policy resulted in rapid economic liberalization, particularly a flexible labor market, restraint of the monopolistic *chaebols*, domestic financial sector reform, and the opening up of domestic financial markets, to integrate global economic competition (Lim H. C., 2009; Yang J., 2009: 197). Furthermore, the regulation of conglomerates by the government was moderated, which meant that domestic markets were no longer so tightly regulated, but opened. However, the rather unsurprising result was that the amount of foreign debt dramatically increased from $44 billion in 1993 to $120 billion in October 1997 (Shin D. M., 2003: 173). Consequently, the South Korean government requested financial support from the IMF on 3 December 1997.

The new government of President Kim Dae-Jung needed to redefine policy strategies on all fronts to overcome the 1997 financial crisis and to ameliorate the errors and mistakes of preceding administrations. The government faced also "greater external pressures to change from a state-centered to a market-oriented neo-liberal state" (Kihl Y. W., 2005: 160). Against this backdrop, the Kim Dae-Jung government embraced the globalization policy developed by the Kim Young-Sam government that could no longer be ignored in the globalized world. He emphasized the globalization policy as one of the government policy

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[29] National Archives of Korea, "*Segyehwa* Promotion Committee," accessed in October 2015.

goals in a speech on 15 August 1998: "South Korea has to change in the transition from the era of nationalism to the era of universal globalism. The readymade WTO system will be made possible among economic borderless countries. Now we enter into the world not only amid competition but also cooperation and reflection together."[30] In this speech, he put forth a concept of "universal globalism" that complemented "informatization." According to President Kim Dae-Jung (1998),[31] "informatization" facilitates the transition from the era of national economy to the era of global economy. To him, this seemed to be an important step in revitalizing global competition of the South Korean economy by developing one of the world's most fundamental industries (Kihl Y. W., 2005: 156). However, his globalization policy was often criticized because of the way it restructured national policies, which in contrast to what was expected from the progressive democratic government, was infused with neo-liberal market-oriented reform partly supervised by the IMF and the World Bank. The policy resulted in massive unemployment and employment instability with flexibility of the labor market during the financial crisis (Yang J., 2009).

Meanwhile, President Kim Dae-Jung also attempted social integration with the expansion of the national welfare schemes. Byun Y. C. (2011: 147) noted that the government endeavored "to build an effective and efficient social safety net that [would] speed up social integration based on growth-friendly policies for supporting the market." As a result, the debate regarding the South Korean welfare state system flared up, especially in academic realms, and policy-learning about the welfare system proliferated.

Policy-learning about Welfare Policies since the 1997 Financial Crisis

Policy-learning means making a prospective analysis across international borders when a nation confronts economic, political, and social problems (Rose, 1991). The policy-learning process takes place, for instance, through international conferences, reports and publications about policies, institutions, and ideas. Through this process, national policymakers search for policy alternatives from foreign sources to have rational policy options. However, the policies learned are not simply adopted, but are also tailored to various perspectives such as

[30] Presidential Archives of Korea, Kim Dae-Jung's speech "A New Period for Conquest of the National Crisis and for Relaunch" on 25 February 1998, accessed October 2015.

[31] Presidential Archives of Korea, Kim Dae-Jung's speech "A New Period for Conquest of the National Crisis and for Relaunch" on 25 February 1998, accessed October 2015.

cultural norms and economic and political conditions (Elkins and Simmons, 2005). When South Korea was facing its financial crisis, such processes were also undertaken.

The 1997 financial crisis led to an increased occurrence of various social problems. However, the social safety net, i.e. public assistance and the national social insurance systems, was unable to address all of the growing social problems, necessitating a structural reform of the national welfare system. In this regard, South Korea facilitated a policy-learning process to determine rational choices in the reform processes of not only economic, but also welfare policies in South Korea. The Kim Dae-Jung government initiated reforms of social welfare schemes to respond to social problems. One significant point for President Kim Dae-Jung during the policy-learning process was "the Third Way" (Giddens, 1998),[32] which influenced the political philosophy of Tony Blair and "New Labour" in the UK (Hankyoreh daily newspaper on 22 April 1999). Kim brought the British model into the policy-learning process in which the Kim Dae-Jung government developed a national philosophy for restructuring the welfare system. President Kim stated that "British Prime Minister Thatcher led restructuring successfully, but in this process, the middle class had been sacrificed. We have to try not to do the same thing as the UK, we have to combine our collective wisdom in order to develop our own pathway" (the 19th cabinet meeting on 14 June 1999).

For the details, President Kim Dae-Jung encouraged the establishment of the QLPCPS to implement the reform process in its own way during the financial crisis. The QLPCPS (1999) published the *Establishment of Productive Welfare and Related Recommendations*, which introduced the philosophy of "productive welfare" and directions for welfare reforms by the government into the policy-learning process. The QLPCPS (2002) spelled out that the idea of "productive welfare" emerged from "the Third Way", but, on the other hand, also pointed out the differences between the Third Way and "productive welfare." In the cases of the UK and the USA, welfare reform processes were more based on the market system, as the Third Way showed in the 1980s. This resulted in deregulation and privatization, which were strongly criticized for undermining these welfare states. However, the QLPCPS stressed that South Korea would be different, and the idea of "productive welfare" was developed through learning lessons from the UK, thus avoiding the failures of

[32] Indeed, Professor Anthony Giddens at the London School of Economic and Political Science visited South Korea to receive an honorary doctorate in 1998. This seems to indicate that President Kim Dae-Jung attempted to credit the British reform model and Giddens' conception as a positive example.

the reform outcomes and tailoring the reforms to reflect the conditions of Korean society, particularly cultural values and the realistic possibilities for the economy and politics. As a result, for instance, a self-support program, which reflected working conditions for moral hazard prevention, was undertaken within the NBLSS. With a self-support program, the NBLSS distinguishes between the non-working poor, who are unable to integrate into the labor market without support, and the working poor, who are already in the labor market, but whose income does not enable them to live without financial support. The role of productive welfare is seen in the fact that the self-support program establishes a public-private partnership to form a protective market in order to create "social employment." By doing so, the working poor come under the self-support program and are pushed into the labor market, but for a limited amount of time (QLPCPS, 2002). Economic rehabilitation of the unemployed and the working poor would be realized through the self-support program and addressed in the sense of productive welfare.

Generally, during the policy-learning process, scholars presented welfare programs mostly from welfare states such as the USA and the UK (as types of the liberal model), France and Germany (as conservative or corporatist models), and Sweden (as a type of social democratic model). There was also debate about the development of the South Korean welfare state system due to its unprecedented expansion. Indeed, professors in the departments of social welfare at various universities organized a Social Welfare Association for Criticism and Alternatives and held an academic debate conference about "Social Change in South Korea and the Future of South Korean Welfare Policies" in October 2001. This conference led to the publication of a book called *Korean Debate on Welfare State Character I* in 2002. The debate about the welfare state character and model for developing the South Korean welfare state system was addressed from various perspectives. On the one hand, reform policies were criticized after President Kim Dae-Jung brought up the philosophy of national welfare policies such as the Third Way. His concept of "productive welfare" was interpreted as having a neo-liberal inclination, because the reform in the UK led to the weakening of the national welfare system.

On the other hand, the development of welfare policies was also discussed in the sense of Esping-Andersen's typologies (1990), which presented European welfare states and examined various paradigmatic examples regarding the policymaking decisions of welfare policies. The South Korean welfare state system was characterized as an "East Asian welfare state system" or it has been interpreted that the welfare system has been progressing toward European welfare states, i.e. "conservative" welfare regimes, because social expenditure by

the government had been increasing since the Kim Dae-Jung government (Kim Y. M. eds., 2002). However, in this debate Kim Y. M. (2002b) contended that it was difficult to define the character of the South Korean welfare state system according to either Holliday's (2000) neo-liberalism, productivist welfare capitalism or any of the types by Esping-Andersen (1990). While these are hegemonic concepts in theoretical approaches of the welfare state, the welfare system of South Korea reformed, developed under complex political and economic conditions, and has accepted a mixed perspective.

To sum up, lesson-learning proliferated in South Korea during the expansion of the national welfare system in the financial crisis. On the one hand, there had been high expectations from citizens for the development of national welfare policies since the onset of the 1997 financial crisis. On the other hand, the conditions brought on by the financial crisis forced South Korean governments toward a policy-learning process and the acceptance of external influence. For instance, the IMF and the World Bank required welfare reforms and expansions as two of the conditions for the bailout. Simmons et al. (2006) and Dobbin et al. (2007) stressed that in such a political context, powerful countries or international organizations can explicitly or implicitly influence the likelihood of adopting their policies. One example of this concerns governments' frequent acceptance of the IMF's policies with regard to loans.

5.2.2. The Impact of Global Governance Organizations: the IMF and the World Bank

Global governance organizations such as the IMF, the World Bank, the OECD, and the WTO have played a major role in diffusing neo-liberal capitalism throughout the world. In this context, there are central issues how global governance organizations function has increasingly affected how national policies are shaped, particularly deregulation, commodification, and privatization in the economy, and welfare policies (Deacon, 1997: 57; Mishra, 1999: 8).

The impact of global governance organizations has occurred directly or indirectly in multiple global interactions with various activities. Ley and Poret (1997) pointed out that the OECD has spread liberalization processes through members' acceptance of the obligations of the OECD Codes of Liberalization of Capital Movement and Current Invisible Operations, which mainly deal with the relaxation of restrictions of financial markets across countries. Deacon (1997: 61-2) looked at the IMF and the World Bank, noting how they have

influenced, for instance, countries in the form of structural adjustment programs. Structural adjustment causes economic liberalization as well, particularly by creating freer trade and reducing social expenditure. In other words, countries launch political and economic changes under competitive pressures or, in light of IMF support, the changes have been coerced as policy conditions are explicitly attached to loans (Simmons et al., 2006: 803). The case of South Korea also demonstrates the impact of global governance organizations on national policies in various sectors, with OECD membership in 1996 and a bailout by the IMF in December 1997.

In the globalized world, policies are transferred from country to country. On the one hand, sometimes this effect is not directly seen in policy-decision and making processes of countries. The OECD, for example, does not have direct authority, but it helps move ideas across national boundaries, e.g. policies of the OECD (Rose, 1991: 18). OECD member countries share values, perspectives, and discourses of economic, social, and political activities, which have evolved into policy standards. However, as Woodward (2007: 234) stressed, "countries observe the structures of the OECD not because of the threat of formal sanctions but because of the loss of reputation amongst their peers that would result from departures from agreed and accepted practice." In reality, a powerful leadership influences the weak through hegemonic ideas, which resulted in policy standards in the OECD (Dobbin et al., 2007). In the case of South Korea, the government launched reforms of national policies to conform to the OECD's policies. In fact, South Korea had planned to join the OECD earlier (in 1994), but the size of the welfare system was much lower than other OECD countries. Consequently, the limited welfare system hampered its entry to the OECD (Seong K. R., 2002: 498). Such factors could negatively damage the OECD's and member countries' reputation. Regarding this, it was necessary that a state that wanted to join the OECD carried out reforms of national policies to correspond to OECD standards. Only then could it enter the "rich country club" (Woodward, 2007: 232). Against this backdrop, the reform and expansion of welfare schemes were made possible in 1995, particularly the introduction of the EI and expansion of NPS coverage to all workers, including farmers and fishermen (Seong K. R., 2002).

On the other hand, financial global governance organizations such as the World Bank and the IMF can directly affect countries. This is carried into effect by manipulation of economic costs and benefits and the monopolization of information or expertise; with this, they can conditionally set requirements for aid, loans, or other considerations (Dobbin et al., 2007: 454-5). For instance, after the 1997 financial crisis, the South Korean government

requested a bailout from international banks and received an Economic Reconstruction Loan (ERL) and a Structural Adjustment Loan (SAL). The policy matrices attached to these loans required financial sector reform, corporate sector restructuring, labor market reform, and strengthening of social safety nets (expansion of the EI and poverty-targeted programs, and the reform of the NHI). The World Bank, especially, demanded a reform of the pension scheme in a way that would improve the transparency and efficiency of pension fund management and strengthen links to capital market development (World Bank, 1998a; 1998b). The South Korean government accepted these policy requirements to restore economic performance. In addition, according to the New York Times (17 February 1999), President Clinton telephoned President Kim Young-Sam to explain that "Korea would be 'severely punished' if the deal was not quickly reached" (cited in Crotty and Lee, 2001: 34). This shows how the IMF and the World Bank directly pressure countries that would be their clients how to carry out their requirements.

Intervention by the IMF and the World Bank in the Social Welfare Reforms of South Korea

In responding to the economic crisis, the South Korean government embarked on multiple major structural reform programs. Particularly, detailed policy actions were implemented for structural reforms in three key policy areas, which were intensively discussed with the World Bank and the IMF on the basis of the SAL. The SAL's report addressed vulnerabilities in the financial and corporate sectors that arose from internal weaknesses and excesses[33] in the South Korean economy and from external changes. These external changes included globalization processes (such as the increased international mobility and potential volatility of capital, more open and competitive international trade markets) as well as the emergence of major new competitors such as China (World Bank, 1998b: 6). The World Bank had maintained that South Korea was not well integrated into the globalization process, so external conditions were emphasized regarding how the changes took place and to what extent South Korea should be integrated into the global environment.

[33] This report pointed out the following factors: unsound financial system practices and a weak regulatory and supervisory framework, high corporate leverage, the failure of corporate governance, excessive government intervention in business, policies inhibiting competition, and wage increases outstripping productivity growth (World Bank, 1998b: 6).

However, the World Bank and the IMF also felt it was necessary to improve the function of the labor market and strengthen social safety nets when undertaking such processes. In fact, this was accepted in the first and second SAL. Above all, the rigidity of the labor market became an important issue in facilitating economic restructuring, as dismissals as well as the use of dispatched or hired workers were extremely uncommon in the labor market.[34] The World Bank also criticized South Korean industrial relations for developing in an unbalanced way, with certain sectors of industry having excessively high wages and overstaffing (World Bank, 1998b: 25). However, the weak social safety nets were unable to protect people who faced the serious social problems[35] that resulted from corporate and financial sector restructuring through the legalization of layoffs (World Bank, 1998b). Thus, the government had to undertake structural changes to the national welfare system.

In the first and second SAL, three welfare policies were significantly addressed: (1) protecting the poor, (2) the management's reform of the NHI and (3) the reform of the pension scheme (World Bank, 1998a; 1998b). First, an increase in poverty was caused by the numerous layoffs. The SALs highlighted the need for increased budgetary expenditure on safety net programs and commented on the weak public assistance, the LPS, so the World Bank strongly required the expansion of gross social expenditure in South Korea. Ultimately, governments kept increasing the amount of social expenditure and launched a restructuring of the social welfare system (see Table 5-5 in Section 5.1). The new government introduced a modern public assistance scheme, the NBLSS, but this time the requirements were not laid down by the IMF and the World Bank. In this case, domestic political dynamics influenced the introduction of the modern public assistance scheme more significantly than external impacts. However, the financial crisis made politicians and citizens realize the necessity of introducing the modern public assistance system, because the LPS was inadequate in the crisis condition. Moreover, the new democratic government made it possible to achieve structural change in social welfare policies (this will be addressed in further detail in Section 5.3). Additionally, the SALs clearly noted that the expansion of workfare programs would be supported. As a result, neo-liberal ideology was partly integrated into welfare programs: for instance, the self-support program, which fell under the auspices of the NBLSS, limited

[34] Dismissals were allowed after an amendment to the LSA, but there had to be an urgent reason. In addition, the Act Protecting Dispatched Workers passed in February 1998 conditionally allowed it (Kang et al., 2001).

[35] Families broke apart due to collapses in the family income; crime also increased, e.g. insurance fraud (Kang et al., 2001).

recipients to three years of benefits, during which they would be pushed to integrate into the labor market (MOHW, 2016).

Second, the second SAL (World Bank 1998b: 28) pointed out that "health-related financial risks are an important factor affecting household welfare." Improvement of the management of the NHI (with over 350 small funds) was seen as one of the central issues to protect the poor from suffering financial catastrophe in obtaining medical care through reduced administrative costs. Ultimately, health insurance funds were partly integrated in 1998. The complete integration into one fund was completed in 2000. Nevertheless, there continued to be opposition to integration among domestic politicians, so financial integration only occurred in 2003. In the case of the NHI system, the crisis and the demands of international banks pushed hard to accelerate reform. However, there were a lot of issues entwined in domestic politics, particularly concerning the different positions between politicians, medical groups, labor unions, and citizen groups. In this regard, it is important to understand how domestic political dynamics influenced the outcome of the NHI reform (this will be addressed in further detail in Section 5.3).

Third, the World Bank focused on the elderly poor in the economic crisis. Global governance organizations had developed wide-ranging pension policy guidelines in regard to how dysfunctional pension systems could be reformed and the economic transition improved, because pension funds are capable of mobilizing capital. The World Bank had also examined how pension policies, especially financial management, influence economic development and the social welfare of countries (Holzmann, 2000: 12). In 1994, the World Bank provided specific guidelines for pension reform in a report entitled *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth* that recommended various arrangements for old age security. Generally, pension policies have been brought to the attention of countries when dealing with the many risks of old age. The World Bank pointed out that public management of pension funds in a single-pillar system is unproductive at low interest rates, and instead endorsed a multi-pillar pension system consisting of mandatory publicly managed,[36] mandatory privately managed,[37] and voluntary[38] pillars (World Bank, 1994:

[36] The first pillar aims at redistribution and coinsurance by the government's power of taxation and forms a means-tested, minimum pension guarantee or a universal or employment-related flat-rate. But it should be modest in size to allow ample room for other pillars and pay-as-you-go (World Bank, 1994: 15-6).

[37] The second pillar is fully funded and privately managed, and links benefits to personal savings accounts or occupation-based plans. The Chilean pension system is an example of this pillar using personal saving accounts, which converted public pensions to privatization and introduced a global debate about the pension reform model (World Bank, 1994: 15-6).

13-6). It has also transferred the multi-pillar pension system, which leads to privatization of public pensions, to client countries. Kim Y. M. (interviewed in March 2013) stressed, "the research report of the World Bank about the pension model in 1994 has been read as the Bible in which the [South Korean] pension system has been discussed since." This demonstrates how pension system policies by the World Bank have influenced the reform of countries' pension systems within the context of increased globalization.

The Kim Dae-Jung government established the "Work Committee for the Improvement of Public and Private Pension Schemes" in December 1998 to improve the transparency and governance of financial operations of all public pension schemes as a response to requirements in the second SAL. The management of pension reform by the government sowed distrust in light of the amendment to the NPA and the Public Capital Management Fund Act (PCMFA) at the end of 1998. As a sign of the increasing distrust in society, activities by labor and citizen groups increased in response to the reform of the financial management of pension funds. In the process of expanding the pension system to urban areas, it was necessary to revise the NPA, but that was not possible without an amendment to the PCMFA. This meant that certain articles of the PCMFA had to be revised in agreement with the National Assembly. Although this was forcefully demanded by labor and citizen groups, national departments and politicians took a wait-and-see attitude, because a lot of political issues were entwined. During this process, the 1997 Asian financial crisis hit South Korea, and the World Bank's requirements played a key role in accelerating the reform process (Kwon M. I., 1999). The World Bank (1998a; 1998b) required a phase-out of constraints on depositing pension funds into the public capital management fund as one of the conditions of the SALs, and the TC went along with this requirement (Kwon, M. I., 2015). As a result, this was implemented by 2001.

Remarkably, in such welfare policy reform processes, the South Korean government did not significantly implement the neo-liberal ideas, which, in fact, the IMF and the World Bank pushed for generally in the policy-decision process (Yang J. J.; 2000). How, then, can we understand the impact of globalization? The impact of global governance organizations should be interpreted in different ways with the case of South Korea in the process of rapid globalization. As Kim Y. M. (interviewed in March 2013) contended, in welfare policies, the intervention of the IMF and the World Bank indeed played a positive role in expanding social

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[38] The third pillar provides additional protection for the elderly (World Bank, 1994: 15-6).

safety nets in South Korea, even while globalization hampered the continuing development of European welfare states. In a nutshell, the policies of the World Bank and the IMF influenced the welfare reform process and played a role as a trigger to accelerate policymaking and decision processes within social welfare reforms. The 1997 crisis served as a turning point to focus attention on welfare policies within South Korean society, and led to the expansion of the national welfare system. However, it is difficult to assert that the World Bank and the IMF were the only ones to play a key role in the unprecedented development of the national welfare system (although reform policies were discussed in the first and second SAL). Domestic political conditions also had a decisive impact. For example, in the case of the health insurance reform process, the SALs required reform of the management system, and the government announced its reform; nevertheless, conflicts between interest groups in domestic politics meant that the reform was only completely implemented in 2003. This means the actions of domestic actors are significant if we are to understand the outcomes of the reforms.

In light of the multiple actors involved and the complicated constellation of policies, it is important to examine the development of national welfare policies in South Korea under various perspectives. To sum up, in the case of South Korea, on the one hand, the government carried out neo-liberal economic policies; on the other hand, it also developed a comprehensive welfare system, which was launched with the support of the IMF and the World Bank through the SALs.

5.3. Domestic Conditions in South Korea: After the 1997 Asian Financial Crisis

Structural reforms and the expansion of the national welfare system in South Korea slowly progressed, although there was no significant political attention until just before the 1997 financial crisis. However, the financial crisis brought a turning point – unavoidable challenges characterized all national policies. Particularly, for the first time in history, welfare systems (i.e. the expansion of the national welfare system) came to be appreciated as an institutional means (Yoon H., 2009: 334). Generally, the reasons given for this change are that the dysfunction of the social safety net was exposed during the financial crisis period, the change of political leadership in President Kim Dae-Jung made implement welfare reforms possible, or increasing participation of civic and labor groups influenced the policymaking and decision processes of welfare policy reforms (Kim Y. M. eds., 2002). However, it is

difficult to assert which factors played a decisive role, because various actors surrounding external and internal political conditions all made an impact on the development in complex interactions. This chapter mainly deals with understanding the dynamics of the various actors in the domestic arena. The first section briefly reviews how the 1997 financial crisis came to be a critical juncture. The second section thoroughly explains the interactions of political actors in policymaking and decision processes, particularly the impact of presidential policies and the increased participation of civic and labor groups on the welfare reform process on a national scale.

5.3.1. The 1997 Financial Crisis: a Critical Juncture in the Development of South Korean Social Welfare Policies

A critical juncture sets development along a particular path, which comes to be a historic turning point (Pierson, 2000c: 263). In the case of South Korea, since the 1997 financial crisis, state intervention in welfare policies has increased and social insurance institutions have expanded. The volume of social expenditure in South Korea is still lower than in European welfare states (see Table 5-3); however, as Kim J. W. (2005: 4) has emphasized, it would be misleading to focus only on the state's social expenditure. Thus, it is significant to focus on why and how the development of the national welfare system in South Korea occurred.

The first important change was that the welfare system as such was accepted as an institutional system in South Korean society, i.e. there was a significant change of perspective regarding social welfare (Yoon H., 2009). Hur Jae-Jun[39] (interviewed in December 2012) explained this phenomenon in the following:

> "A turning point for the EI's development was the crisis. In fact, before the introduction of the EI, unemployment benefits, for instance, were not well known. Even most unemployed people were embarrassed to receive unemployment benefits (because of negative social stigma). Maybe people thought that the benefits were small potatoes or that their situation was not difficult enough to get that kind of money. So 80-90% of unemployed who had a benefit entitlement did not come to the office … However, the 1997

[39] Hur Jae-Jun has been a researcher at the Korea Labor Institute since 1995.

financial crisis changed people's attitudes. Rather, we saved the advertising costs for the EI's programs."

In other words, the Asian financial crisis changed the understanding of economic turmoil of individual households from an individual problem to a structural problem, which resulted from the failure of national economic policies. Before the 1997 financial crisis, the South Korean labor market, in fact, offered full-time jobs to almost everyone and most full-time employment positions were supported by company-based welfare systems. In light of this, national welfare policies were understood as just for absolutely "poor people" rather than having political significance. In this sense, as Hur Jae-Jun stressed above, the changed perspective "saved the advertising costs." Indeed, as of December 1996, there were 43,723 enterprises covered by the EI (and 47,427 enterprises in December 1997). By December 2000, the number of EI-covered enterprises had increased to 693,414 (MOL, 2001: 99). This change came about following the introduction of the NBLSS. In the NBLSA, public assistance benefits became social rights (Lee H. J., 1999). Indeed, "protection" was reinterpreted as "security" in the NBLS. This legal basis has undergirded the government's response to the development of the national welfare system ever since.

Second, another remarkable change was that the financial crisis created favorable conditions for reaching a consensus in society about the expansion of the national welfare system. This was made possible by the establishment of the TC consisting of labor groups, big business, and the government. Han et al. (2010: 289) pointed out that "the 1997 financial crisis provided a turning point for social dialogue through the founding of the Korean Tripartite Commission." In fact, there had been a corporatist institution under the previous government of President Kim Young-Sam, the Labor Relations Council (LRC),[40] but it was unable to establish a social consensus as a committee in politics and society. However, in the TC, trade unions and business groups accepted each other as social partners in creating social consensus. During the financial crisis, the weakness of the social safety net was especially revealed. This opened the gates for the structural reform process and the establishment of the TC. In a nutshell, the 1997 crisis became a critical juncture.

However, such changes were made possible not only through the financial crisis, but also a new democratic regime. President Kim Dae-Jung pursued a progressive political strategy. As Choi Y. J. (2011) and Lee H. K. (2003) stressed, the Kim Dae-Jung government

[40] The council was established to develop industrial relations, but it existed as a temporary organization.

was also responsible for the structural changes in the national welfare system during the crisis.

5.3.2. Interactions of Various Domestic Factors

The change of political leadership with the financial crisis caused changed interactions among domestic actors, which influenced the reform of national welfare schemes in policymaking and decision processes. This section deals mainly with two crucial determinants in domestic conditions to understand its structural development: (1) the significant meaning of the leadership change by Kim Dae-Jung, which was directly connected to reform processes; and (2) the rising participation of civic and labor groups in policymaking and decision processes how they affected welfare reforms.

A Change in the Political Leadership: President Kim Dae-Jung (1998-2002)

The meaning of the political leadership change in 1997 was, according to Im H. B. (2011: 579), interpreted as "the first peaceful transfer of power, 10 years after the democratic transition in 1987." During the steep economic growth process, dictatorship controlled South Korean politics. In this way, political power was highly centralized, supporting authoritarian politics despite democratic movements. The presidential victory by Kim Dae-Jung interrupted such political tradition and demonstrated not only a change in government, but also the consolidation of democracy (Errington, 2004).[41]

The new democratic government by Kim Dae-Jung, who came from an opposition party, was established with high expectations to: (1) overcome the financial crisis; and (2) implement progressive policies (Mo and Moon, 1999). As President, Kim Dae-Jung indeed launched an unprecedented restructuring of the economy, politics, and public policies. The change of political leadership in the form of the new democratic government interrupted the possibility of political intervention by military authorities and opened the policymaking

[41] The first direct presidential election was held in 1987. Nevertheless, the momentum did not induce a major transition from authoritarianism to democracy. Roh Tae-Woo won the election, ensuring the continued involvement of the military in national politics. The army still held key positions in the government, the bureaucracy, and the National Assembly (Choi J. J., 1996: 203). In the next presidential election of 1992, Kim Young-Sam, who was, in fact, a leader of a major opposition party, built a political coalition with military groups to win the election so that political power by military authority could remain.

process to civic and labor groups (Jeong D. H., 2001: 24). While previous governments failed to make structural changes in various sectors, the new government carried out restructuring with strong presidential policies (Mo and Moon, 1999: 158). The reason the structural change was possible was that, as Min J. K. (2007) contends, the crisis conditions (which exposed the structural problems from previous governments in the economy and welfare policies) allowed a change in the political leadership from a conservative regime to a progressive regime, and also facilitated social consensus, e.g. through the TC.

However, in spite of progressive reform plans by the new democratic government, it was not possible to implement all of the proposed reform plans. There were two central explanations: first, political conflict with majority conservative opposition parties and the bureaucracy; second, the dominant neo-liberal ideology, which was set by neo-liberal politicians and global banks from which South Korea obtained financial support.

First of all, the emergence of the Kim Dae-Jung government as a minority government entailed limitations on political actions (Jeong D. H., 2001). Some scholars have explained that the previous ruling party, which was based on military power and a conservative political perspective, had remained in politics and the bureaucracy since the establishment of the modern South Korean state. Since it was able to dominate the bureaucracy, the new government could not control national ministries and the National Assembly in order to enforce and implement reform policies (Choi J. J., 2002; Kim Y. T., 2012; Shin K. Y., 2002). In these political circumstances, authoritarian groups still played key roles in policymaking and decision processes. In this regard, progressive policies were hampered in policymaking. The new government lacked sovereign power over making policies (Choi J. J., 2002; 131), and it gradually became weaker in carrying out reforms, particularly in restructuring the *chaebols*[42] and the media,[43] as well in its diplomatic engagement with North Korea.[44]

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[42] While rapid economic growth was based on close developmental strategies in economic and political policies, complex structural problems were involved. Without political transparency and efficient business management, the *chaebols'* reform often failed for previous governments. For instance, the Kim Young-Sam government attempted to restructure *chaebols*, particularly their family-based management and their diversification into multiple industries, which facilitated market monopolies. Indeed, the Kim Young-Sam government even put 35 heads of *chaebols* who bribed former presidents Chun Doo-Hwan and Roh Tae-Woo under court custody. However, eventually, only three heads of *chaebols* were put on probation, and the others received a verdict of "not guilty." The Public Prosecutor General announced the reason for government leniency: "If the heads of *chaebols* were imprisoned, this would negatively influence economic development and damage the trust of domestic companies in the global market. As a result, it was necessary to be tolerant with these cases" (Dong-A Daily Newspaper on 17 December 1995, cited in Kim Y. T., 2012: 226). This showed that the government and *chaebols* had closely shared interests in continuing economic growth, and that the government could no longer exercise control over the *chaebols*; they had become too big to be regulated by the government. All this notwithstanding, Kim Dae-Jung proposed a comprehensive restructuring of *chaebols* – shared by the IMF and the World Bank – requiring first of all transparent business management

Rather conservative groups in the economy, politics, and society pushed back against the restructuring at the end of Kim Dae-Jung's term (Choi J. J., 2002: 131). In addition, corruption scandals damaged the political legitimacy of Kim Dae-Jung's democratic government (Park Y. Y., 2002).

Second, the president's progressive political view was muted by the new conditions and he conceded to conservative (or more specifically neo-liberal) policy initiatives, such as flexibility in the labor market and the privatization of public enterprises (Mo and Moon, 1999: 159). As explained in Section 5.2, neo-liberal ideas, which were partly supported by the IMF and the World Bank, were associated with global change. For this reason, reforms could not be implemented progressively, as promised by Kim Dae-Jung (Jeong D. H., 2001; Sonn H. C., 2010). As Kim Y. T. (2012) explained, President Kim Dae-Jung faced a quandary: the government had to harmonize the interests of *chaebols*, the middle class, and the general public. As a result, the new democratic government manifested contradictory policies zigzagging between neo-liberal economic reforms and rapid expansion of the national welfare system.

In spite of these difficulties, the Kim Dae-Jung government pushed through a progressive agenda in all sectors and partially accomplished its policies. It paved the way for another progressive government led by Roh Moo-Hyun (2003-2007) that set about pressing ahead with unfinished reforms and expanded democratic freedoms in various realms as well (Kim S. W., 2009). Cumings (1998: 58) pointed out that "it is an irony of South Korea's history that the worst economic crisis in the country's history should come just as the Korean people were about to elect dissident Kim Dae-Jung, who suffered under the dictators." Kim's

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and fair trade, intervention against unhealthy sponsorship among *chaebol* affiliates, and fighting cronyist business management.

[43] The authoritarian regimes suppressed press freedom. Some media such as the Chosun, Jung-Ang, and Dong-A daily newspapers, developed closer relations with the military government to survive. In doing so, they established and expanded their media power, a phenomenon known as "Media *Chaebol*" in South Korean society. Media reform during the Kim Dae-Jung government was introduced to combat media monopolies by a few powerful media channels and biased journalism favoring conservative political interests. For instance, an attempt to investigate tax records sparked government conflicts with conservative media outlets, especially Chosun, Jung-Ang, and Dong-A.

[44] One of the most remarkable policies by President Kim Dae-Jung was to redefine the relationship between North and South Korea. The policies of most former governments towards North Korea were shaped by anti-communist rhetoric and practice. The Cold War system in the Korean Peninsula stunted the development of South Korean politics (Cho J. K., 2013: 148). Sustained ideological conflicts and tensions stifled political freedom in society and served as an excuse to legitimize political oppression. However, President Kim Dae-Jung's conciliatory "Sunshine Policy" towards North Korea signaled an unprecedented change and an opening for reconciliation and cooperation with the North and for peaceful coexistence in the Korean Peninsula (Cho J. K., 2013; Choi J. J., 2002: 130-1). Indeed, Kim Dae-Jung was awarded the Nobel Peace Prize for his "Sunshine Policy" towards North Korea in 2000.

victory infused policymaking and decision processes with progressive ideas, particularly a changed political spectrum from right to left. Progressive elites and politicians, who criticized unhealthy economic policies and the authoritarian rule under military regimes, were also allowed to be engaged in the new government (Cumings, 1998: 58-9). In doing so, the expansion of the national welfare system was made possible and the rapid structural development stirred discussions of an emerging "South Korean welfare state system" (Chung M. K., 2001; Kim W. S., 2006).

Presidential Policies Implementing Welfare Reforms

After his inauguration, President Kim Dae-Jung stressed the need to expand welfare programs to cover the general public and the underprivileged (KLI, 1999). Amid the economic turmoil and increasing social problems, political commitments to develop the welfare system could not remain in political rhetoric, but it was necessary to change passive attitudes (ibid.). The new government faced two challenges: on the one hand, the IMF and the World Bank criticized the weakness of the social safety net and demanded its qualitative and quantitative development as a condition of any bailouts. On the other hand, the new government, as a center-left, democratic government, was established with high citizen expectations. Against this backdrop, President Kim launched pro-welfare policies and paved the way for structural reforms of national welfare schemes (Seong K. R., 2002).

The government made passionate appeals regarding the South Korean welfare state system (Kim Y. M. eds., 2002). Kim Dae-Jung criticized the underdeveloped social welfare system in spite of decades of rapid economic growth, increased personal income levels, and rising demand for quantitative and qualitative improvements of welfare programs (KLI, 1999: 197). Kim Dae-Jung introduced a philosophy of "productive welfare" (2010: 341), which was intended to serve as a philosophical justification for supporting economic growth as well as citizens' basic livelihoods, thus improving their quality of life. To help accomplish this task, in July 1999 President Kim organized the QLPCPS, bringing together experts from universities, civic groups, and research institutions to help shape presidential policies about the national welfare schemes.

The president played a key role in keeping the reforms on schedule and in encouraging center-left policymaking efforts in the area of welfare. The president clearly played a role in the reform process of the NHI, particularly the integration of the NHI's funds, which

consisted of more than 350 insurance funds. Previously, at the beginning of the 1980s, a reform plan for the pooling of its funds was proposed, but President Chun Doo-Hwan eventually rejected it. The government's main rationale at that time was that the financial situation was too difficult to afford the extra management costs associated with pooling the NHI's different funds (Cha H. B., 1996: 186). Later, this issue of NHI management rose again during a policy debate at the end of the 1980s when the NHI system was expanded to include the agricultural and fishing sectors. A reform proposal was submitted to the National Assembly in 1988. The political climate had changed after the 1987 June Democracy Movement, and the chances to carry out the proposed reform were good. For starters, the National Assembly was largely receptive to the idea; both the ruling minority and an opposition majority, and even a conservative party, the ULD of Kim Jong-Phil, all demanded the improvement of social safety nets. In addition, there was center-left political support from growing civic and labor groups (Park J. H., 1996; Shin Y. R., 2006: 90-98). These circumstances all raised the possibility of the pooling of the NHI's funds. Kim Jong-Dae (interviewed in June 2006) has corroborated this, also mentioning the political change of a ruling minority and an opposition majority, which helped the MOHW to find a political compromise among various interest groups, thereby avoiding political conflict while still responding to the demands for improved social insurance schemes from civil society. However, the great expectations were stymied when President Roh Tae-Woo used his presidential veto at the end of the policy-decision process. In doing so, the attempt to integrate the funds failed again, this time due to a lack of presidential support.

Because of the veto, there were limits to NHI reforms, though the NHI system was expanded to include all citizens. During this historical development process, the unification of its funds became one of the biggest reform issues for effective and efficient management and financing. However, over 350 insurance funds had already been instituted, each with their own management conditions. As a result, each had developed different interests, so reform was not easy to implement. Nevertheless, the integration of the NHI's funds was pushed for by civic and labor groups. In April 1994, 22 civic organizations established "the Nationwide Solidarity for Integration and Expansion of Health Insurance" to propose the pooling of its funds, but President Kim Young-Sam took a wait-and-see attitude on the issue. Reform continued to stagnate until the 1997 presidential election in which its reform became a crucial election issue and the presidential candidates proposed various reform plans.

Kim Dae-Jung clearly showed his political support for the integration of the NHI's funds[45] (Kim H. Y., 2006). After his inauguration, he put reforms of the NHI system's management into effect. However, despite his firm decision, he faced political difficulties in the form of strong opposition from conservative politicians and bureaucratic politics. First of all, he was unable to strong-arm opposition groups in various governmental departments. President Kim was in a coalition with a conservative party, and he lacked the political power to immediately enforce presidential policies. As Shin K. Y. (2012) pointed out, forming the coalition was politically necessary for Kim Dae-Jung to win the presidential election of 1997. This, however, meant promising to share important positions in the new government. For this reason, he appointed politicians from the ULD during the process of building his administration. For this reason, Kim Dae-Jung had to figure out a political strategy to put his policies into effect. This was done by eventually changing ministers at the MOHW. President Kim had initially appointed Ju Yang-Ja, who was from the ULD and was opposed to President Kim's progressive policies, especially the pooling of the NHI system's funds. However, as soon as she started her term on 3 March 1998, she was embroiled in a political scandal[46] and then resigned after serving less than two months. President Kim moved quickly to name a substitute for the second Minister of the MOHW, Kim Mo-Im (from 5 January 1998 to 23 May 1999), who was also from the ULD and had the same attitude to Kim's progressive reform policies as the former minister did. He attempted to carry out the reform of the NPS, in particular the expansion of its coverage to farmers and the self-employed. However, in this process, unexpected problems such as different perspectives of other government departments and conflicts with interest groups were seriously exposed. Eventually, Minister Kim Mo-Im was replaced as well. In doing so, the president was able to appoint a third Minister of the MOHW, Cha Heung-Bong[47] (from 24 May 1999 to 6 August

[45] Kim Dae-Jung pledged to address two crucial points about NHI reform during the presidential election campaign of 1997, namely the pooling of the NHI's funds and the separation of drug prescriptions and dispensing. The issue about the separation of prescriptions and dispensing was entwined with the interests of physicians and pharmacists. Before the reform, physicians and pharmacists were both allowed to prescribe and dispense drugs. The widespread nature of these medical practices by both resulted in the overuse of drugs and high pharmaceutical costs (Kwon S., 2003: 529). Reform of this practice was also strongly demanded by center-left civic groups. However, both powerful interest groups – physicians and pharmacists – worked hard against its reform. Nevertheless, the government successfully implemented this reform in 2000. In any case, this research focuses on the issue of the pooling of the funds in order to clearly understand the role of president.

[46] Ju Yang-Ja was found to have accumulated wealth unfairly.

[47] Cha Heung-Bong studied social welfare at universities, worked, in the 1970s, at the Ministry of Health and Social Affairs that became the MOHW at present and is a professor in the Department of Social Welfare at the University. It seems from his background that he had a progressive perspective in the restructuring plan of the

2000), who took over the responsibility of reforming the NHI in line with the president's wishes. The pooling of the NHI's funds was finally implemented in 2000.

To sum up, it was not possible to implement the president's policies at the beginning of Kim Dae-Jung's term because he formed a coalition with the ULD. However, after two ministers of the MOHW from the ULD were ousted from power in the new administration, there was no longer any political obligation on the part of the coalition partner. President Kim Dae-Jung was then able to appoint a minister who would implement his policies. It appears that President Kim endeavored to implement his policies by pursuing his own strategies. Consequently, the NHI's funds were pooled into a single management system in 2000, and the fund was finally integrated in 2003. As Won S. J. (2006: 171) stressed, a key impetus for the structural reform of the NHI was the political change spurred by President Kim Dae-Jung.

In another case concerning the process of introducing the NBLSS, President Kim Dae-Jung played an active role in breaking a logjam (Ahn B. Y., 2000; Kim and Kwon, 2008; Park Y. Y., 2002). Even before the onset of the 1997 financial crisis, civic groups had attempted to raise awareness of the need for a new modern public assistance system, i.e. the NBLSS, and had played a major role in devising the NBLSS. Nevertheless, their activities were unable to bring about the change in political climate required for the introduction of the new public assistance. After all, most bureaucrats and politicians opposed such change or merely adopted a wait-and-see approach. Hence there was a momentary lull in politics.

However, this passive political stance ended with the onset of the financial crisis, which revealed just how weak the social safety nets were. The national welfare system was practically unable to provide citizens with a minimum standard of living and to those who fell into poverty. Indeed, the urban poverty rate increased from 8.1% in the first quarter of 1997 to 21% in the third quarter of 1998 (Statistics Korea database, accessed in 2015). Such serious social problems revealed the urgent need to restructure public assistance. Against this backdrop, President Kim Dae-Jung made a speech in Ulsan city, which came to be known as the "Ulsan Statement." During this speech, he promised to enact the NBLSS as the new modern public assistance system that would ensure a minimum standard of living for middle-class and low-income families. The *Ulsan Statement* changed the passive political

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NHI so that President Kim Dae-Jung appointed him as the minister of the MOHW, who could carry on his policies.

climate. Kim Mi-Gon[48] (interviewed in December 2012) described in detail how the policymaking and decision processes changed at that time.

> "Since 1998, we had been drafting the NBLSS bill for a discussion paper of a new public assistance. The National Congress for New Politics submitted the bill to a plenary session of the National Assembly. However, the bill did not initially receive due attention. Representatives from the Grand National Party (GNP) in the National Assembly opposed the draft bill. (Strategically) we showed the draft bill to one of the GNP representatives, Kim Hong-Shin, who showed an interest in the NBLSS. Kim Hong-Shin submitted a similar bill, which would be an ideal possibility for members of the National Assembly to gain electoral support if the bill were passed during the plenary session. In these political circumstances, the president travelled to Ulsan city and made his "Ulsan Statement". … Before the Ulsan Statement, the MOHW opposed the introduction of the NBLSS. It goes without saying that the Ministry of Planning and Budget (MOPB) was against it, too. However, after the president's announcement, the MOPB reluctantly agreed to it because of the president. The MOHW grasped the situation and agreed to it with hesitancy. Although the MOHW had its jurisdiction, it was aware of how the wind way blowing because the MOPB had taken control of the budget plan. In this political climate, the enactment of the NBLSS was seriously considered in the National Assembly plenary session, while the parties competed to be seen as taking the political initiative. As a result, the NBLS Act was enacted by common assent in August 1999."

As stated by Kim Mi-Gon above, civic groups devised the NBLSS, but politicians and key departments, namely the MOPB and the MOHW, were divided over its acceptance and enactment. However, the president's speech broke the logjam, and changed political dynamics from passive to active in the policy-decision process. Some scholars stressed the role of President Kim Dae-Jung, stating that change would not have been possible without his firm resolution (Ahn B. Y., 2000; Kim and Kwon, 2008; Park Y. Y., 2002). According to Lee J. (2008: 153), "the president was a tremendously crucial determinant in the politics of

[48] As a researcher at the Korea Institute for Health Social Affairs, Kim Mi-Gon was involved in the NBLSA from the time of its formation to its enactment.

decision-making (in South Korea). At this point, the *Ulsan Statement* gave a decisive impetus to the activity of the SENBLSA and the enactment process of the NBLSS." Generally, the president played a key role in policymaking and decision processes due to his veto power, which enabled him to stall reform initiatives or implement presidential policies (Ahn B. Y., 2000). As the reform of the NHI showed, presidents were able to use their veto power to halt reform. In this case, however, President Kim Dae-Jung demonstrated his will to promote the progressive development of welfare programs and broke the logjam by changing the political climate.

Kim Su-Hyeun[49] (interviewed in February 2013) highlighted a different point of view: "Welfare reforms would be made possible through democratization during the rise of civic and labor movements and new social conditions, e.g. the ageing phenomenon and such like." He insinuated that the development of national welfare schemes could not only be explained in conjunction with presidential policies, but also with other factors, in particular the growing engagement of civic and labor groups in line with democratization. Indeed, Moon J. J. (2008) noted that the swift enactment of the NBLSS was due to the fact that civic groups had devised a frame for the NBLSS.

Increased Participation of Civic and Labor Groups in Welfare Policies

After the 1987 June Democracy Movement, civic and labor groups progressed from engaging merely in democratization, and started calling for labor and social rights, as well as the initiation and expansion of welfare programs. Civic and labor groups played a crucial role in setting the agenda for the development of the national welfare system. However, the roles they played in influencing policies and in bringing about welfare reform differed considerably. Civic groups tended to develop policies on the social welfare system, whereas labor groups were interested matters related to labor conditions and benefits for trade union members.

This notwithstanding, Kim Yeon-Myung[50] (interviewed in March 2013) stressed that "during the ten years from 1987 to 1997, civic and labor groups strongly demanded the improvement of social welfare and emphasized the need for social welfare policies. If there

[49] Kim Su-Hyeun engaged in the QLPCPS under the Kim Dae-Jung government and continuously in policymaking process under the Roh Moo-Hyun (but only for a short period).

had been no such movements, the expansion of the social welfare system under the Kim Dae-Jung government would not have been possible." Indeed, the Kim Dae-Jung government accepted more views on welfare issues from civic and labor groups than previous governments, and also invited them to participate actively in policymaking and decision processes.

Civic groups played a key role in bringing about the transition from the LPS to modern public assistance in the form of the NBLSS. One civic organization in particular, People's Solidarity for Participatory Democracy (PSPD), endeavored to raise awareness of the need to improve national living standards and took the lead in activities, starting out with the "national minimum living standard movement" in 1994 (Ahn B. Y., 2000; Chung M. K., 2001). However, this endeavor failed[51], and the issue was brought to the attention of the nation again in the wake of the 1997 financial crisis. The PSPD organized a first public debate[52] and emphasized the need to build a system that would safeguard minimum living standards. As its next step, the PSPD joined forces with 209 professors to issue a statement entitled "Building Social Safety Nets." At the same time, 19 NGOs issued a statement calling for the enactment of the NBLSS. The PSPD and other NGOs organized public debates and issued statements to raise public awareness of social problems, in particular the increasing rate of unemployment, the shrinking middle class, and the increased risk of falling into poverty (SENBLSA, 1999).

The PSPD and other citizen organizations succeeded in shaping public opinion, compelling the government to respond by reforming public assistance and enacting the NBLSS. Furthermore, more than 60 civic organizations established the Solidarity for the Enactment of the National Basic Livelihood Security Act (SENBLSA) in March 1999. The establishment of the SENBLSA and its activities put political pressure on politicians. For instance, its public debate took place in the National Assembly hall, and the SENBLSA requested meetings with members of the National Assembly and public servants from the MOHW and other government departments. Following these activities, civic groups came together and announced their solidarity for achieving the comprehensive development of

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[50] As a university professor in the Department of Social Welfare, Kim Yeon-Myung engaged in activities of the PSPD and reform processes to discuss policy with the Kim Dae-Jung and Roh Moo-Hyun governments.

[51] This is addressed in further detail in Section 4.6.

[52] The 1998 debate entitled "Emergency Proposal: the IMF's Period and Social Alternatives against High Unemployment" was composed mainly of members of the National Assembly, public servants in the MOL, and researchers.

social welfare policies for all citizens. Lee J. (2008: 164) emphasized that civic groups shared a common goal, in spite of having different priorities and interests, enabling them to form broad coalitions concerning social welfare issue. In doing so, their activities successfully influenced the policymaking and decision processes that led to the introduction of the NBLSS (Chung M. K., 2001: 19). As a result of their activities, the introduction of the NBLSS was accelerated following the *Ulsan statement*.

The role of labor groups and their influence on the development of welfare policies, however, are generally considered to be less effective than the impact made by civic groups. There was one key explanation for why labor groups made less of an impact, even though labor unions had developed rapidly from the end of the 1980s onwards. Kwon S. (2007) stressed that labor rights had been strongly suppressed and that the labor force had been badly exploited during rapid growth of industrialization under military regimes. Faced with this pressure, labor groups initially focused on the advancement of labor conditions, and not on institutionalizing their political power in a labor party or on introducing social welfare policies for all citizens to swiftly achieve their rights and improve labor conditions.

This passivity on the part of labor groups with regard to social welfare was explained by their historical origins, especially the organization of labor unions, which was based on individual companies. According to Chung M. K. (2001: 19), the individual organization on the basis of companies meant that the labor movement focused primarily on achieving wage gains and improving company-based welfare. In this respect, the size of the company, which influences the size of labor unions, strongly increased the political power of labor unions, improving their negotiation stance (see Table 5-7). In fact, *chaebols* created attractive labor conditions for their employees, especially high wages and company-based welfare (Chung, M. K., 2009). Meanwhile, social insurance systems were introduced for workers at large enterprises, where they could afford the social insurance contributions and had well-organized labor unions (Yang, J. J., 2005: 404). In addition, dualistic labor market conditions also limited the solidarity of labor groups for the working class across all companies. Whereas some workers in large enterprises had the security of company-based welfare and full-time positions, others in small and medium-sized enterprises had low job security and less company-based welfare (Haggard et al., 1999: 211).

As such, the interests pursued by labor groups remained at the level of individual wage bargaining and negotiation for better company-based welfare programs, meaning that the solidarity of labor was divided along the lines of companies' employment conditions. This

affected the limited development of company-based welfare programs based on the size of the company. In doing so, the character of company-dominated labor unions hampered the solidarity of the working class. Consequently, the solidarity of the working class was unable to be any stronger because of the different views held based on the size of the labor union and the lack of collective consciousness as the working class became weak. The weak collective consciousness also hampered the consolidation or formation of labor political power as a political party, which could have represented the working class as a political institution. Regarding this, labor unions failed to lead the way in influencing structural changes in social welfare policies (Chung M. K., 2001). This explained the important point as to why Korpi (1983; 2001) was unable to explain the development of the welfare state system in South Korea in terms of "power resource," as was the case in European welfare states.

In fact, during the financial crisis, labor unions, the KCTU and the KFTC (South Korean confederations of labor unions)[53] pursued different activities in their response to the increasing unemployment rate. Both South Korean labor unions advocated the establishment of the TC, which consisted of the government, labor groups, and conglomerates. The aim of the TC was to deliberate on social welfare policies in order to achieve social consensus for overcoming the 1997 financial crisis. However, the different groups had different priorities in the TC. For the KCTU, the most important issues were objection to lay-offs and the legalization of the Korean Teachers and Educational Workers' Union (KTEWU), which had been established illegally in 1987 and became one of the industrial labor unions within the KCTU. Since the establishment of the KCTU in 1995, the labor unions' confederation itself had struggled for legalization until the KCTU was legally recognized in 1997. As such, the legitimation and legalization of the KCTU was one of its central issues for a long time after its emergence. As such, the KCTU campaigned for the legalization of the KTEWU, which was accepted in 1999. In line with this campaigning, the legitimation of the KCTU and general labor conditions for its members were more important issues than the expansion of national welfare schemes. One member of the KCTU, Kim Tae-Hyeun[54] (interviewed in August 2007), highlighted the fact that "the EI's reform was not a pivotal issue in the KCTU's policy priorities. … The main issues were rather the legalization of the KTEWU and job security, which was related to lay-offs."

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[53] More on the development of both labor unions in Section 3.3.1.

[54] Kim Tae-Hyun is a policy director at the KCTU.

Meanwhile, the KFTC focused to a greater extent than the KCTU on reforming social welfare schemes. Indeed, the KFTU filed a petition for the introduction of the EI in 1989. Although the petition failed, it showed that the KFTU had an interest in social welfare insurance systems. After the financial crisis, the KFTU requested the expansion of the EI as one of its priorities, which was underlined by Kim Jong-Gak[55] (interviewed in August 2007):

> "[T]he expansion of the EI was addressed by the KFTU. Unemployment was a huge problem … The KFTU emphasized the necessity of insurance for the unemployed, and the EI as the only way out. To receive unemployment benefits, workers had to contribute to the coverage scheme for a while so that it was necessary to expand the EI to cover the unemployed, who were increasing."

As stated above, South Korea's two labor unions' main concerns differed after the 1997 crisis during their participation in the TC. The reason why their political stances differed although they were both labor unions can be put down to their different origins.[56] The KFTU was organized with the support of authoritarian and military regimes. As such, military governments attempted to stem the growth of democratic labor unions so as to exclude the KFTU. The KFTU maintained close relations with conglomerates and governments, a pragmatic way for them to achieve their interests in both directions. Regarding this, the KFTU did not endeavor to campaign for its legal legitimacy so that the KFTU could focus on its own interests and develop welfare policies for their members. In contrast, the KCTU was established by democratic labor unions in order to strengthen labor political power in the 1990s because the KFTU did not campaign for general labor rights. However, according to the Labor Act[57], the establishment of a second labor union federation was not permitted. Therefore, above all, the KCTU had to fight for its legitimacy until the reformation of the latter in 1997 and for its establishment as a democratic confederation of labor unions in democratization.

In doing so, industrial relations substantially developed as labor vs. government relations (Kim D. C., 1995: 174-5). This was clearly evident in the arrest of labor unions

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[55] Kim Jong-Gak has been working as a policy director and researcher at the KFTU since 1989.

[56] This is addressed in greater detail in Section 3.3.1.

[57] There were two important issues: first, only one trade union federation was legally recognized. After the establishment of the KFTU, which was supported by the government, other attempts to build democratic trade union federations were illegal. Second, third-party intervention in industrial relations was restricted.

leaders, who had led labor strikes. Although government authorities accepted the autonomous labor-management adjustment, in reality, they arbitrated in labor disputes, treating them as a political issue. This is because the authoritarian government viewed labor disputes as an activity of the democratic movement, which could threaten the political power of the authoritarian government. In these circumstances, the KCTU built an adversarial relationship with the government and mistrusted its policies. Hence the KCTU focused mainly on its legalization, so as to stabilize political power in society and to influence labor policies. Its distrust of the government did not even disappear following the establishment of the new democratic government by Kim Dae-Jung. This was expressed in clear terms by Kim Tae-Hyeun:

> "The TC had no effectiveness and could not resolve problems. The TC was just a puppet of the government. The KCTU was endeavoring for information disclosure (from the government) to bring up subjects in different various ways.… At the end of the president's term, I thought that the TC was not the organization which could resolve crucial social problems. If the government changed, then the TC would be influenced in various ways (according to the character of the government). In fact, the EI was discussed in the TC, but this seemed to be only a rhetoric statement as in a comma condition.[58] Thus, it was not necessary for the KCTU to engage in such a discussion." (interview, August 2007)

The different views of welfare policy held by the two trade unions were also apparent in the debate on an issue about the integration of the NHI's funds from the late 1980s onwards. Whereas the KFTU rejected the pooling of its funds, the KCTU welcomed the move. As the KFTU saw it, pooling would create employment instability for their members. It would also reduce the power of management of the NHI's funds because most labor unions at the enterprises belonging to the NHI fund were members of the KFTU, and the KFTU did not want to risk losing members (Choi S. S., 2006). On the other hand, the KCTU supported the integration reform of the NHI's funds, which was, in fact, one of its policies in the struggle for social reform since the democratic labor movement (Kim Tae-Hyeun's interview in August 2007). However, the KFTU changed its stance following the achievement of social

[58] He used a metaphor. According to him, a comma condition meant that the TC established and existed, but was not in a function as a political institution.

consensus in the TC. Joo Y. J. (2008a) stated that the reason why the KFTU eventually agreed with the integration reform was linked to two changed political conditions: first, a central effect was the inauguration of the progressive president, Kim Dae-Jung. After all, the KFTU generally had a close relationship to the government and it agreed with national policies, which were enacted by the Kim Dae-Jung government. Second, the establishment of the TC to bring about social consensus as a response to the 1997 financial crisis was influenced by KFTU's policies. This was because the KFTU was unable to assert only its own interests in the economic turmoil, but had to negotiate in order to demonstrate its legitimacy. Against this backdrop, the policy decision was implemented, leading to the pooling of the NHI's funds.

Regardless of the degree of influence exerted by civic and labor groups, Kim Yeoun-Myoung (interviewed in March 2013) clearly stressed the significant role of labor and civic groups in the extension process of the national welfare system following their political development:

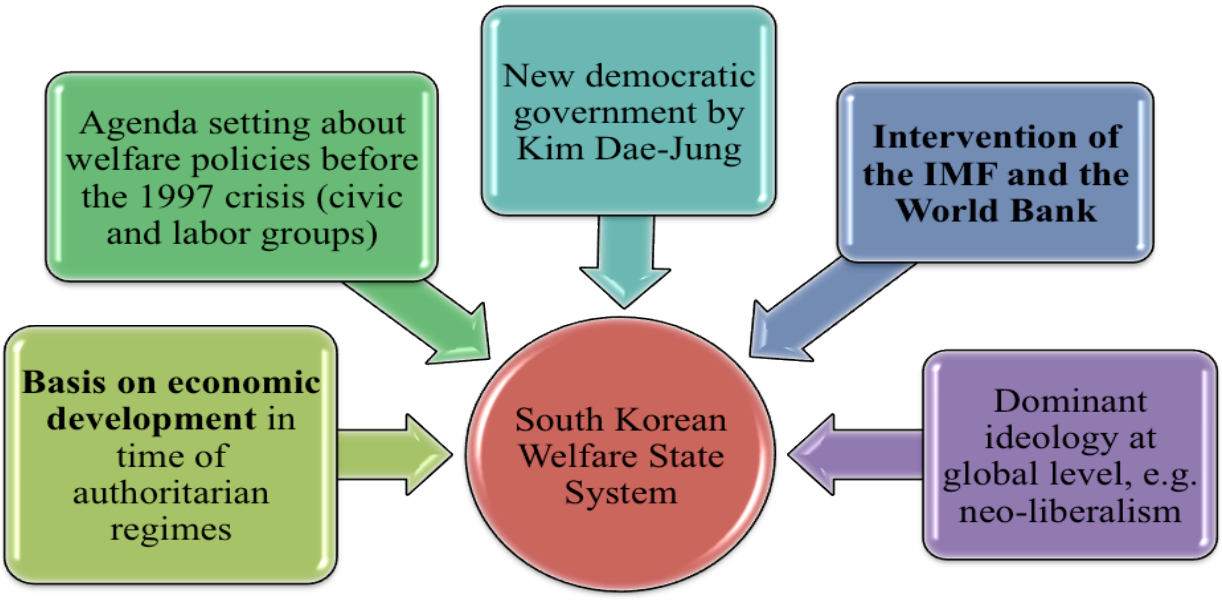
> "[T]hey attempted to form welfare programs as national welfare policies. The 1997 financial crisis became a structural reason for why the government had to reform the national welfare system. However, at the same time, there was political pressure from civic and labor groups for institutional reforms. I can guarantee this because I engaged in the policymaking and decision process by the Kim Dae-Jung and Roh Moo-Hyeun governments. Thus, we cannot say there that labor groups had no effect, but after that time, the political power of labor groups weakened. Nevertheless, the national welfare system has been expanded, which could not be explained by working class mobilization."

To sum up, the effect of the increased participation of civic and labor groups was not a key factor in explaining the development of the national welfare system in South Korea. However, it is important to understand their political growth in multi-dimensional approaches (Kim Y. M., 2008).

5.4. The Impact of Domestic and Global Conditions on Welfare Policies in South Korea

In the development of the South Korean welfare state system, the 1997 financial crisis became a turning point in that led to its rapid development. In the case of South Korea, the development of the national welfare system could not be applied in the sense of the modernization theory as the development of European welfare states. However, the development could not be explained without successful economic growth either. Moreover, the change of global conditions due to the financial crisis influenced the reform of the national welfare system in South Korea. In this context, it is also difficult to directly apply understanding of the development of East Asian welfare states in the sense of cultural values (Chau and Yu, 2005; Goodman and Peng, 1996; Jones, 1990; 1993) and sources of political legitimacy of authoritarian regimes and growth-oriented political strategy (Gough, 2004; Holliday, 2000; Kwon H. J., 1999). Consequently, it is important to analyze it in a complex perspective, i.e. multi-dimensional approaches, in order to understand the development of the South Korean welfare state system (Kim Y. M., 2008). After all, numerous political and economic issues were entwined not only in domestic conditions, but also interacted with global conditions, as Figure 5-1 shows.

Figure 5-1. The impact on the development of the South Korean welfare state system after the 1997 financial crisis



To sum up, as Figure 5-1 shows, on the one hand, the 1997 crisis, i.e. a critical juncture, entailed a change in political leadership with a new progressive government led by President Kim Dae-Jung. This government was able to implement the structural expansion of the national welfare system and to open up policymaking and decision processes to civic and labor groups, which had already set the agenda for restructuring welfare policies. On the other hand, reform policies in the Kim Dae-Jung government were influenced by global conditions, i.e. the intervention of global banks as a condition for bailouts. The IMF and the World Bank directly demanded the reform of national welfare policies as a condition for economic bailouts. Particularly in the case of pensions, the World Bank has been developing its own vision of pensions since the 1990s and intervened in the reform process of developing countries by making its guidelines a condition for funding. In doing so, the intervention of global governance organizations reinforced neo-liberalism into national policies. Such an impact also affected the reform process in South Korea. In addition, domestic political conditions were unfavorable for carrying out structural reforms of social welfare programs. Presidential policies faced bureaucratic hurdles, which were dominated by conservative, anti-reform groups from previous authoritarian regimes. For instance, the enactment process of the NBLSS was challenging due to different perspectives among government departments, politicians, and a divided public opinion. The reform of the NHI also involved strong confrontation with the bureaucracy and interest groups. In contrast to previous presidents, President Kim Dae-Jung broke such logjams and pushed for progressive reforms. However, some scholars argue that the development of the national welfare system was limited due to bureaucratic hurdles (Choi J. J., 2002; Kim and Choi, 2014; Shin K. Y., 2002). Choi Y. J. (2011: 24-5) stressed that, in fact, the Kim Dae-Jung government laid the groundwork for favorable social, economic, and political conditions, and that the Roh Moo-Hyun administration subsequently carried out the reforms and developed the national welfare state system.

Chapter 6: Conclusion – the Development of the South Korean Welfare System

The 1997 Asian financial crisis led to structural changes in South Korea's national policies – not only economic reforms, but also political and social changes. In particular, South Korea witnessed a dramatic expansion of its national welfare system (Cho W. H., 2005: 55). Although social expenditure in South Korea is still lower than that in European welfare states, welfare policy has experienced significant quantitative and qualitative changes since the 1997 financial crisis and has continued to develop under successive administrations. In light of these circumstances, the main research question of this thesis was how and to what extent the 1997 financial crisis influenced the development of the national welfare system in South Korea in order to understand its unprecedented expansion and changes in character.

Chapter 2 drew, first of all, on various theoretical approaches explaining the development of European welfare states to understand the establishment of welfare states in connection with the case of South Korea. The Golden Age of welfare states in European countries was generally understood to have occurred in a context of industrialization and political conditions related to the strengthening of citizen rights and labor movements (Esping-Andersen, 1990; Korpi, 2001; Pierson, 1991, 2004; Rodrik, 1998a; Wilensky, 1975). However, theoretical approaches to the development of European welfare states could not be easily applied to East Asian countries. This was especially true in the cases of the tiger countries, which successfully developed economically, yet did not constitute welfare states as did European countries. In addition, democratic institutions were successfully implemented in the case of South Korea, but growing civic and labor movements did not entail the development of a South Korean welfare state regime; in other words, working-class mobilization in South Korea, unlike in Europe, failed to lead to a welfare regime that could be characterized as "conservative," "social democratic," or "liberal."

In this regard, scholars attempted to determine the core reasons why the welfare state in East Asian countries did not emerge or why its structural development was limited. On the one hand, Deyo (1992) stressed that these countries neglected social welfare policies, while primarily focusing on economic growth. In a similar vein, Holliday (2000) pointed out that "productivist welfare capitalism" (i.e. welfare policies) was dependent on growth-oriented national policies in the economy. On the other hand, other explanations invoked Confucian values, which have been deeply entrenched in East Asian societies and have served as the

ultimate source of variation from their Western counterparts. Jones (1990) pointed out that family and informal networks played crucial roles as social networks for security in the place of national welfare systems in contrast to European welfare states, in which welfare policies were developed according to a concept of citizen rights.

However, recent development has been complex, particularly when taking into account the impact of economic globalization on national policies in a country. Borderless global circumstances have affected conditions of economy, which in turn influence both economic and social aspects of national policies. The withering welfare state is, above all, a crucial issue in European welfare states because fierce economic competition accompanies increasing economic openness such as the liberalization of trade, investment, and capital flows and pressure to conform with international standards. Such standards are, for instance, created by global governance organizations such as the IMF, the World Bank, and the OECD (Evans, 2009; Kim and Kim, 2003: 341; Weiss, 2003: 5). Under these conditions, governments have sought several ways to enhance national competitiveness by cutting back on social welfare systems.

This research used path dependence approaches to understand the rapid development of the South Korean welfare system since the 1997 crisis because, according to Capoccia and Kelemen (2007: 342), "path dependence analysis sustains causal mechanisms on temporal sequences." Chapters 3 and 4 presented, in this regard, the preconditions in politics and the economy and the outcomes of welfare reforms under the Kim Dae-Jung government to understand the developmental path. Since the onset of the 1997 financial crisis, the government has shaped the welfare system, which indeed counters the neo-liberal assertion that market-driven globalization renders social policy marginal in economic development. In fact, South Korea expanded its welfare system towards comprehensive coverage of welfare programs, particularly the introduction of a new, modern public assistance system and reforms of four central social insurance systems even while Singapore and Hong Kong maintained the basic structure of the selective developmental welfare state (Kwon, H. J., 2009: 12).

Outcomes of Welfare System Reforms in South Korea since the 1997 Financial Crisis

Urbanization, industrialization, and changing political conditions such as working-class mobilization and party politics substantially affected the establishment and development of

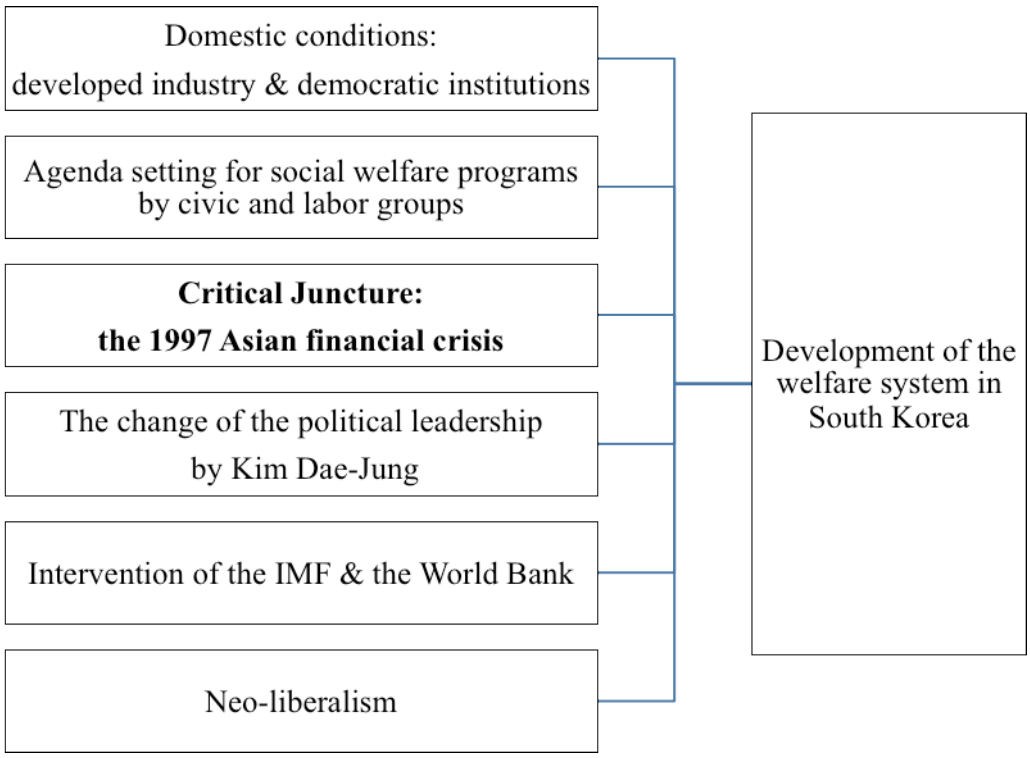
the Golden Age of European welfare states. As Chapters 3 and 4 illustrated, successful economic growth did not produce sustained development of the welfare system in South Korea (in contrast to modernization theory), but welfare system programs were only established in order to support economic growth. In addition, the growth of civic and labor movements did not themselves cause the development of welfare policies in South Korea, which means the "power resource mobilization" approach also cannot be applied. Instead, labor groups struggled to increase trade unions membership or to create better company-based welfare programs. In doing so, labor groups in South Korea failed to build their own political party, unlike in European welfare states (see Sections 3.3.1 and 5.3.2).

It was in these circumstances that South Korea was forced to face the unexpected financial crisis of 1997 and the increased social problems associated with it. The government was challenged to restructure not only the economy, but also the political and social realms. Indeed, the 1997 financial crisis created a whole new political climate, which resulted in a change of political leadership, and led to intervention by the IMF and the World Bank (which helped to accelerate the reform of welfare policies). During the financial crisis, particularly, the changed political leadership carried out center-left reforms in various ways, and courted the active participation of civic and labor groups in policymaking and decision processes, particularly when dealing with the welfare system. However, in reality, labor groups did not directly affect reform outcomes of welfare policies; they mainly continued to be support groups. In addition, the financial crisis situation brought about external intervention with bailout conditions by global financial governance organizations, particularly the IMF and the World Bank. To sum up, the case of South Korea is significantly explained by the path dependence approach, taking the 1997 financial crisis as its critical juncture to explain how the welfare system experienced a turning point in the policymaking process and was expanded (see Section 5.1).

Two specific factors were crucial in making these historical changes in welfare policies possible. First, the crisis presented a chance for remarkable reforms that were enabled through the change of the political leadership by President Kim Dae-Jung (1998-2002). In 1987, the June Democracy Movement triggered the development of democratic institutions. However, the political power of authoritarian regimes remained until the inauguration of President Kim Dae-Jung in 1998. In other words, the changed political leadership in the financial crisis was interpreted as the beginning of genuine democracy or the consolidation of democratization in South Korea (see Section 5.3.2). Kim's government facilitated the active

engagement of civic and labor groups in policymaking and decision processes and accepted a degree of center-left agenda-setting from them. The second crucial factor was the positive impact of global governance organizations on the expansion of the national welfare system in South Korea. The IMF and the World Bank criticized the vulnerability of the social safety net in South Korea and demanded its reform as a condition for the bailout. In these circumstances, the government strived to meet the IMF preconditions in an effort to obtain bailout loans. The intervention of these global governance organizations accelerated some reform processes or broke logjams within the policy-decision process (see Section 5.2.2). Figure 6-1 depicts various influential factors that help explain the development of the national welfare system in South Korea.

Figure 6-1 Influential factors of the development of the national welfare system in South Korea



As a result, after the 1997 crisis in South Korea, the national welfare system was reformed to an unprecedented degree, from the limited social security system to the universal, as explained in Chapters 4 and 5. Specifically, four national insurance programs – the NHI, the NPS, the IACI, and the EI – were expanded and a new modern public assistance system, the NBLSS, was introduced. The EI in 1998 and the IACI in 2000 were widened to include all enterprises with one or more employees. The NPS was expanded in 1999 to cover all citizens

as well. Since 2000, the NHI has been fully integrated into one fund, which had previously been composed of around 350 health insurance funds. In addition, the NBLSS was newly implemented in 2000 to replace the LPS. The NBLSS included center-left elements to change it from a program of residual welfare provision to a universal welfare system in the sense of social rights to secure a minimum living standard for all citizens. In doing so, the South Korean state welfare system developed not only quantitatively, but also qualitatively. The following tables show how the four central social insurance systems and the public assistance system were reformed and comprehensively expanded.

Table 6-1 Employment Insurance: outcome of the reform since 1998

		Reform since 1998
Goal	- Contribution to stabilization of labor market	- Protection for unemployed - Prevention for employment stabilization
Coverage	- Selective	- All workers (broader)
Financial affairs	- Unemployment benefits: employer + employee - Other programs: employer	- Same (increasing)
Management	- *Korea Workers' Compensation and Welfare Service* (an institution of the government) + local labor office	- United into the institution, *Korea Workers' Compensation and Welfare Service*

The government first carried out the reforms of the EI when South Korea was still battling the 1997 financial crisis. The EI was ultimately reformed three times in 1998 in order to protect unemployed people. As Table 6-1 indicates, the most crucial change was the expansion of coverage from selected groups to all workers. The number of applicable enterprises increased more than eleven-fold between 1997 and 1998 (MOL, 2011: 95). Since 1998, its coverage continued to increase and other programs have also been comprehensively developed to secure the stabilization of employment.

Table 6-2 The National Pension Scheme: outcomes of reforms since 1998

		Reform since 1998
Goal	- Mobilization of capital - Support for poor elderly people	- Prevention of pensioner poverty
Coverage	- Selective	- All citizens (broader)
Financial affairs	- Employer + employee + government (taxes)	- Same (increasing)
Management	- *National Pension Service* (an institution of the government)	- Same

The consideration of a pension program was closely related to economic development strategies in the 1970s to mobilize capital, so it was first implemented for selected groups who could afford a pension insurance premium. Since the 1997 financial crisis, however, the goal of the National Pension has been broadened to address prevention of pensioner poverty more generally. Coverage was expanded to all citizens as well (see Table 6-2).

Table 6-3 The National Health Insurance: outcomes of reforms since 1999

		Reform since 1999
Goal	- Care	- Security and prevention
Coverage	- Selective	- All citizens (broader)
Financial affairs	- Employer + employee + government (taxes)	- Same (increasing support from taxes)
Management	- Individual insurance funds in regions and occupations	- Unity into a single health insurance fund

As Table 6-3 shows, the NHI was also reformed to extend coverage to all citizens. The most unprecedented change of the NHI was the pooling of insurance funds into a single fund. Unifying the fund was intended to make the NHI more effectively and efficiently managed. In spite of various interest groups, the government has worked to reduce the conflict among them. Furthermore, social expenditure has been increasing to account for the expanded coverage and the development of a broad spectrum of medical services by the government.

Table 6-4 Industrial Accident Compensation Insurance: outcomes of reforms since 1999

		Reform since 1999
Goal	- Reduction of economic losses by firms in markets	- Reasonable compensation for workers
Coverage	- Selective	- All workers (broader)
Financial affairs	- Employer	- Employer (increasing)
Management	- *Korea Workers' Compensation and Welfare Service*	- *Korea Workers' Compensation and Welfare Service*

During the reform process of the IACI in 1999, there was no opposition or controversial issues, unlike in the case of other insurance systems. Its expansion was undertaken while the rest of the welfare system was also generally developed (Table 6-4). The government carried out the reform in a spirit of following the rest of the center-left welfare system and to encourage the labor market to follow the same developmental path.

Table 6-5 Public Assistance: introduction of the new modern public assistance system since 2000

	Livelihood Protection System	**National Basic Livelihood Security Scheme (since 2000)**
Goal	- Protection - Care	- Security and prevention - Social rights
Coverage	- Selective (according to age and inability to work)	- All citizens who earn less than the minimum standard of living
Financial affairs	- Government (taxes)	- Taxes (increasing)
Management	- Government	- Government (central and local offices) - Institutions of the government in the Self-Support Program

The NBLSS was introduced in 2000, which became one of the most important welfare reforms as a new modern public assistance system after the 1997 financial crisis. Through the introduction of the NBLSS, the welfare system in South Korea shifted from a residual to a universal welfare system. In the NBLSA, as Table 6-5 shows, some legal terms were enhanced, particularly the concept of "protection" to the concept of "security." This was based on a sense of social rights, so coverage was expanded to include all people who earn less than the minimum standard of living. This structural change also entailed increased

social expenditure and a broad responsibility on the part of the government.

From the above tables, it becomes clear that the South Korean welfare system expanded significantly since the 1997 financial crisis, particularly the public assistance system and the four main social insurance systems. Nevertheless, private welfare, particularly company-based welfare, still plays a crucial role in the welfare policies of South Korea. These company-based welfare schemes continue to divide the labor force into two different labor statuses, "insiders" and "outsiders." Esping-Andersen (1997: 183) stressed the role of company-based welfare in the case of the Japanese welfare system, noting that insiders, who are employed by large enterprises, have "not only higher earnings, but also superior social-security benefits." In other words, the insider has various privileges in private welfare. This has resulted in an imbalance of welfare benefits related to the form of the employment and the size of firms (see Chapter 5). Furthermore, since the 1997 financial crisis, the flexibility of the labor market has increased, which has resulted in relative inequalities regarding social security benefits according to whether a worker is an "insider" or an "outsider." Thus, it is important to know how private welfare systems are connected to the public welfare system in order to understand the development of the South Korean welfare system since the significant reform process in the wake of the 1997 financial crisis.

Sustainability of the Development of the South Korean Welfare System by Following Administrations

The South Korean welfare system has been, essentially, on a developmental path since the Kim Dae-Jung government (1998-2002). The first center-left administration by President Kim began a series of unprecedented structural reforms of welfare schemes, which, indeed, could not be completed during his five-year administration. The following government led by President Roh Moo-Hyun (2003-2007), the second center-left administration, also worked to foster more expansive welfare policies. The Roh Moo-Hyun government not only continued and cemented the welfare reform policies that took place under the previous government, but also continued and implemented reforms that the Kim Dae-Jung government was unable to complete. Seong K. R. (2014) noted that, while the Kim government focused mostly on the restructuring of public assistance and social insurance systems, the Roh government put more attention on the development of social services for groups such as children, the disabled, and

women. In other words, both governments worked toward a balanced development of the welfare system and expanded the role of the government in welfare policies. Kim Su-Hyeon (interviewed in February 2013) corroborated this, noting that some welfare policy reforms were effectively implemented by the Roh Moo-Hyun government.

Welfare policies developed quickly in Korean politics, even though they had been neglected for a long period due to rapid economic growth before the 1997 financial crisis. Since the reforms under the Kim Dae-Jung government, the development of welfare policies has continued regardless of the character of administration as progressive or conservative. Table 6-6 shows the increase in public social spending.[59]

Table 6-6 Public social spending, as a percentage of GDP, 2003-2013

*2003	2004	2005	2006	2007	**2008	2009	2010	2011	2012	***2013
5.4	6.0	6.5	7.4	7.6	8.2	9.4	9.0	9.0	9.6	10.2

* 2003-2007 the Roh Moo Hyeun government (center-left)
** 2008-2012 the Lee Myung-Bak government (center-right)
*** 2013- the Park Geun-Hyae government (center-right)
Resource: OECD databank (data last accessed January 2016)

Seung K. R. (2014: 77) uses a theoretical approach of path dependence to explain that the developmental process of the South Korean welfare system has followed a specific historical developmental path of welfare states. The 1997 financial crisis opened the developmental path of welfare systems, serving as a turning point in South Korea's history. Such changes referred to the maturity of the welfare system, so that welfare policies could be developed independently of the political character of the government in politics.

To sum up, there is no controversy that the welfare system in South Korea has been developing since the 1997 financial crisis. Social expenditure has been increasing and the role of the government has been expanding. Therefore, how should we characterize the South Korean welfare state regime after all these changes? Existing research mainly deals with the constrained development of welfare systems in Asian countries, particularly in the cases of East Asia. Does the case of South Korea follow the same line, or do we need different approaches to understand this case? The following chapter will mainly deal with the explanation of the character of the South Korean welfare system in the wake of welfare reform processes.

Chapter 7: Discussion – the Character of the South Korean Welfare Regime

The welfare system in South Korea has been greatly expanded since the 1997 Asian financial crisis. The reforms of the welfare system, especially public welfare, under the Kim Dae-Jung government (1998-2002) brought about a historical turning point in the development of welfare policies. As explained in the previous chapters, the coverage of social insurance systems was reformed for all employees and all citizens. The goal of welfare policies in states has been to transfer the focus from residual care to comprehensive social security. In spite of South Korea's weak financial conditions due to the 1997 financial crisis, social expenditure has increased significantly. In particular, the increase in social expenditure has started to become unaffected by changes in political leadership, which has consistently devoted attention to welfare politics. According to Seung K. R. (2014), such change was made possible through reform processes by the Kim Dae-Jung government, i.e. a center-left government opened the positive developmental path of welfare policies. Nevertheless, subsequent administrations have followed the same path in accordance with growing demands of the people and the establishment of welfare policies. In addition, through structural reforms of welfare schemes after the 1997 financial crisis, the mature welfare institutions have created a basis of sustainable development of the welfare system (Seung K. R., 2014).

It was in these circumstances that the topic of the emergence of the welfare state in South Korea arose and the discussion about the character of its welfare system has taken place. During the financial crisis, scholars in South Korea attempted to interpret the path of reform processes and the outcomes of welfare reforms by the Kim Dae-Jung government. Moreover, they have attempted to seek out the general character of welfare policies under subsequent governments since Kim Dae-Jung about how the South Korean welfare regime has developed. This debate has been divided into two different approaches: on the one hand, the characteristics of "liberal" welfare regimes are emphasized: on the other hand, other scholars depict South Korea as a "mixed" welfare regime, which involves both liberal and

[59] Public social spending comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes according to the OECD (accessed in June 2016).

conservative welfare regimes, on the basis of Esping-Andersen's concepts (Kim Y. M. ed., 2002).

In fact, it is controversial to give an account of the types of the welfare regimes in Asian countries. Esping-Andersen (1997) attempted to explain the case of the Japanese welfare system to understand the character of Asian welfare systems, but stressed his difficulties in defining a typology of Asian countries because the Japanese welfare system "is still in the process of evolution and has not yet arrived at the point of crystallization" (ibid.: 187). In this aspect, he detailed the Japanese welfare system as a mixed welfare regime between Europe and America. The main reasons of its classification, according to him, are the heavy reliance on (1) the role of family, which appeared in the conservative model, and (2) the company as a private welfare actor, which takes the place of the government in the liberal model.

Just as Esping-Andersen (1997) stressed the difficulty of defining Asian welfare systems using the case of the Japanese welfare system, the South Korean welfare system is also still developing, and it is virtually impossible to precisely identify the type of the welfare regime. Nevertheless, after the 1997 financial crisis, South Korea undertook institutional-level developments of its welfare system and has been evolving since. The more we examine it in detail, the clearer it becomes that the South Korean welfare system is developing and is orienting itself to the conservative welfare regime (see Tables 7-1 and 7-2). In a similar vein using a neo-institutionalist approach, Kim W. S. (2006) also contended that the South Korean welfare state regime has been moving toward the character of European welfare states since the 1997 financial crisis.

Table 7-1 The changing character of the South Korean welfare system in the wake of the 1997 financial crisis

	Before the crisis	**Since the crisis**
Definition of problems	- Individual	- Structural
Goal	- Protection (for selected people)	- Security - Prevention
Orientation of welfare policies	- Exclusion from welfare services - Limited support (to prevent moral hazard)	- Productive welfare to be well integrated in labor market - Prevention
Role of the family	- Important	- Important
Character	**- Mixed welfare regime**	**- Conservative welfare regime**

Source: based on Czada (1999), Esping-Andersen (1990), and Holliday (2000)

As this research has proved, the South Korean welfare system was comprehensively established under the Kim Dae-Jung government. First of all, as Table 7-1 shows, the definition of social problems was changed. For instance, unemployment was understood as an individual problem in South Korean society, as long as full employment was generally achieved in the labor market. However, due to the 1997 financial crisis when South Korean economic growth was interrupted, the unemployment rate dramatically increased. Unemployment was redefined as a structural problem resulting from the mismanagement of the economic system. In South Korean society, individual problems were redefined, meaning that people were unable to resolve their problems as long as the government failed to provide a structural basis for the welfare system. The government, in this regard, undertook to regulate the welfare system in order to secure the minimum standard of living for its people. The Kim Dae-Jung government reformed the country's social insurance systems, which originally covered only selected people and groups, to cover all workers and all citizens, and introduced a new modern public assistance system to safeguard and prevent citizens from experiencing social risks.

However, the crucial role of the family remained unchanged. Due to the heavy reliance on the family in the case of Japan, Esping-Andersen (1997) classified the Japanese welfare regime as having a conservative character. However, some scholars criticized that the responsibility for child and elderly care in Japan (like South Korea) is mostly assumed by the

family, while in Germany, the government mainly takes responsibility. In addition, the level of social expenditure in Japan is much lower than in other "conservative" welfare regimes (Goodman, 2008; Kaufman, 1997; 2003; Kim W. S., 2006; Kwon H. J., 1997). For this reason, scholars have argued that it is not straightforward to categorize Japan as a conservative welfare regime at the same level of European welfare states because of the role of the family. Indeed, this criticism is not completely wrong. Like the case of Japan, the role of the family was important in South Korea, but after the 1997 financial crisis (and after the Kim Dae-Jung government (1998-2002)) the explanation is different. The Kim government did not complete its reform of welfare policies and social services, such as childcare and welfare for the aged, children, and women, but mostly focused on reforms of national social insurance systems and public assistance. This meant that the unprecedented development of the welfare system just started under the Kim Dae-Jung government. The following government led by President Roh Moo-Hyun (2003-2007) undertook the reforms of welfare policies left unfinished by the Kim government, and also continuously developed other social services that the previous government did not focus on. Such developmental processes also involved an increase in social expenditure. Such long-term changes demonstrate that development has characterized the transition of the character of South Korean welfare system from a liberal (for selected groups) or mixed (as Japan) regime to a conservative welfare regime. The transition of the case of South Korea becomes clearer when using Holliday's classification.

Holliday (2000) argued for the need to categorize East Asian welfare systems as a fourth welfare regime, i.e. the productivist welfare regime, because the East Asian systems were so significantly different from the "three worlds of welfare capitalism" of Esping-Andersen. Walker and Wong (2005a: 4) also stressed that East Asian societies such as Singapore, Hong Kong, and China contradicted the Western welfare state models (which Esping-Andersen (1990) had categorized as liberal, conservative, and social-democratic welfare regimes respectively), because their systems are seldom classified as welfare states as such. Holliday (2000: 708) stated that a fourth classification needs to be added to the three Esping-Andersen uses because this is significant "for identifying worlds within the universe of welfare capitalism." According to him, East Asian countries, particularly Japan, Hong Kong, Singapore, South Korean, and Taiwan, should not simply be excluded from the concept of welfare capitalism, but they do have different welfare systems from other welfare states.

If we apply Holliday's definition, the case of South Korea was also defined as one of

productivist welfare regimes as Holliday already classified. However, due to the 1997 Asian financial crisis, South Korea moved from a "productivist" to a "conservative" welfare regime after the reform process of welfare policies during the financial crisis, as Table 7-2 indicates. Productivist welfare capitalism by Holliday (2000: 709) is characterized by social policies that are subordinate to economic policy and all aspects of national policies are premised on productive growth. Indeed, until the interruption of the economic growth due to the 1997 financial crisis, the sense of "growth first and distribution later" dominated economic policies and politics, and this ideology was generally accepted in South Korean society. However, the dominant ideology in South Korea changed during the period of overcoming the financial crisis, which conducted structural reforms not only in economic policies, but also in other national policies including those concerning the social safety net.

Table 7-2 Transition of the South Korean welfare regime from productivist to conservative

Welfare regime	**Social policy**	**Social rights**	**Stratification effects**	**State-market-family relationship**
Productivist	Subordinate to economic policy	Minimal; extensions linked to productive activity	Reinforcement of productive elements	Premised on overriding growth objectives
Since reforms of the South Korean welfare system in the wake of the 1997 financial crisis				
Conservative	Neither privileged nor subordinate	Quite extensive	Existing status differentials preserved	Family protected

Source: based on Holliday (2000: 709)

As Table 7-2 shows, the implementation of welfare reform policies in the wake of the 1997 financial crisis made structural changes of the South Korean welfare system toward development into a characteristic conservative welfare regime. First, according to Holliday's concept, South Korea belonged to the productivist welfare regime because social policy was subordinated to economic policy. Indeed, there was no controversial discussion, as South Korea's policies focused on policies that continued economic growth as mentioned previously. However, the Kim Dae-Jung government took office and expanded the comprehensive welfare system during the economic turmoil. In doing so, social welfare policies were no longer subordinated in South Korea, unlike in other East Asian countries.

Such transition was interestingly begun in the 1997 financial crisis. In this period, the weak social safety net was seriously revealed, e.g. a rapidly increasing unemployment rate with a number of associated social problems. At the same time, the World Bank and the IMF criticized the weak welfare system, which rendered citizens unable to overcome individual difficulties, and demanded the restructuring of the welfare system as a condition of the bailout. In these circumstances, the attention to welfare policies in South Korea rose and a structural reform process started. Since the Kim government, welfare politics in South Korea have significantly developed. Despite the change of the political leadership again from center-left presidents (Kim Dae-Jung from 1998 to 2002 and No Moo-Hyeun from 2003 to 2007) to those on the right (Lee Myung-Bak from 2008 to 2012 and Park Geun-Hyea from 2013 to 2017), according to Seung K. R. (2014), political competition among parties has intensified and this has spurred politicians on to develop positions on welfare policies. Park C. P. (2008: 20) proved how much the issue of welfare was mentioned and emphasized by members of the National Assembly during their 17th term. The issue of welfare policies took second place; only economic policy was more hotly debated. According to Lee J. (2009), by the presidential election of 2007 and the National Assembly election of 2008, the expansion of the welfare system had become the most important election pledge.

Second, social rights were defined as extensive, rather than limited. The most notable example, as Chapter 5 explained, is the introduction of the NBLSS, in which the basic concept of the welfare system developed from "protection" to "security." The augmentation of the concept signifies that social welfare was acknowledged as a social right in society. In addition, four national social insurance systems, which covered selective groups, were reformed to include all citizens and all workers under the Kim Dae-Jung government.

Third, President Kim Dae-Jung's "productive welfare" philosophy (which is not the same as the concept by Holliday of the same name; see Section 5.1.2.2) involved criticism about the underdevelopment of the welfare system in spite of successful economic growth. The reform of welfare policies did not just focus on related economic policies, but harmonization of national growth with the whole of economic and welfare policy. As a result, the importance of reinforcing the productive elements of welfare policies was diminished under the Kim Dae-Jung government. However, the welfare system has come to preserve existing status differences, which was proved with reforms of national social insurance systems and the introduction of modern public assistance (see Chapter 5).

Finally, in the state-market-family relationship, the family has played an important role in South Korean society, but its role is changing. Before the 1997 financial crisis, in fact, the

family largely took the role of being the social safety net, protecting family members from social risks such as unemployment and illness, and providing care for elderly people and children. However, in the wake of the 1997 financial crisis, the government and society recognized that individuals – or families – could not combat unemployment alone, which resulted as a structural problem in the economic system. Moreover, social services were not much developed under the Kim Dae-Jung governments, but his government carried out structural reforms in welfare policies in order to establish a foundation for further expansion of the welfare system in South Korea. This can be seen in the actions by the following government of Roh Moo-Hyun (2003-2007), who expanded social services such as childcare, children's welfare, and welfare for the aged, thus supporting the family in the public welfare system and continuing the implementation of welfare reforms from the previous government. In sum, family protection has become an important aspect of the welfare system when discussing the state-market-family relationship; this is also typical of a "conservative" welfare regime.

Nevertheless, not all scholars agree on the characterization of the South Korean welfare system as a conservative welfare regime, because the case of South Korea has a few controversial features (Kim Y. M. eds., 2002). First, the level of social expenditure is still lower than in other conservative welfare regimes. However, this point can be disputed if we consider that the development of the South Korean welfare system took place relatively recently, and it takes time to achieve the average social expenditure of other conservative welfare regimes. As Esping-Andersen (1997) also stressed, the Asian welfare system is still developing, so it is difficult to clearly define the character. Nevertheless, social expenditure has consistently and significantly increased in South Korea since the Kim Dae-Jung government (see Table 6-6). Second, the role of company-based welfare, which does not appear in European conservative welfare regimes, still remains in place in the South Korean welfare system. Welfare programs in most European welfare states are the responsibility of the government. However, in the case of South Korea, company-based welfare programs developed during the era of rapid economic development in order to support the stability of the labor market, which had been closely related with economic growth. In doing so, company-based welfare programs partially replaced the national social safety net, but mainly when workers are employed. It seems that the company-based welfare exist not only as private welfare, but have also become a part of the welfare system, i.e. the company-based welfare is demanded in society as one of the actors in welfare politics of South Korea.

Indeed, while the average of social expenditure by the government decreased, social expenditure by companies increased. As Table 5-5 shows, in 1998 when the financial situation was extremely difficult, the spending by company-based welfare increased from 33.4% to 44.8% as a percentage of the total, while social expenditure[60] by the government fell from 66.3 to 54.9%.

However, since stable development in welfare policies under the Kim Dae-Jung government, the company-based welfare schemes have decreased. In 2001, when the economic situation in South Korea improved, social expenditure by the government increased from 61.5 to 70.4% while expenditure of the company-based welfare decreased from 38.0 to 28.9%. This proved that the role of the government has been growing, and the character of the welfare system has been moving from a productivist to a conservative welfare regime. As Esping-Andersen (1997) emphasized, a clear definition of the welfare regime in East Asia is not simple. They cannot be simply categorized according to the features of European welfare states. However, as the research presented here on the development of the South Korean welfare system after the 1997 financial crisis indicates, we can see that the South Korean welfare regime is shifting from a productivist or liberal system to a conservative one, with different features such as expanding social expenditure and decreasing company-based welfare.

[60] This is the total of public welfare service, social insurance, and public support (see Table 5-5).

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Appendix 1 South Korean Chronology from 1945-2007

Year	Politics	Social Welfare Policies
15 August 1945	Korean independence from Japanese rule	
1945-1948	American military administration • 17 July 1948 Republic of Korea (South Korea) • 9 September 1948 Democratic People's Republic of Korea (North Korea)	
1948-1960	Rhee Syng-Man government • 1950-1953 Korean War	
19 April 1960	Citizen demonstration • 26 April, Rhee Syng-Man resigned	
1960	Yun-Bo-Sun provisional government	
15 May 1961	Military coup d'état by Park Chung-Hee	• 1961, introduction of the Livelihood Protection Scheme (public assistance)
1963-1979	Park Chung-Hee government • 26 October 1979 Assassination of President Park Chung-Hee	• 1963, introduction of Industrial Accident Compensation Insurance (IACI) • 1963, enactment of the Health Insurance (HI) Scheme • 1977, introduction of the HI
December 1979 - August 1980	Choi Kyu-Ha government	
12 December 1979	Military coup d'état by Chun Doo-Hwan	
1980-1987	Chun Doo-Hwan government • Kwangju Uprising from 18 to 27 May 1980	
June 1987	June Democracy Movement • December 1987, first direct presidential election	
1988-1992	Roh Tae-Woo government • 1988 Seoul Olympics	• 1988, introduction of the national pension scheme • 1988, expansion of the HI to include rural residents (agricultural and fishing

		regions)
1993-1997	Kim Young-Sam government • 1995 OECD member	• 1995, introduction of Employment Insurance (EI)
1997	**Asian financial crisis**	
1998-2002	Kim Dae-Jung government	• 1998, the EI: reform for all workers • 1999, Pension: reform for all citizens • 2000, the HI: reform of the pooling of the HI's societies • 2000, the IACI: reform for all workers • 2000, introduction of a new modern public assistance scheme (National Basic Livelihood Security Scheme)
2003-2007	Roh Moo-Hyun government	

Appendix 2 List of Interviews Conducted

Primary interview list

- Interviewer: Jiyoung Bae from December 2012 to March 2013.

- Hur, Jae-Jun, a researcher in the Korea Labor Institute since 1995, interviewed on 5 December 2012.
- Kim, Mi-Gon, a researcher at the Korea Institute for Health Social Affairs and engaged in the process of formation of the NBLS Act to its enactment, interviewed on 4 December 2012.
- Kim, Su-Hyeon, a member of the Quality of Life Promotion Committee under the Presidential Secretariat of Kim Dae-Jung, interviewed on 19 February 2013.
- Kim, Tae-Hyeon, a policy director of the KCTU, interviewed on 28 February 2013.
- Kim, Yeon-Myung, a university professor of school of social welfare, engaged in activities by the PSPD in the realm of social welfare and processes of reform discussed in the Kim Dae-Jung and Roh Moo-Hyun governments, interviewed on 6 March 2013.

Secondary interview list

- Resource: Record data bank, which was used for analysis in Yang, Jae-Jin ed. 2008, *Policymaking Process of the Korean Welfare Policy: History and Qualitative Data*, Seoul: Nanam (DB- 양재진 외, 한국의 복지정책 결정과정: 역사와 자료, 서울: 나남).

- Kim, Jong-Dae, worked in the realm of the HI in the MOHW from 1976 to 1999, a head of management of the HI, and was president at the National Health Insurance Service (2011-2014), interviewed on 15 June 2006 and on 10 August 2007.
- Kim, Jong-Gak, a policy director of the KFTU since 1989, a researcher at the institution of the KFTU, interviewed on 17 August 2007.
- Kim, Tae-Hyeon, a policy director of the KCTU, interviewed on 28 August 2007.

- Sa, Gong-Il, a researcher at the KDI (1973-1980), deputy prime minister and a consultant to the minister of the Economic Planning Board (1981-1982), Senior Presidential Secretary for Economic Affairs (1983-1987) and Minister of Finance (1987-1988), interviewed on 12 July 2007

Park, Nung-Hoo, worked at the Korea Institute for Health Social Affairs as Head of Research from 1986 to 1993