

# **Strategy Shift in the Korean Welfare State : from Serving the Working Class to Caring All Citizens**

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## **1. Introduction**

The crusade of building welfare state began in Korea by launching the 1<sup>st</sup> 5-year economic development plan in 1962. Largely owing to rapid economic growth from 1960s to 1980s, the advent of democracy in the late 1980s and economic crisis in the late 1990s, she eventually reached a welfare state at the end of 2000.

Such a remarkable development from one of the most poverty-stricken states in the world to a welfare state in just four decades is often described as a miracle not only of economic growth but of welfare promotion. Despite the nuance of miracle, the fact often goes unnoticed that strategies of national development and a mechanism of their implementation had continued to function throughout the period.

Given the economic development strategy, it was essential to raise workers' productivity and maintain their work ethic. Consequently, a completely new incentive system was introduced: the Industrial Accident Compensation Insurance Act in 1963 and National Health Insurance Act in 1976 were most notable.

The principle of social insurance was deemed as a convenient device for welfare development in two points of view. In one sense, it could let the state save social expenditures, because contributions were made mainly by employers and employees. In the other sense, it could justify the favouritism towards the working class, because those who do not pay contributions are automatically excluded from receiving benefits.

Until recent time, the contributory principle had long been cherished by the government. The 1997 economic crisis, however, provided an opportunity to reevaluate it. The cause of social justice and human rights became more salient in the arena of social policy. The

Basic Livelihood Security Act which was passed in 1999 sent a signal for changing strategies.

The newly developed policy environment was accelerated by the rationale of 'participatory welfare' which underlines the concept of citizenships. The expansion of family policy is an indication that the outdated strategy, having relied upon the contributory principle, starts to be relaxed.

As a result, a strategic shift occurred in the area of social welfare, with more diversified principles such as the principle of social assistance and provision of social services for caring children, the elderly, the handicapped and so on. The attempt for a strategic shift, however, faces a stumbling block which is usually accompanied in the case of reform.

While the goal of the old strategy was attaining welfare state, that of the new one is maturing welfare state. Nevertheless, conducting strategy shift is not as easy as word. Korea now faces new challenges: creating its own model of welfare state, building consensus on welfare reform and generating national resources.

The objective of this paper is to present an overview of the strategic shift in the Korean social security system. In the second section, it will briefly sketch a historic synopsis of the system. In the third section, it will describe the current organization of the Korean welfare state. In the fourth section, a discussion about the shift from the old strategy to a new strategy will be followed. In the fifth section, it will explain about the direction of welfare reform and prevalent problems surrounding reform.

## **2. Historic Synopsis**

The history of the Korean welfare state can be divided into three stages: the ground-breaking period(1961-87), the institution-expanding period(1988-1997) and the welfare state-entering period(1998 after). We will look into each of them.

### **1)The Ground-breaking Period(1961-87)**

This period elapses from the beginning of the military regime in 1961 to its final stage in 1987. Immediately after Chung Hee Park became the head of the state following a *coup d'etat*, he established a centralized military state. From its origin, Park's military government came under pressure caused by the legitimacy problem.

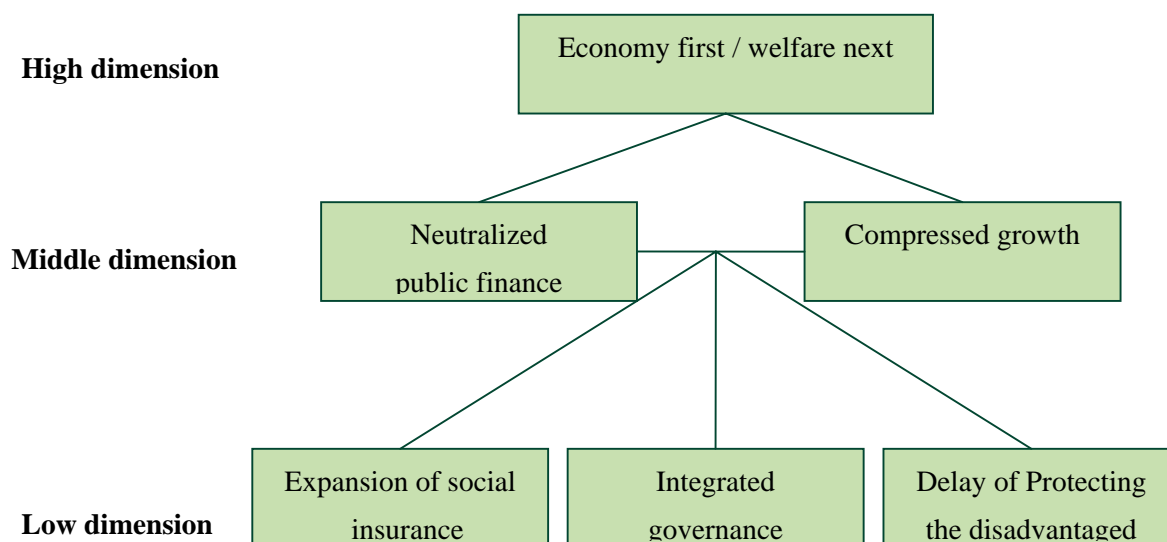
Korea was then one of the poorest countries in the world with virtually no natural resources and industrial capital. This presumably made Park choose the export-driven industrialization strategy, promoting manufacturing industries with cheap labour. He took the term, 'modernizing the fatherland' as a political slogan and attempted to transform the state into a developmental state.

It seems certain that the Park's military regime was anxious to present the people a vision for the future. Economic development was a vision and the 5-year planning system became a main tool to pursue it. It is known that the first 5-year Economic Development Plan(EDP) was thus hastily born in the late 1961(Kang, Kwang-Ha, 2000:25). Six objectives including acquisition of energy and expansion of exports were set up and nothing was mentioned about social welfare.

The goal of industrialization necessarily requires cooperation of not only entrepreneurs but the working class. It was, therefore, most important for the state to control the political challenges from the working class who were deemed to work on low pay. The authoritarian government reacted to them with two effective means; one is stick and the other carrot. For carrot, the Park regime had no many options due to lack of public finances. That dilemma resulted in a series of social welfare strategies.

Welfare strategies were stratified into three levels according to the hierarchy of priority. As shown in FIGURE 1, on the upper level, there was the strategy of 'economy first, welfare next' that is to postpone any form of welfare investment, only exceptional to one directly connected with economic growth. On the middle level, two strategies were deployed: one was the strategy of 'compressed growth' that is to shorten the process and time needed for catching up advanced industrial countries; the other was the strategy of 'neutralized public finance' meaning that the government is exempt

from financing social security. On the lower level, three types of principle were to be adopted: expansion of social insurance, unitary governance of social security and postponement of social services.



**FIGURE 1. Hierarchy of Development Strategies**

sources: Kim, Sang-Kyun in Han, Sang-Jin et al.(2006), p.101.

The strategy of ‘expansion of social insurance’ seemed to be attractive enough to draw the then political leaders’ attention because it demanded no extra spending from the government in its implementation. And it could exclusively provide the working class with social security benefits, making a good impression that the state offers a favour for them.

The Industrial Accident Compensation Insurance Act was thus legislated in 1963 and it took effective to workplaces with more than 500 workers in 1964. It defined employer's responsibilities concerning industrial accidents and compensation in cash and kind for the loss of income due to accident.

The strategy of giving a favour to those who were employed in the larger industry was obviously incongruent with the principle of social justice. Whereas social justice requires that the state protect the poor people first, the Industrial Accident Compensation Insurance Act took

care of the better-off first. However, it could be justified by the strategy of 'compressed growth' and 'expansion of social insurance'.

The Industrial Accident Compensation Insurance Act continued to enlarge its coverage from large scale workplaces to those of medium and small scale every year from 1965 to 1968. By the year 2000, its statutory coverage had reached all workplaces of more than 1 worker and some places of more than 5. This was in line with the 'compressed growth' strategy and the 'expansion of social insurance' principle.

In the objectives of the 4<sup>th</sup> EDP(1977-81), terms of 'social development' and 'equity' appeared for the first time. This can be interpreted as a strategic change in favour of social welfare, but the outcomes were not conspicuous except the operation of medical insurance and medical assistance in 1977. Given the 'expansion of social insurance' and 'compressed growth' strategy, it was no wonder for the state to enact health insurance as early as possible. The legislation of medical insurance was another case vindicating the strategy that the state served the working class in preference to others.

The governance issue of medical insurance erupted in 1980. On the surface, the dispute was over whether the medical insurance should be managed under one integrated organization or many independent private organizations. But under the surface, ideological battle went on between the state faithful and market admirers. The contention resulted in the victory of statism and the number of administrative agencies was in continuous decline until the final merge in 2000. This move was in line with the principle of 'unitary governance of social security'.

In the area of social services, welfare acts for children, old ages and the handicapped were newly enacted or revised during the ground-breaking period. But the scope of beneficiaries was limited and the quality of services was meagre. This was associated with the principle of 'postponement of social services'.

In the early 1980, Doo Hwan Chun established another military government, through a *coup d'etat*, after the assassination of Park in 1979. In many respects, president Chun emulated his predecessor and continued the economic development strategy formulated by the previous government. President Chun created a new political slogan,

'building welfare state' and it quickly became popularized among the public. Since then, it has proved that the term welfare state best reflects the Korean people's aspiration and dream for national development.

Under both the Park and Chun's presidency, the 5-year planning system continuously functioned in a consistent manner with plans closely linked each other. The fifth plan(1982-6) was drafted in the early period of Chun's presidency. It has one major difference from the former plans. Its name was rechristened from economic development plan(EDP) to economic and social development plan(ESDP). The addition of 'social' indicated that the government began to pay attention to social welfare which was long restrained by the 'economy first, welfare next' strategy. Despite the change in name, however, the outcomes of the fifth plan produced no conspicuous progress in social welfare.

## **2)The Institution-expanding period (1988-1997)**

As mentioned earlier, the long journey toward welfare state started with the 'economy first, welfare next' strategy and the 5-year EDP system since 1962. By the time of the end of the 5<sup>th</sup> plan, Korea achieved a remarkable economic growth, posting the average annual growth rate nearly 8-9%. This, however, does not to say that the economic growth was solely attributed to either the planning system or the strategies taken by the authoritarian governments.

Nevertheless, it is evident that the basic strategies related with social welfare remained intact during the period. Consequently, it became clear that the developmental gap between economy and welfare had widened. Discontents caused by the retarded welfare increasingly invoked political challenges to the authoritarian governments. This means that while economic development was to some degree materialized, the final goal of entering welfare state was far from fulfilment. Economic growth is just one condition for welfare state and some other prerequisites also exist. Political democracy is one of them.

There eventually emerged a sign of democratic opening in the spring of 1987. A civilian organization called 'the National Movement

Headquarters for Winning the Democratic Constitutional Amendment' was formed. This organization masterminded nation-wide demonstrations in protest against the authoritarian government. The resistance culminated on June 29<sup>th</sup> in 1987, leading to the so called '6.29 Democratic Declaration' issued by the government. The Democratic Declaration was followed by revision of the constitution stipulating direct presidential election and withdrawal of the military government. A favourable environment for the labour movement was also created.

In the presidential election of 1987, Tae Woo Rho, a former army general and heir to President Chun defeated rival candidates who failed to determine a unified candidate. As a result, it became possible for the previous military leadership to maintain its strategy for national development. President T.W. Roh thus implemented the 6<sup>th</sup> ESDP(1987-91) which was prepared and announced during the last year of the incumbent president Chun.

To compare with the previous one, the 6<sup>th</sup> plan moved one step closer towards welfare state and symbolically the term 'welfare' appeared for the first time in the plan. As the remarkable record of economic growth had produced more room for social expenditures, the strategy of 'neutralized public finance' might have been eased in the case of resource allocation. However, there was no sign of strategy shift.

The self-employed residing in the rural region started to be covered by the health insurance scheme from 1988 and the urban self-employed from 1989. Health insurance, thus, became a universal scheme in just 12 years after its inception. The National Pension Act began to take effect on those employed in workplaces of more than 10 workers from 1988. A notable fact is that the pension system is financed through the accumulation of a pension fund based on contributions from the employer and employee but not from the government. This was in line with the strategy of 'neutralized public finance' and 'expansion of social insurance'.

The industrial Accidents Compensation Insurance Act of 1992 extended its coverage to all workshops which employed more than five workers. The Employment Promotion Act for the Disabled People of 1990 mandated that workplaces with over 100 employees had to employ people with disabilities to at least 1% of the total workforce.

While the enactment of the Disability Employment Promotion Act implied an expansion of social welfare coverage, the Company Welfare Fund Act of 1991 provided another example of state's effort to transfer its responsibility for social welfare to private companies. This shows that the strategy of 'neutralized public finance' was the rule for the state to promote social welfare in that period.

Reviewing the performance of the 6<sup>th</sup> ESDP, one can see that the hierarchy of development strategy was still working well in the framework of 5-year planning. In practice, however, the period of the 6<sup>th</sup> ESDP can be recorded as one during which final outcomes surpassed the objectives originally planned. For instance, the construction of permanently rented houses began in 1989 and thus the concept of social housing was firmly introduced. The legislation of the Child Care Act in 1991 heralded a new era of social responsibility for caring children. Some academics thus designate the latter part of 1987 as the beginning of the Korean welfare state (Seong, Kyoung-Ryung et al., 1993:318~319).

Nevertheless, the strategy of postponement of social services was so constantly applied that the quality of the social services was held at their minimal levels. The preparation for the 7<sup>th</sup> ESDP was completed and its contents were announced in the early 1992 under the presidency of T.W. Rho. It was generally aimed at continuation of the previous plan, including the expansion of national pension and initiation of employment insurance. However, the fate of the 7th plan was uncertain because another presidential election was scheduled to be held in December 1992.

After the period of miraculous prosperity, the economic growth rate began to fall from the beginning of the 1990s. Young Sam Kim won the 1992 election and became the next president to T.W. Rho. President Y.S. Kim labelled his government 'civilian government', distancing itself from the military government.

He embarked on reforms in various sectors such as political, military, economic, social and so on. Among the reform package, one item was to scrap and replace the 7<sup>th</sup> ESDP decided upon by the previous government with a new 5-year plan. The new plan soon emerged with the name of 'the 5-year Plan of New Economy' in the middle of 1993.

It is worth stressing that the Plan of New Economy was made solely by the experts in the president's office in cooperation with civil servants. This means that it might be no longer possible in a democratic society for the government to conduct a wide-ranging planning.

Looking into the New Economy Plan, one can find that an extraordinary emphasis was placed to economic development and a significant setback of welfare was likely to follow it. During the time under the leadership of president Y.S. Kim, the statutory coverage of national pensions extended to the residents of the rural area and employment insurance became to operate in the workplaces which employed more than 30 workers from 1995.

Following the World Summit for Social Development in Copenhagen, social welfare issues were strongly raised even though it was secondary to economic policy. The president announced a "Welfare Plan for Improving the Quality of Living" in March 1995, and subsequently a special committee was organised to promote the plan. However, its concrete results were intangible.

In the area of social services, the Welfare Act for the Aged was totally revised and the previous Old Age Allowance was rechristened to Honorary Old Age Allowance in 1997. This can be interpreted as a sign that the government started to take more responsibility for caring the aged. However, there was no indication that the strategy of 'postponement of social services' would be lifted.

Despite his emphasis on the economy, Y.S. Kim unfortunately became a president of economic fiasco after the arrival of the 1997 financial crisis. One thing important is that the rein of the 5-year plan significantly loosened during the Y.S. Kim's presidency. Moreover, to maintain consistency in planning became extremely difficult.

### **3)The Welfare State-entering Period(1998-present)**

The turning point for welfare state was provided by the economic crisis of 1997 and election of Dae Jung Kim as the next president to Y.S. Kim. In many respects, the incoming president was thought to possess more progressive ideology than his predecessor. The economic crisis unprecedented in the history of the Republic of Korea relentlessly exposed the inadequacy of the then existing social safety net.

The inauguration of president D.J. Kim made him transform his progressive ideas into practice. Amid the crisis, the D.J. Kim government created a new term epitomizing its idea of welfare, 'productive welfare'. It implies not only that welfare expenditure should be productive but it could be productive.

This is a meaningful shift in the perception of welfare, since welfare expenses had so far been thought of as waste of resources and strictly controlled by the government. Productive welfare is, therefore, a signal for a break-up from the past strategy of national development. The cardinal strategy of 'economy first, welfare next' would be replaced by that of 'growth and distribution in balance' and subsequent strategies were also subject to transition.

The system of 5-year planning was, however, retained, thus the first 5-year Development Plan for Social Welfare(1999-2003) came out in 1999. As before in the case of president Y.S. Kim, the 5-year plan had once again lesser linkages with the previous one. This time, the plan was a simple product of the Department of Health and Welfare.

This means that unlike those plans under the authoritarian governments, preparatory works for drafting 5-year plan had become downsized under both Y.S. and D.J. Kim's governments. The work was no longer a special event either of the nation or the government and drew little attention from the general public.

During the presidency of D.J. Kim, national pension scheme extended its coverage to the self-employed in urban areas and it became universalized on the statute. It took 11years to reach universalization from its inception. Considering that health insurance took 12 years for its full expansion, national pension shortened the period by one year. This was partly attributable to the strategy of 'compressed growth'.

Influenced by the 1997 economic crisis, the employment insurance scheme also expanded rapidly from workshops of more than 30 employees to those of 1 in just 10 months. Employment insurance thus spent only 3 years and 3 months on enlargement to its full coverage.

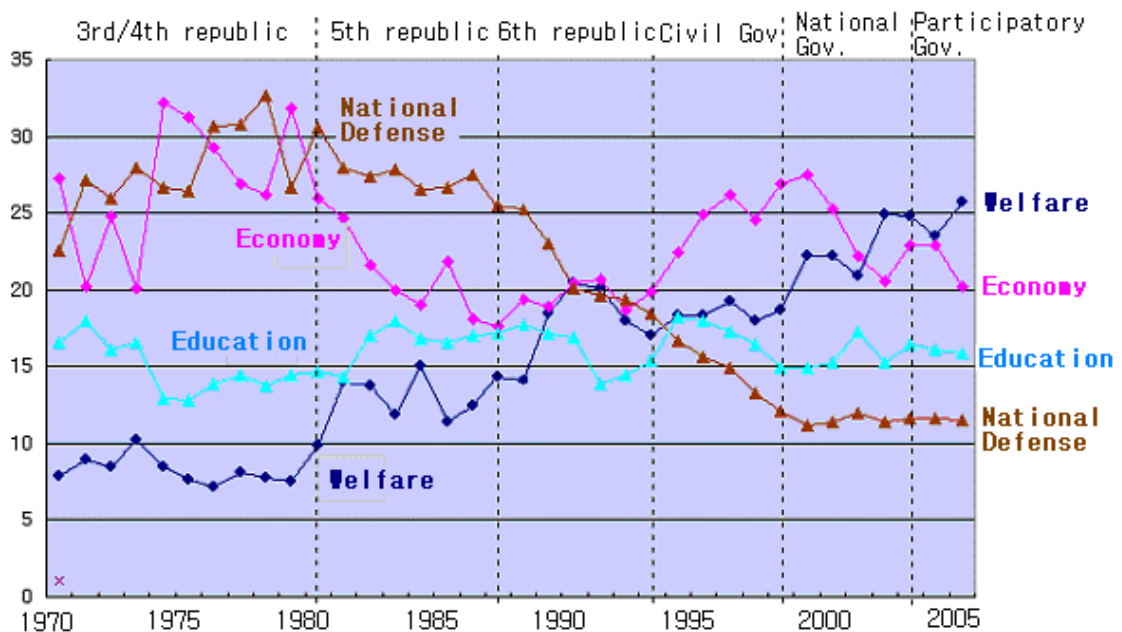
In 2000, industrial accident insurance went into universal coverage 36 years after its inception. With industrial accident compensation insurance eventually universalized, Korea became equipped with four major social insurance schemes in full bloom.

This means that the strategy of ‘expansion of social insurance’ had fulfilled its role and thus the other strategy of ‘postponement of social services’ might be abandoned. Considering the time spent on the development of social insurance, one can say that it was a tremendous success and the success had resulted partly from the welfare state strategies imposed by the authoritarian governments in the early 1960s.

The most dramatic and far-reaching impact on reaching welfare state came from the implementation of the Basic Livelihood Security Act(BLSA) in 2000. The Act replaced the former Livelihood Protection Act(LPA) which was legislated in 1963 and operated only for the deserving poor on the basis of charity.

With the enactment of the BLSA not only did it become more universal in character but also public assistance was recognised as a social right. So the date of October 1<sup>st</sup> in 2000, when the BLSA took effect, is recommendable as the beginning of the Korean Welfare State(Kim, Sang Kyun, 2005:283~6)

The crusade for welfare state ended in 2000. Upon arriving at welfare state, the old strategies for national development began to lose its utility. The country requires new strategies under the new circumstances of welfare state. This time the strategy should be for maturing welfare state rather than attaining welfare state.



**FIGURE 2. rate of public expenditures by sectors**

sources: Ministry of Planning and Budget

The strategy change is clearly seen in the trend of welfare spending. As shown in FIGURE 2, a surge in welfare expenditure took place during the presidency of D.J. Kim. This was possible only after the rein of the old strategy had weakened.

In the sector of social services, the revision of the Welfare Act for the Handicapped in 1999 paved the way for paying benefits in cash for the handicapped by stipulating attendance allowances for the severe handicapped. The Welfare Act for Children was also amended and became easier to improve its services. Moreover, the government initiated to accelerate spending more on social services for the disadvantaged who had been for long time excluded or neglected by the strategy of ‘postponement of social services’.

The effort to integrate the governance of health insurance bore the fruits in 1999 by the amendment of the then Health Insurance Act and the then existing 142 associations were set to be merged into one organization called the National Health Insurance Corporation. It took 26 years to realize the strategy of ‘unitary governance of social security’.

In the 2002 presidential election, the candidate Moo Hyun Roh introduced new words, ‘participatory welfare’. It later became clear that ‘participatory welfare was aimed at upgrading productive welfare of the D.J. Kim’s government. Although it is evident that president M.H. Roh wanted to succeed his predecessor’s welfare policy, he announced his own plan entitled ‘the 5-year Plan of Participatory Welfare(2004-8)’ in 2004.

### **3. The Current Organization of the Welfare State**

According to the Framework Act of Social Security, the backbone of Korean welfare state is composed of four social insurance schemes (industrial accident compensation, health, pension and employment), one social assistance program(basic livelihood security) and social welfare services for the disadvantaged. In this section, which is set to review current situations of the social security system, each of the

schemes is considered in terms of scope of coverage, benefits and finance.

### **1)Industrial Accident Compensation Insurance**

As already explained, since its establishment in 1964, the industrial accident insurance has undergone a number of expansion chances not only in its scope of application but in the amount of compensation. Its range of industrial accidents protected by the law was also extended. However, the pressure of its quality improvement is getting strength in the recent time.

#### **①scope of coverage**

All workers regularly employed are mandatorily insured except those employed at the government, schools, privately-run construction projects, the forestry, fishery, hunting industries and house keeping service businesses. In addition, business owners of small and medium enterprises with less than 50 workers are also permitted to be covered if they work together in the same workshops. The number of the insured stands at slightly more than 12.069 million or 79.5% of the total employed as of the end of 2005(Korea Labour Welfare Corporation, 2005).

#### **②benefits**

The benefits provided by the scheme are classified into the following 7 categories according to the type and degree of the injury or disease: medical care benefits, wage replacement benefits, disability benefits, nursing benefits, survivors' benefits, funeral expenses and injury-disease compensation annuity. Medical benefits are provided in kind and the rest in cash.

Consequently, the current system is heavily dependent on the cash-compensation method. In the case of wage replacement benefits, the insured receives 70% of the lost income, thus the replacement rate is 70%.

Its benefits payment continues to rise partly attributable to the growing number of long-term treatment and the severely disabled. The

number of beneficiaries receiving compensation in annuity is also on the rise as the system matures.

### **③finance**

Contributions are paid solely paid by employers on the principle of 'liability without fault' which implies that the employer is required to bear responsibility for all work-related accidents irrespective of whether the accident was intentional or the employer was at fault.

Contribution rates are determined by the combination of differentiated premiums according to types of enterprises and performance premiums of individual work places. The method of financing depends on the pay-as-you-go system.

## **2)Health Insurance**

In July 2000, all health insurance management systems were integrated with a new contribution levy system and its financial integration was accomplished in 2004. Health insurance scheme is designed to help the insured and their dependents with injury prevention, treatment, childbirth, health promotion and rehabilitation and so on.

### **①scope of coverage**

All citizens residing in the country except the Medical Care Assistance program beneficiaries should be involved in the insurance. As of now, 96.9% of the total population(over 47million) is insured by the health insurance scheme. All the insured are divided into two categories: one is the group of employees with their family members and the rest of the people belong to the other group.

### **②benefits**

Two kinds of benefits are provided by this program: benefits in kind and benefits in cash. Benefits in kind include health care benefits, health care services for childbirth, health check-ups and auxiliary appliance benefits for the handicapped, etc. Health care benefits are those for diagnosis, pharmaceutical or health care materials, surgery, other treatments, hospitalization and nursing.

Cash benefits are reimbursements for health care and delivery expenses. To name their major items, health care allowances, maternity allowances, funeral allowances, compensatory reimbursement for excessive out-of-pocket and allowance on caring and appliances.

### **③finance**

Main sources of the finance are composed of contributions levied and collected from the insured, employers and government subsidies. The methods of contribution calculation are different between employees and the self-employed. The National Insurance Policy Deliberation Committee is authorized to set the contribution rate for the insured at under 8% of monthly wages or salaries. The current rate stands at 4.47%. For the self-employed, contributions are determined by using a formula consisting of the insured person's properties, income, motor vehicles, age and gender.

The government subsidizes 50% of the total expenditure on administration and health care benefits of the insured self-employed: 40% comes from the general revenue and the remaining 10% from special tax on tobacco consumption. Contribution exemption applies to those as followed: the insured working abroad with no dependents in Korea, sergeants and privates serving in compulsory short-term military duty, military cadets and the insured detained in corrective training places or other facilities.

### **3)Pensions**

The National Pension Scheme is the major income security program providing its beneficiaries with life-time protections against economic and social distress caused by ageing, disability or death. The scheme eventually became universalized in 1999.

#### **①scope of coverage**

Every person who is aged between 18 and 59 and resides in the country is insured except public servants, military personnel and private school teachers who are covered under other special pension schemes, students, persons in military services and public assistance claimants. Two types of coverage are existent: one is compulsory

insurance for employees and the self-employed, including foreigners, the other is voluntary insurance for housewives and students. The number of people insured currently tops 17.58million and the total number of beneficiaries amounts to more than 1.749 million(National Pension Research Institute, 2006).

## ②benefits

The amount of benefits is divided into two parts: one is the basic pension amount and the other one is earnings-related amount. The basic pension amount is determined by the average amount of Standard Monthly Income of all insured people for the three years prior to payment of pension. Thanks to the basic pension amount, therefore, pension benefits in general involve a redistributive nature.

There are four types of pension benefits: old-age pension, disability pension, survivors' pension and lump-sum payment. The insured will be entitled to old-age pension upon reaching the age of 60, if he or she has contributed for at least 10 years.

The standard level of old-age pension is estimated at 60% of his or her earnings during the working period, when he retires after 40 years of contribution and his or her monthly income has been the median of the all insured. This means that the earnings replacement rate of old age pension is 60 percent. Additional pension is payable in case an old age pension recipient is supporting a spouse or children less than 18 years old.

Disability pension is paid to a person who becomes sick or injured during the insured term or physically or mentally disabled. The level of this pension varies from 60 to 100% of the basic pension amount depending on the degree of disability.

Survivors' pension is available to survivors of an insured person or survivors of a former insured person whose insured term is 10 years or more or survivors of a person entitled to old-age pension or disability pension. The level of survivors' pension starts from 40 to 60% of the basic pension amount according to the insured term of the deceased.

Lump-sum payment consists of lump-sum refund and lump-sum death payment. Lump-sum refund is provided to survivors of the contributor whose insured term is less than 10 years and is 60 years

old. When an insured or once insured person dies without leaving survivors eligible for survivor pension or lump-sum refund the lump-sum death payment is paid to the spouse, children, parents, or relatives supported by the deceased person.

### **③finance**

Pensions are mainly financed from contributions paid by the insured. In the case of the employed, contributions are currently set at 9% of the employee's wages or salaries and shared equally by both employees and employers. The self-employed pay the same rate with the employed, but entire contributions for themselves. Government's subsidy forms a part of the administrative costs of the National Pension Corporation and a part of the contributions of the low-income self-employed.

When the scheme started in 1988, it was partially funded. This means that its reserve would continue to be accumulated up to a certain point and would shrink from that point, transferring to a pay-as-you-go system. The time of the transference is expected to come around 2036. At the moment, the reserve amounts to more than 173trillion won(National Pension Research Institute, 2006).

## **4)Employment Insurance**

The necessity of protecting measures against unemployment had been sporadically raised since the end of the 1960s, but did not succeed in legislation until 1993. The Employment Insurance Bill passed the National Assembly in 1993 and took effect from 1995. The basic idea of the scheme is that the desirable form of protecting unemployment is not the traditional unemployment insurance but a combination of unemployment insurance and active labour market policies such as vocational training.

### **①scope of coverage**

The Act applies to all businesses and business establishments which regularly employ 1 worker or more except those aged 65 or older, civil servants, teaching staff of private schools. The number of

the insured currently amounts to 8.355 or 53.1 % of the total employed(Korea Employment Information Service, 2006).

## ②benefits

The key components of the programs provided by the Act are four fold: Employment Security Programs, Vocational Competency Development Programs, Unemployment Benefits and Childcare Leave Benefits. Employment security programs refer to programs carried out in the cases such as changes in industrial structures and technical advance to prevent the unemployment of workers who are insured.

Vocational competency development programs mean the programs aiming to enhancement of corporate competitiveness and development of workers' competency.

Unemployment benefits are payments to protect the livelihood of the unemployed and their families. To be eligible for the benefits workers should be insured for 180 days or more during a period of 18 months prior to unemployment. Unemployment benefits are paid for 90 to 240 days depending on the contribution period and age of the unemployed. Its amount is equivalent to 50% of average wages paid to the worker concerned before unemployment.

Every female worker is entitled to claim maternity leave of 90 days. The maternity leave benefits for 30days are financed by the government's general accounts and the Employment Insurance Fund. The childcare leave benefits are payable to all female and male workers through the Employment Insurance Fund.

## ③finance

The contribution rates for unemployment benefits and employment security programs are fixed at 0.9% and 0.15 %, respectively, regardless of the size or type of business. The contributions for unemployment benefits are equally shared by both employers and employees. The rate for vocational competence development programs varies from 0.1% to 0.7% according to the size of a company. The method of financing depends on the pay-as-you-go system.

## **5)Public Assistance**

The National Basic Livelihood Security Act has strengthened the right of the people in the low-income bracket to receive public assistance. All the people who live below the poverty line are entitled to be complemented up to the poverty line irrespective of their working ability.

### **①scope of coverage**

Since the implementation of the new scheme in October 2000, the number of its recipients had jumped from 540,000 in 1999 to 1.39 million people in 2002. The number is currently about 1.42 million people or 2.9 % of the total population(Ministry of Health and Welfare, <http://www.mohw.go.kr>).

### **②benefits**

In order to qualify as its beneficiary, any applicant should pass a means test, that is, the amount of their income and property should be below the level annually decided by the Minister of Health and Welfare. In addition to means test, applicants should not have any person liable to support them.

Seven sorts of benefits are currently in operation: living assistance, medical care assistance, housing assistance, educational assistance, childbirth assistance, funeral assistance and self-support assistance. Allowances of living assistance and housing assistance are provided in cash every month. The amounts of these benefits are fixed at the differentials between the recipient's income and the minimum cost of living annually decided by the Minister of Health and Welfare. Self-support assistance is provided on the condition that its recipients take part in self-support work programs.

### **③finance**

The costs of the public assistance are wholly covered from the government's expenditure. The percentage of public assistance among the total social security budget had went up and down between 30% and 34% during 1999 to 2004 and stood at 33.9% in 2005.

## **6)Social Welfare Services**

Several services are included in this category and to name just three among them: welfare for the disabled, welfare for the aged and welfare for child and family.

### **①scope of coverage**

Child welfare services are provided to disadvantaged children below 18 years old.

### **②benefits**

For better residential care services, the government has increased the number of welfare institutions.

The government has come up with supporting plans to reduce financial burdens that the disadvantaged people and their families have to shoulder. It has provided 140,000 people with disability allowances and 119,000 with medical aid and medical expenses. Supporting plans also include loans for self-support, education aid, appliances aid and non-budgetary measures such as tax reduction and public facilities fee discounts.

Public-funded non-residential institutions are also built for the rehabilitation of the disabled. The number of such institutions is currently 531 nationwide.

Service facilities for the aged are categorized into three: residential homes, nursing homes and other health care institutions for the seniors. Non-residential services for the elderly such as home help services, meal service, bathing service, companion service etc. are available for free under public assistance.

The government extends financial support to children in residential facilities and supports personnel expenses of the special trainers at the institutions. Employment programs such as technical and vocational training, consultation, social adjustment etc. are provided to the grown-up orphans.

The government continues to expand supports for child care cost from 24% in 2003 to 50% in 2008. To protect child-headed households and improve their living standards, the government included them as public assistance beneficiaries and provides them

with financial support for their education and clothes. Single parents who have children attending middle or high schools receive the government's subsidy for tuition, while those with children under age six get child allowance.

### **③finance**

The entire cost of social welfare services are financed by the general revenue. The percentage of social welfare services among the total social security budget had went up and down between 30% and 37% during 1998 to 2004 and stood at 27.7% in 2005.

## **4. Strategic Success and Change in Strategies**

The previous chapter briefly sketched the current situation of the social security system. It was the outcomes of the 5-year planning system and strategies explained in the 2<sup>nd</sup> chapter. It is thus to be stressed that such a remarkable achievement had resulted partly from the well-designed hierarchy of strategies of national development.

To take just one example, the effects of the strategy of 'compressed growth' and 'expansion of social insurance' can be seen in TABLE 1. The industrial accident compensation insurance schemes took 36 years from its inception to universality. In comparison with other countries, the spell is tremendously short, for instance, it was just half that of France. As far as health insurance, pensions and employment insurance are concerned, the period had further shortened.

**TABLE 1. Years from inception to universalization**

<b>Industrial Accident Compensation Insurance</b>						
nation	France	Germany	Italy	Sweden	UK	Korea
beginning	1898	1884	1898	1901	1906	1964
Full bloom	1970	1955	1960	1955	1960	2000
years	72	71	62	54	54	36
<b>Health Insurance</b>						
beginning	1930	1883	1886	1891	1911	1977
full bloom	1974	1972	1978	1946	1948	1989
years	44	89	80	64	37	12
<b>Pensions</b>						
beginning	1910	1889	1919	1913	1908	1988
full bloom	1965	1970	1965	1945	1945	1999
years	55	81	46	32	37	11
<b>Employment Insurance</b>						
beginning	1914	1927	1919	1934	1911	1995
full bloom	1960	1970	1970	1970	1950	1998
years	54	57	51	44	41	3

sources: Kim, Sang-Kyun in Han, Sang-Jin et al.(2006), p.106.

Partly due to the strategies and the advent of 1997 economic crisis, Korea became a welfare state by the end of 2000, when the National Basic Livelihood Security Act took effect. Although Korea technically attained welfare state immediately after 1977 economic crisis, the general sentiment of the public fell short of it. Such a gap in perception is attributed to the fact that the turning point coincided not with euphoria but with economic hardships.

Given that the long journey to welfare state began with the first 5-year economic development plan in 1962, it is a notable success story that one of the poorest country in the world had transformed into a welfare state in 38 years. Welfare state was a prolonged dream of Korean people. However, upon arriving at welfare state, people started moving to another dream, this time it was a matured welfare state.

The strategy for maturing welfare state cannot be the same with that for attaining welfare state. An evidence of strategic change is demonstrated by the surge in social expenditures, in particular, of

social assistance and social welfare services which had been long contained by the strategy of ‘economy first, welfare next’ and ‘expansion of social insurance’.

Looking into FIGURE 2 previously shown, we can confirm that social expenditures had been far behind those for the economy, defence and education until the end of 1980s, whereas the situation has reversed since 2002. More interestingly, the budget of social assistance and social welfare services dramatically started to jump from 1999 and 1998 respectively, as shown in TABLE 2.

**TABLE 2. proportion of social security budget by sector**

Year	as % of social security budget	
	Public assistance	Social Welfare service
1993	20.2	20.2
1994	20.6	18.3
1995	19.6	21.3
1996	20.2	23.8
1997	22.0	24.1
1998	24.5	36.3
1999	31.9	30.9
2000	29.8	31.8
2001	30.4	35.0
2002	31.9	36.2
2003	30.4	37.7
2004	30.5	36.3
2005	33.9	27.7

sources: Year Book of Health and Welfare Statistics (2005)

The strategy change was also felt in the ideological debate regarding the priority-setting in the national development. A top policy adviser to president M.H. Roh, by the name of Joung Woo Lee, made it clear that president Roh’s participatory government was aiming to obtain both growth and distribution without concentrating on either one(The Chosunilbo, 2004.8.13).

Given that the concept of participatory welfare is a successor of productive welfare of president D. J. Kim, the change in strategies for

national development had already taken place under the leadership of president D. J. Kim. More details of the change can be found in TABLE 3.

The top strategy has shifted from the economy-centred development to the economy and welfare in balanced development. In the past, the main target population of welfare policy used to be the working class and now, the disadvantaged group and poor people became new target population. As a result, social assistance and social welfare services are growing concern and expected to play more roles in the social security system.

**TABLE 3. Strategy Change**

	<b>Before welfare state</b>	<b>After welfare state</b>
<b>strategy</b>	economy first, welfare next	growth and welfare in balance
<b>slogan</b>	No welfare without growth	No growth without welfare
<b>Welfare Policy objective</b>	Quantitative growth	Qualitative enhancement
<b>Welfare Policy environment</b>	Capacity of enterprises and voluntary sector is weak.	Capacity of enterprises and voluntary sector strengthened
<b>Main target group of welfare policy</b>	Economically active population (better-off)	Disadvantaged group (poorest of the poor)
<b>Means of policy</b>	Social insurance preferred	Social insurance, social assistance, social welfare services mixed

sources: Kim, Sang-Kyun in Han, Sang-Jin et al.(2006), p.113.

## **5. Outstanding Problems and the Direction of Reform**

As explained in the previous chapter, Korea has succeeded in entering welfare state largely owing to quantitative growth by adopting the strategy of ‘economy first, welfare next’ and ‘expanding social insurance’. However, when the 1997 economic crisis erupted, the weakness of the social safety net was revealed. This made the government step up efforts simultaneously to overhaul the social safety net and to mature welfare state.

Many loopholes have thus been pointed out and among them the problem of financial instability and hollow or uninsured people are thought of as most significant.

## **1)Problems**

### **① financial instability**

As the social insurance schemes had completed the goal of the first-step universal coverage, a strong demand arose for their qualitative improvements such as higher benefits, better services, wider range of service and so on. The demand is likely to lead to an additional burden on the existing insurance funds, if met without careful consideration.

In the case of industrial accident compensation insurance, a rapid increase in its benefits payments takes place as the number of beneficiaries receiving compensation in annuity payments is building up. Moreover, improvement of medical care and introduction of vocational rehabilitation programs are recommended to promote the current low level of reemployment(Kim, Ho-Kyung, 2004:659).

Subsequently, the financial situation continues to deteriorate, for example, the revenue of the industrial accident compensation insurance fund had deficits during 2000 and 2002 but it has turned into red since 2003(Ministry of Labour, 2006:3).

Another important factor related to financial instability of social insurance schemes is the structural imbalance between contributions and benefits. The National Pension Schemes Development Committee conducted a long-term actuarial projection in 2003(National Pension Scheme Development Committee, 2003). According to it, as shown in TABLE 4, if the current pension schemes are kept unchanged, it would run deficit from 2036 and be depleted by 2047.

**TABLE 4. long-term projection of pension fund**  
(billion won)

year	reserve(current value)	revenue	expenditure	differential
2002	92,798	19,513	2,210	17,303
2010	328,694	50,080	11,094	38,986
2020	908,028	109,073	35,010	74,064
2030	1,581,638	170,648	111,103	59,544
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2036	1,702,972	189,069	201,456	-12,387
2040	1,447,808	191,224	289,188	-97,964
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2050	-	154,610	561,966	-407,356
2060	-	201,822	895,032	-693,210
2070	-	271,210	1,286,469	-1,015,259

sources: National Pension Schemes Development Committee(2003)

The TABLE 5 indicates that the finance of health insurance had deteriorated between 1996 and 2002 and has recovered for the last three years. Nevertheless, the future is uncertain and the contribution rate is expected to continue to rise.

**TABLE 5. Finance of National Health Insurance**  
(million won, %)

year	1995	1996	1997	1998	1999	2000
contributions(A)	4,162,608	4,830,567	5,638,885	6,107,232	7,291,119	8,609,784
benefits(B)	4,067,617	5,167,126	5,910,604	6,896,658	7,947,963	9,285,605
proportion(B/A)	97.7	107.0	104.8	112.9	109.0	107.9
year	2001	2002	2003	2004	2005	
contributions(A)	11,322,718	13,811,740	17,028,319	18,956,736	20,496,016	
benefits(B)	13,195,616	13,823,665	14,893,489	16,265,350	18,393,587	
proportion(B/A)	116.5	100.1	87.5	85.8	89.7	

sources: National Health Insurance Corporation(2005)

Financial instability is attributed partly to low rate of collection, that is the percentage of the amount collected against the amount levied. The collection rate hovers around 75% in the case of pensions, 85% in industrial accidents, 98% in health insurance. At the moment, only the employment insurance fund maintains relatively good health in terms of financial stability.

## ② hollow

The coverage of the social insurance schemes had been legally extended to the maximum, but a large number of people are still out of the scheme. Workers in the agriculture, fishery, forestry and hunting sectors and workers in special forms of employment who are not classified as workers under the current are excluded from its protection.

It is difficult to cover a certain type of workers owing partly to the fact that most of these workers are either irregular workers or their employment types are non-standardized and partly to the fact that wages paid to these workers lack objectivity and transparency.

The National Pension Corporation affirmed that more than 4.62 million people or 50.9 % of the self-employed are classified as 'the exempted', that is, those who are excused not to pay contributions due to various reasons(National Pension Corporation, 2001:5). Some of them are feared to behave system avoidance. The employment insurance scheme currently covers only 53.1% of the employed as shown in TABLE 6.

**TABLE 6. rate of coverage in employment insurance**

year	Workplace	Insured(A)	Workers(B)	Employees(C)	A/B(%)	A/C(%)
1996	43,723	4,330,885	20,853,000	13,200,000	20.8%	32.8%
1997	47,427	4,280,430	21,214,000	13,404,000	20.2%	31.9%
1998	400,000	5,267,658	19,938,000	12,296,000	26.4%	42.8%
1999	601,394	6,054,479	20,291,000	12,663,000	29.8%	47.8%
2000	693,414	6,747,263	21,156,000	13,360,000	31.9%	50.5%
2001	806,962	6,908,888	21,572,000	13,659,000	32.0%	50.6%
2002	825,531	7,171,277	22,169,000	14,181,000	32.3%	50.6%
2003	845,910	7,203,347	22,139,000	14,402,000	32.5%	50.0%
2004	1002638	7576856	22,557,000	14,894,000	33.6%	50.9%
2005	1148474	8063797	22,856,000	15,185,000	35.3%	53.1%
2006.1	1147264	8009329	22,471,000	15,187,000	35.6%	52.7%
2	1156779	8044350	22,412,000	15,098,000	35.9%	53.3%
3	1148620	8105797	22,848,000	15,369,000	35.5%	52.7%
4	1161326	8185763	23,242,000	15,616,000	35.2%	52.4%
5	1165039	8270427	23,484,000	15,730,000	35.2%	52.6%
6	1117967	8313014	23,501,000	15,716,000	35.4%	52.9%
7	1101054	8354906	23,447,000	15,721,000	35.6%	53.1%

sources: Korea Employment Information Service, Monthly Statistics of Employment Insurance  
National Statistical Office, Economically Active Population Survey

## **2) Reform attempts**

Korea is now undergoing a strategic change in an attempt to achieve a new goal, that is, maturing welfare state. For this goal, it is inevitable that the current social security system is overhauled and its quality should be enhanced.

Based on the proposal of the National Pension Scheme Development Committee, the government submitted an Amendment Bill of the National Pension Act to the National Assembly in 2003. The main component of the bill was that the benefit level would decline with contribution rate on the rise. The pension bill has, however, been stalled for more than three years due to divided opinions between the ruling and opposition parties.

While the bill was on hold in the National Assembly, the main opposition party raised the problem of pension hollow in the end of

2004. Since then, the task of pension reform has become more complicated, because it has to address not only financial instability but pension hollow. With the latest proposal from the government closer to that of the opposition party, prospects of a settlement have now grown to look brighter. But no one can be optimistic about its future.

It is worth to be stressed here that the pension reform proposals have so far pursued parametric solution rather than structural reform such as a multi-pillar system. One reason for the lack of interest in structural reform is that the readiness of the general public for making the most of occupational pensions or personal pensions is insufficient.

In Korea, corporate pensions were introduced in December, 2005.. According to the Financial Supervisory Service and the Ministry of Labour, corporate pension schemes now cover 147,057 workers. The capital pool of the pension funds stands at 468 billion won as of October, 2006. Many research institutes had expected the funds to exceed 1 or 2 trillion won by the end of 2006(The Munhwailbo, 2006.12.1). The expectation missed.

Another reason is the poor performance of the financial institutions which have sold personal pensions since 1994. When they were first introduced, a return of 12-13 % was asserted by the sellers. After 12 years of business, the practical return tumbled to 2-3 % in 2006(The Chosunilbo, 2006.8.5). Consequently, nearly a million insured people are disenchanted and make a complaint against the scheme.

In June, 2003, a consulting committee for the development of national health insurance was established by the Minister of Health and Welfare. After one years' effort, the committee produced a report in which a number of short- term measures including increase in contributions, introduction of surcharges on alcoholic liquors and gasoline, were suggested in order to stabilize the finance of health insurance(Sa, Kong-Jin in National Health Insurance Development Committee, 2004:ch 1). Despite that the National Health Insurance Development Committee publicized its report in 2004, the government has not taken any structural reform measures except sporadic increase in contributions.

In order to review and improve the industrial accident compensation insurance scheme, the government set up a committee composed of delegates from the labour, management, government and experts in 2005. The committee conducted a thorough study and

submitted a report to the government. Building a liability reserve fund and changing the method of financing from the current pay-as-you-go to a funded method in order to avoid a deterioration were included in it as a solution(Chung, Hong-Joo, 2006:ch 1).

Based on the report, the government attempted to draft an amendment bill of the related Act in the early 2006. The move, however, resulted in an abortion as both the management and labour were fiercely opposed to it. The government later referred it to a special task force team under the Tri-partite Committee. Despite the consensus that the scheme has to be reformed, the efforts of the Tri-partite Committee have so far made no progress.

## 6. Conclusion

Korea has been undergoing a struggling shift in strategy for national development. For the past four decades, it had maintained a welfare strategy favouring the working class until attaining welfare state. In the era of welfare state, the strategy is slowly moving to take care of the disadvantaged people.

**TABLE 7. Expenditure allocation plan of various sectors**

(trillion won , %)

	2005	2006	2007	2008	2009	Annual increase rate
<b>Total expenditure</b>	207.8	220.9	235.0	250.0	267.9	6.6
<b>Budget</b>	146.6	156.5	167.3	178.8	192.9	7.1
<b>Fund</b>	61.2	64.4	67.7	71.2	75.0	5.2
<b>Education</b>	26.1	28.4	30.9	33.5	36.5	8.8
<b>Social welfare</b>	48.7	53.7	58.4	63.6	69.5	9.3
<b>Culture &amp; Tourism</b>	2.6	2.7	2.9	3.1	3.4	7.1
<b>Environment</b>	4.0	4.1	4.3	4.6	5.0	5.8
<b>National defense</b>	20.4	22.1	24.1	26.3	28.7	9.0
<b>Foreign affairs &amp; Unification</b>	1.6	2.4	2.5	2.3	2.2	8.4
<b>SOC</b>	16.0	15.5	15.8	16.1	17.1	1.6
<b>Agriculture &amp; Fishery</b>	13.4	13.5	13.9	14.3	14.9	2.8
<b>industry &amp; small and medium business</b>	11.7	11.6	12.2	12.6	13.0	2.7
<b>R&amp;D</b>	7.8	8.5	9.3	10.1	11.1	9.1

sources: Ministry of Planning and Budget (2005)

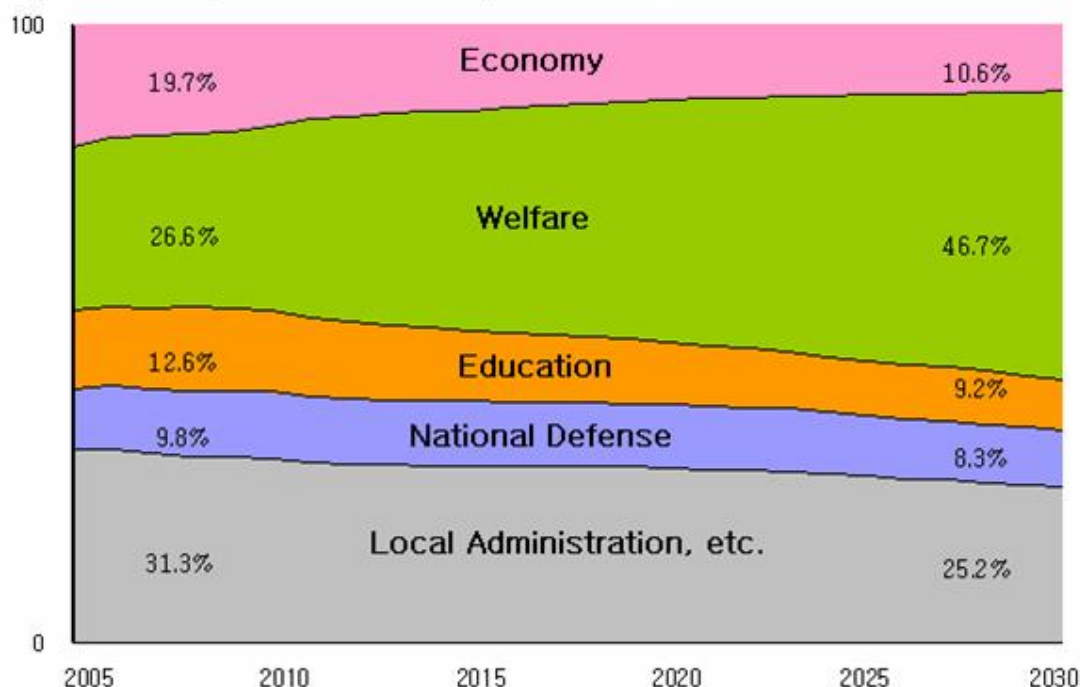
**TABLE 8. Outlook of long-term public expenditure**

	2005	2015	2030	OECD Average
<b>Welfare/Total expenditure (%)</b>	26.6	35.6	46.7	51.7
<b>Economy/Total expenditure (%)</b>	19.7	13.8	10.6	9.5

sources: Ministry of Planning and Budget (2005)

The strategy shift, however, inevitably requires the government to increase social expenditures far more than usually expected. The government recently announced an ambitious plan for the future social expenditures. As shown in TABLE 7, the increase rate of social welfare expenditure is likely to be higher than spending in the other sectors including R&D and defence for the coming three years. The long term outlook for the welfare expenditures sounds even greater. TABLE 8 indicates that the pace of social spending would be accelerating more rapidly than economic spending in the future. As seen in the FIGURE 3, the share of the welfare expenditure would rise from 26.6 % in 2005 to 46.7 % in 2030.

**Expenditure by sector/Total expenditure(%)**



**FIGURE 3. Outlook of long-term public expenditure**

sources: Ministry of Planning and Budget (2005)

It is no wonder that to find means for securing the necessary resources becomes the top agenda for the strategy change. The government has so far presented no concrete and plausible solutions to that issue. Despite the argument that extra resources can be financed by the increase in tax and contributions, tax reforms, etc., all the measures suggested are not easy for the government to take at this moment. An editorial article of the Chosunilbo bitterly criticized that the governments' project of 2030 is a simple dream which cannot be realized, because the necessary budget of 1,100 trillion won is beyond our capacity.(The Chosunilbo, 2006.8.30)

One thing tragic in the developmental process of the Korean welfare state is that the divorce from the outdated strategy is ill timed. The welfare reform of the president D.J. Kim's government was executed amid a severe economic crisis. The attempt for restructuring welfare state coincides with the unpopularity of president M.H. Roh. In both cases, the political and economic conditions are not amicable to change.

The approval rate of the incumbent president has plunged into near 10% level. Moreover, the president is now at odds not with the opposition but with the ruling party. The consensus-building in politics seems beyond his capability.

The economic conditions are also gloomy. The nation's current potential growth rate of 4.8 % is likely to decelerate to 4.3 percent in 2010(The Korea Herald, 2006.2.24). The national debt has been snowballing since 2003. According to the Budget and Policy Office of the National Assembly, the national debt will increase from 133.6 trillion won in 2002 to 307 trillion won in 2007. The amounts are equivalent to 12.3 % and 34.1% of the GDP respectively.(The Munwhailbo,2006.11.8)

To be worse, the presidential election is set to be held in next year and the general election in 2008. Politicians are already keeping the coming elections in their minds. For them welfare reform is not so important as elections. The strategy shift, which began to emerge in the late 1990s, faces lots of hurdles: ideological challenges, political interruptions, economic difficulties, lack of social cohesion, etc. So, a

desirable strategy shift in the Korean social welfare will fight uphill battle for the time being.

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Ministry of Planning and Budget      <http://www.mpb.go.kr>

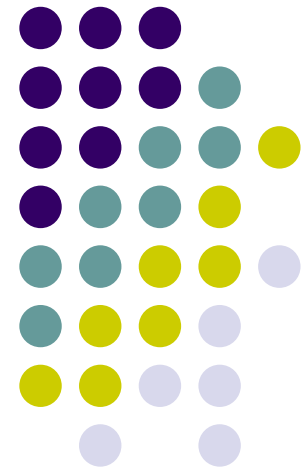
National Health Insurance Corporation      <http://www.nhic.or.kr>

National Pension Corporation      <http://www.nps4u.or.kr>

# Strategy Shift in the Korean Welfare State : from Serving the Working Class to Caring All Citizens

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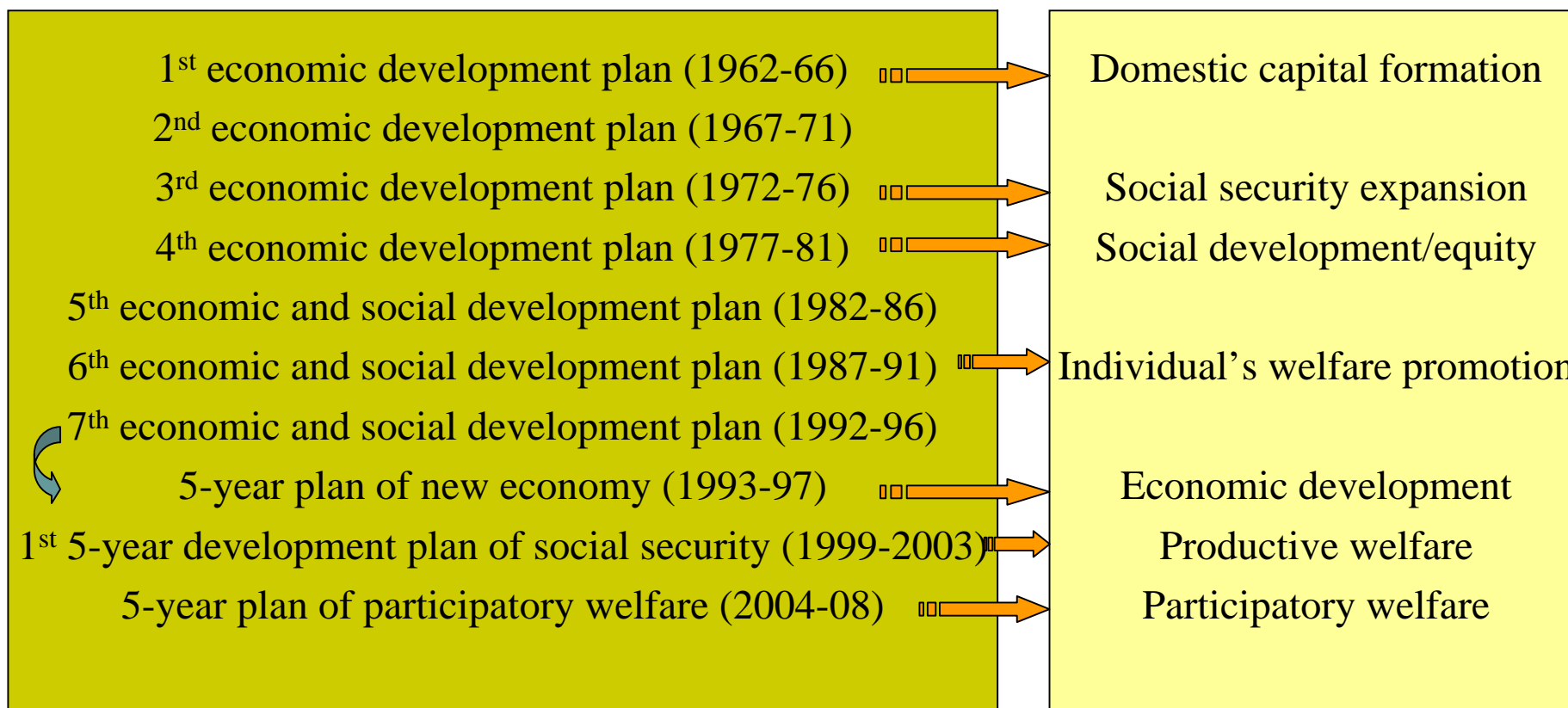


# 6 Points Made in This Paper

1. Korean welfare state is partly the outcome of planned changes
2. The framework of the change was formed in the 5-year development planning system
3. The 5-year development planning system has been implemented in line with hierarchy of strategies
4. By the time of reaching welfare state, Korea began to upgrade strategies.
5. New strategies are aimed at resolving newly defined problems
6. News strategies, however, face strong challenges

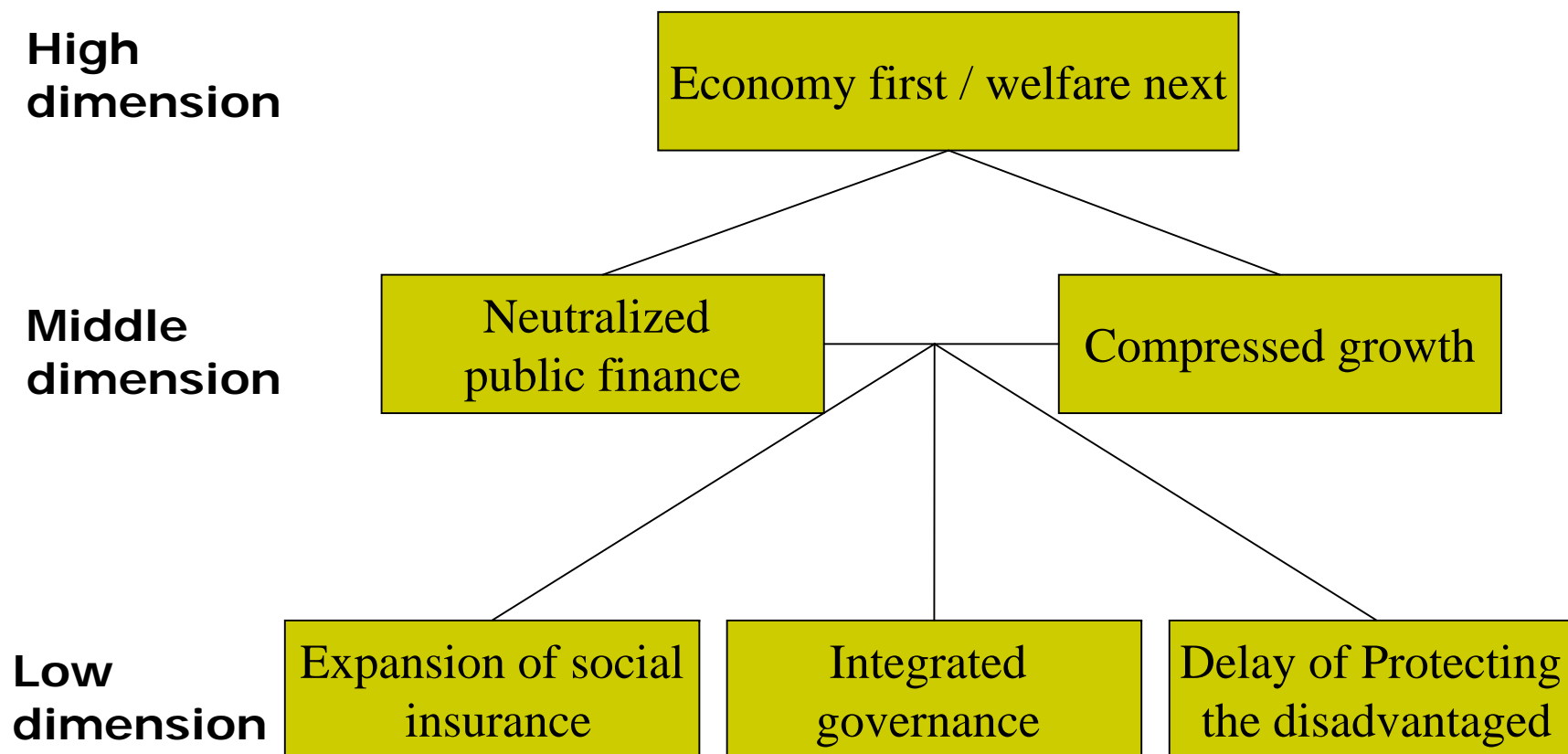


<Figure 1> chronicle of 5-year plans





<Figure 2> hierarchy of strategies



# 3 Stages of the Welfare State



- ① The ground-breaking period (1961–87)
  - The 5-year planning system became a tool to pursue national development
  - The 5-year planning system continued to work over 25 years
  - Social legislations were made for the working class prior to others
  - Welfare strategies were shaped on the basis of the social insurance principle
  - Social insurance schemes started at large-scale workplaces and were gradually extended to these of medium and small scale



- ② The institution–expanding period (1988–97)
- Pensions and employment insurance schemes came to be effective
  - The social insurance system continued to expand its coverage and benefit scopes
  - the health insurance system has been universalized in 1989
  - expenditures on social assistance and social welfare services showed signs of increasing
  - The advent of the civilian government(1993) signaled a change in the planning system
  - The door to political democracy widely opened
  - GDP per capita surpassed \$10,000 for the first time



- ③ The welfare state–entering period (1998– )
- The employment insurance, pensions and industrial accident compensation insurance became universalized
  - Public assistance programs were modernized
  - Public expenditures on social welfare services arose
  - Military tensions were eased between South and North Korea
  - Signs of break–up from the old strategies emerged

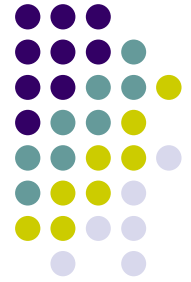
-Table 1 shows the remarkable achievement of the welfare strategies adopted during the rapid development period



<Table 1> Years from inception to universalization

Industrial Accident Compensation Insurance						
nation	France	Germany	Italy	Sweden	UK	Korea
beginning	1898	1884	1898	1901	1906	1964
Full bloom	1970	1955	1960	1955	1960	2000
years	72	71	62	54	54	36
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Employment Insurance						
beginning	1914	1927	1919	1934	1911	1995
full bloom	1960	1970	1970	1970	1950	1998
years	54	57	51	44	41	3

# Problems Facing the Korean Welfare State



- After attaining the goal of the universal coverage, new needs arose for qualitative improvements
- To meet such new demands require an additional burden on the existing insurance funds
- Financial instability is a common and serious problem to all social insurance funds except employment insurance

Looking into Table 2, we can find out a huge reserve as of now. But if the current pension format is kept unchanged, it is projected to run deficit from 2036 and be depleted by 2047



<Table 2> long-term projection of pension fund

(billion won)

Year	Reserve (current value)	Revenue (A)	Expenditure (B)	Differential (A-B)
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source: National Pension Schemes Development Committee(2003)

# Problems Facing the Korean Welfare State



- Despite the universal coverage, a large number of people are out of the social insurance system
- More than 4.62 million people or 50.9 % of the self-employed are classified as ‘the exempted’, that is, those who are excused not to pay contributions due to various reasons. Some of them are feared to behave system avoidance.
- It is difficult to cover a certain type of workers owing partly to the fact that most of these workers are either irregular workers or their employment types are non-standardized and partly to the fact that wages paid to these workers lack objectivity and transparency.

# Strategy Change



- Strategy for maturing welfare state cannot be the same with that for achieving welfare state

<Table 3> Strategy Change

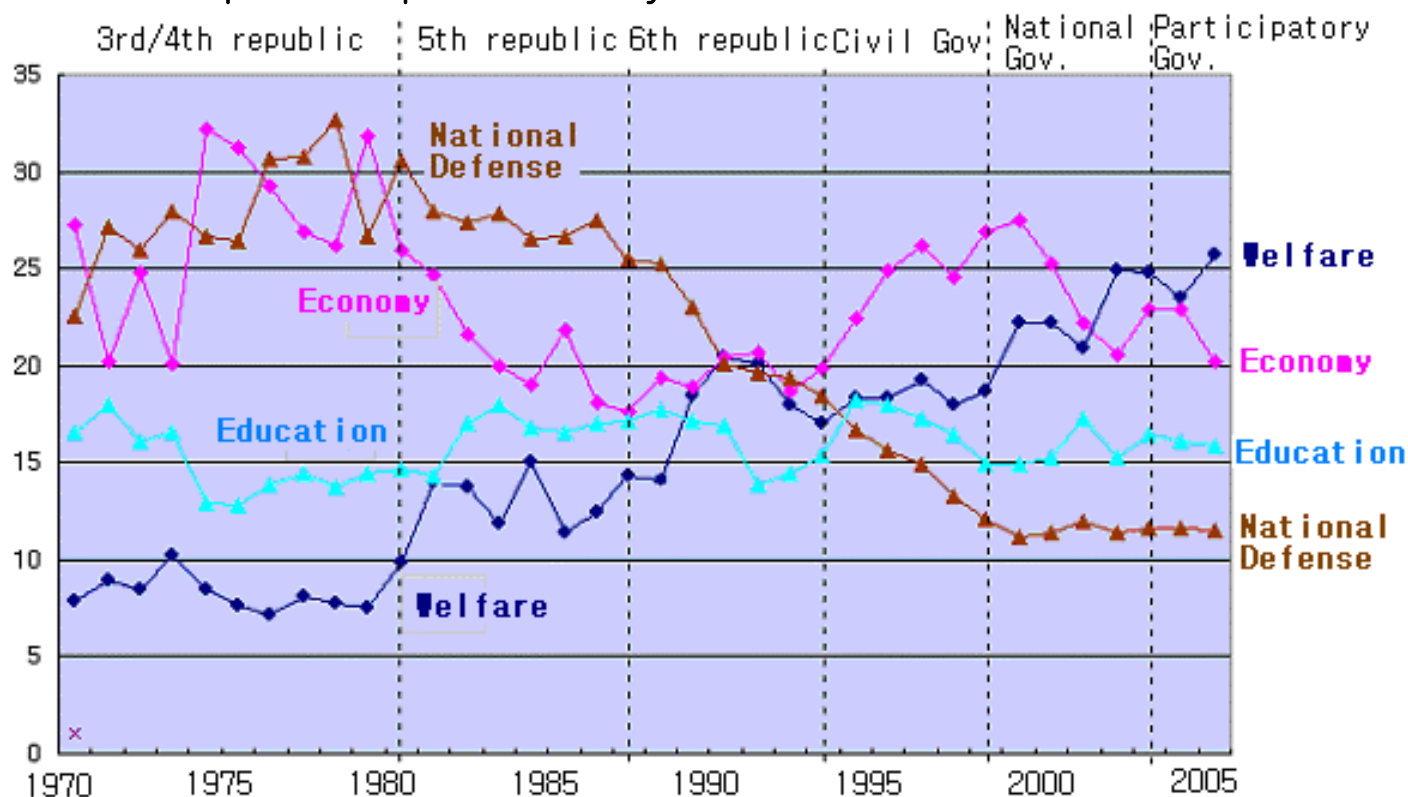
	<b>Before welfare state</b>	<b>After welfare state</b>
<b>strategy</b>	economy first, welfare next	growth and welfare in balance
<b>slogan</b>	No welfare without growth	No growth without welfare
<b>Welfare Policy objective</b>	Quantitative growth	Qualitative enhancement
<b>Welfare Policy environment</b>	Capacity of enterprises and voluntary sector is weak.	Capacity of enterprises and voluntary sector strengthened
<b>Main target group of welfare policy</b>	Economically active population (better-off)	Disadvantaged group (poorest of the poor)
<b>Means of policy</b>	Social insurance preferred	Social insurance, social assistance, social welfare services mixed



# Strategy Change

- one evidence of strategic change is demonstrated by surge in social expenditures, in particular, of social assistance and social welfare services

<Figure 3> rate of public expenditures by sectors



source: Ministry of Planning and Budget



<Table 4> proportion of social security budget by sector

Year	as % of social security budget	
	Public assistance	Social Welfare service
1993	20.2	20.2
1994	20.6	18.3
1995	19.6	21.3
1996	20.2	23.8
1997	22.0	24.1
1998	24.5	36.3
1999	31.9	30.9
2000	29.8	31.8
2001	30.4	35.0
2002	31.9	36.2
2003	30.4	37.7
2004	30.5	36.3
2005	33.9	27.7

source: Year Book of Health and Welfare Statistics (2005)

# Outlook of Social Expenditure



- The government recently disclosed both short term and long term plan of public finance



<Table 5> Expenditure allocation plan of various sectors

(trillion won, %)

	2005	2006	2007	2008	2009	Annual increase rate
Total expenditure	207.8	220.9	235.0	250.0	267.9	6.6
Budget	146.6	156.5	167.3	178.8	192.9	7.1
Fund	61.2	64.4	67.7	71.2	75.0	5.2
Education	26.1	28.4	30.9	33.5	36.5	8.8
Social welfare	48.7	53.7	58.4	63.6	69.5	9.3
Culture & Tourism	2.6	2.7	2.9	3.1	3.4	7.1
Environment	4.0	4.1	4.3	4.6	5.0	5.8
National defense	20.4	22.1	24.1	26.3	28.7	9.0
Foreign affairs & Unification	1.6	2.4	2.5	2.3	2.2	8.4
SOC	16.0	15.5	15.8	16.1	17.1	1.6
Agriculture & Fishery	13.4	13.5	13.9	14.3	14.9	2.8
industry & small and medium business	11.7	11.6	12.2	12.6	13.0	2.7
R&D	7.8	8.5	9.3	10.1	11.1	9.1

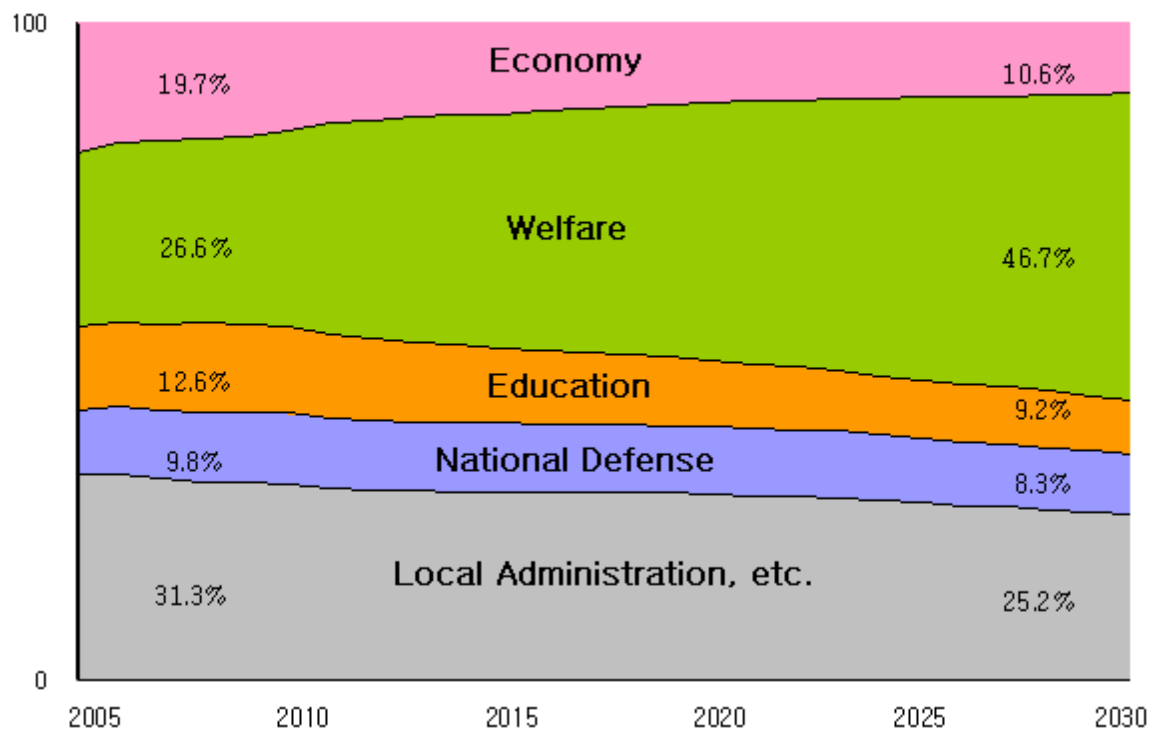
source: Ministry of Planning and Budget (2005)



<Table 6>, <Figure 4> Outlook of long-term public expenditure

	2005	2015	2030	OECD Average
Welfare/Total expenditure (%)	26.6	35.6	46.7	51.7
Economy/Total expenditure (%)	19.7	13.8	10.6	9.5

Expenditure by sector/Total expenditure(%)



source: Ministry of Planning and Budget (2005)

# Challenges Facing the Korean Welfare State



- Ideological conflict has heated up since president M. H. Roh took office: critics are claiming that growth is more important than distribution, whereas the ruling group is counter-claiming that to get growth and distribution simultaneously is possible
- The political and economic conditions are not amicable to change: the attempt for restructuring welfare state coincides with the unpopularity of president M.H. Roh. and sluggish economy

# Challenges Facing the Korean Welfare State



- Technical difficulties such as inventing the Korean model of welfare state, administrative faults, consensus-building of reform proposals etc. are also thwarting the desirable strategy change