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Social Issues and Policy Agendas in Korea

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Order of Presentation

I. Current Social Issues and Problems

II. Directions for New Social Policy

III. Major Policy Agendas

IV. Issues in Pension Coverage

I . Current Social Issues and Problems



1. Rapid Increase in Social Expenditure

- Korea's social expenditure has rapidly grown since the foreign exchange crisis in 1997, expanding various welfare programs.
 - Social expenditure grew nearly four-fold in the past decade.
 - Four major social insurances and the National Basic Livelihood Security System were established.
 - Basic old-age pension, Long-term care insurance for the elderly, Disability allowance, and public child care system were introduced.
 - Providing social services through workfare was expanded, and Earned Income Tax Credit (EITC) was adopted.

Changes in Social Expenditure

(unit: trillion won, %)

Category	'98	'03	'08	'09	Annual growth rate		
					'08	'09(est.)	'99~'09
Social expenditure ¹⁾ (A)	21.0	38.0	67.3	79.6	12.5	18.3	12.9
Consolidated government expenditure ²⁾ (B)	115.4	164.3	235.8 (262.8)	275.9 (301.8)	12.4 (10.8)	17.0 (14.8)	8.2
A/B (%)	18.2	23.1	28.5	28.9			

1) Expenditures in health care · welfare, social security, housing, etc. based on consolidated public sector finance (=gross expenditure-loan collection)

2) () denotes the amount of gross expenditure

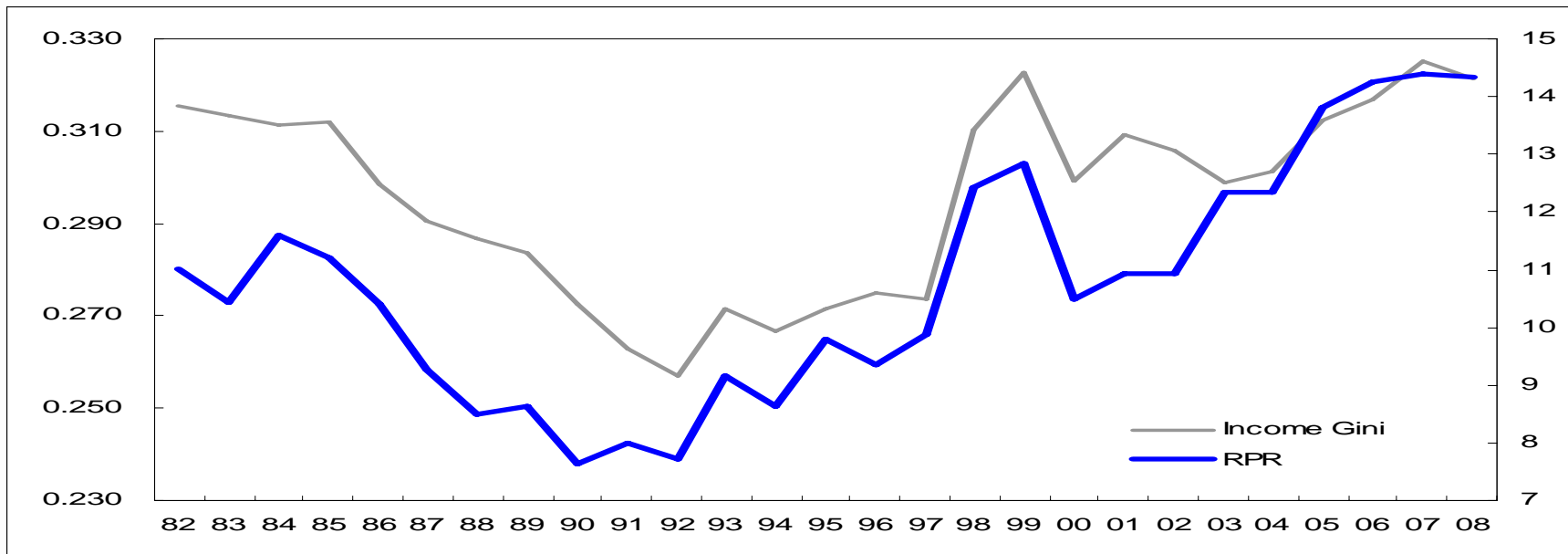
* Source : Ministry of Strategy and Finance. Republic of Korea.

I . Current Social Issues and Problems

2. Deterioration of Income Distribution (1)

- Despite the rising social expenditure, Korea's income inequality has continued to deteriorate since the mid-1990s.
 - Income GINI coefficient: 0.275('96) → 0.321('08)
 - Relative Poverty Rate: 9.3%('96) → 14.3%('08)

Changes in Gini Coefficient and Relative Poverty Rate



Note: The relative poverty rate is the proportion of households with less than 50% of median income

Source: Urban Household Survey (original data, including households with wage worker, self-employed, unemployed).

Korea National Statistics Office

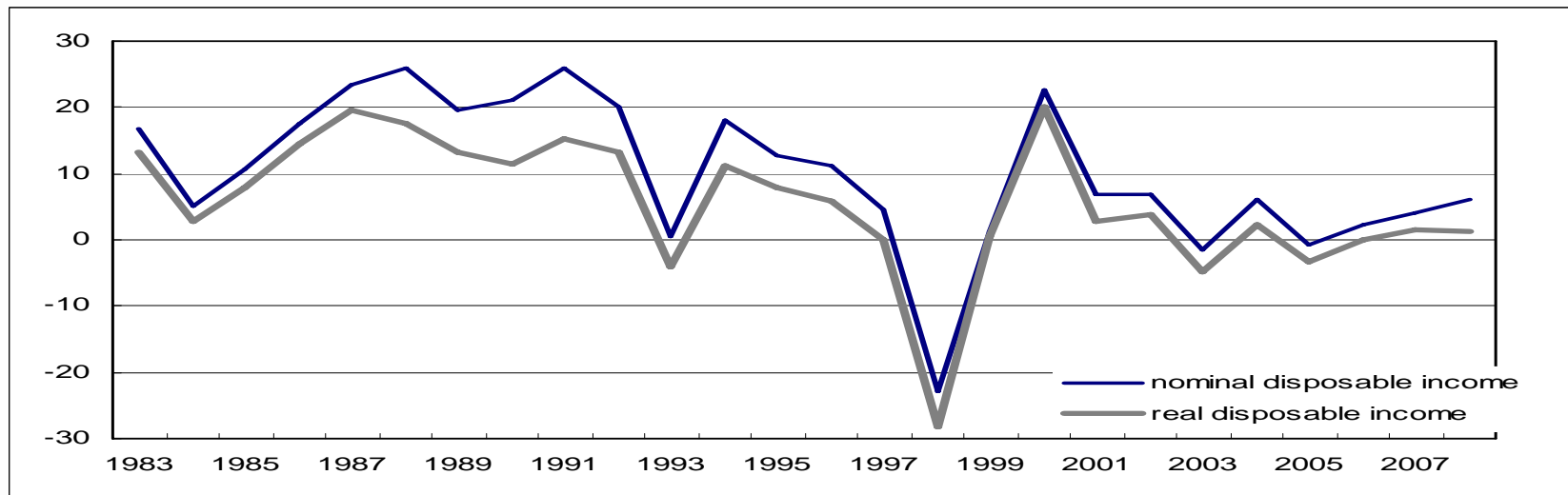
I . Current Social Issues and Problems



2. Deterioration of Income Distribution (2)

- Real income growth rate of poor households (lowest 20% in the income decile) stagnated since the crisis in 1997.
- The rise in relative poverty caused the ratio of middle-income class to fall fast hence, weakening the foundation of social integration.
 - The middle-class ratio: 68.7%('96) → 58.5%('06) → 56.4%('08)
 - ※ Middle-class: households with 50%~150% of median income

Income Growth Rate of the Bottom 20% Households



Source: Urban Household Survey (original data, including households with wage worker, self-employed, unemployed)
Korea National Statistics Office.

I . Current Social Issues and Problems



3. Decline in Social Mobility

- The failing public education contrast to booming private education has widened the educational gap among income classes resulting in the intergenerational transmission of poverty.
 - Households with monthly income of more than 7 million won spend ten times more on private education than those with 1 million won or less monthly income.
 - Students from households with monthly income of 2 million won or less turn out to record lower scores by more than 30 points in the National Scholastic Aptitude Test, compared to those from households with monthly income of more than 5 million won.
- Also, the dual structure of the labor market, such as union/non-union, large company/SME, and regular/non-regular workers, has limited the upward mobility among income classes.

Dual Structure of Labor Market

	Labor union ∩ Large company ∩ Regular worker	Non-union ∩ SME ∩ Non-regular worker
Average monthly salary (thous.won)	3,257 (100)	1,138 (34.9)
Working duration (year)	12.3	1.7
UI take-up rates (%)	77.7	32.3
Number of employees (thous.people)	1,144 (7.1%)	4,347 (27.0%)

Source: Economically Active Population Survey: Additional Survey, Mar. 2009.

I . Current Social Issues and Problems



4. Incomplete Social Safety Net

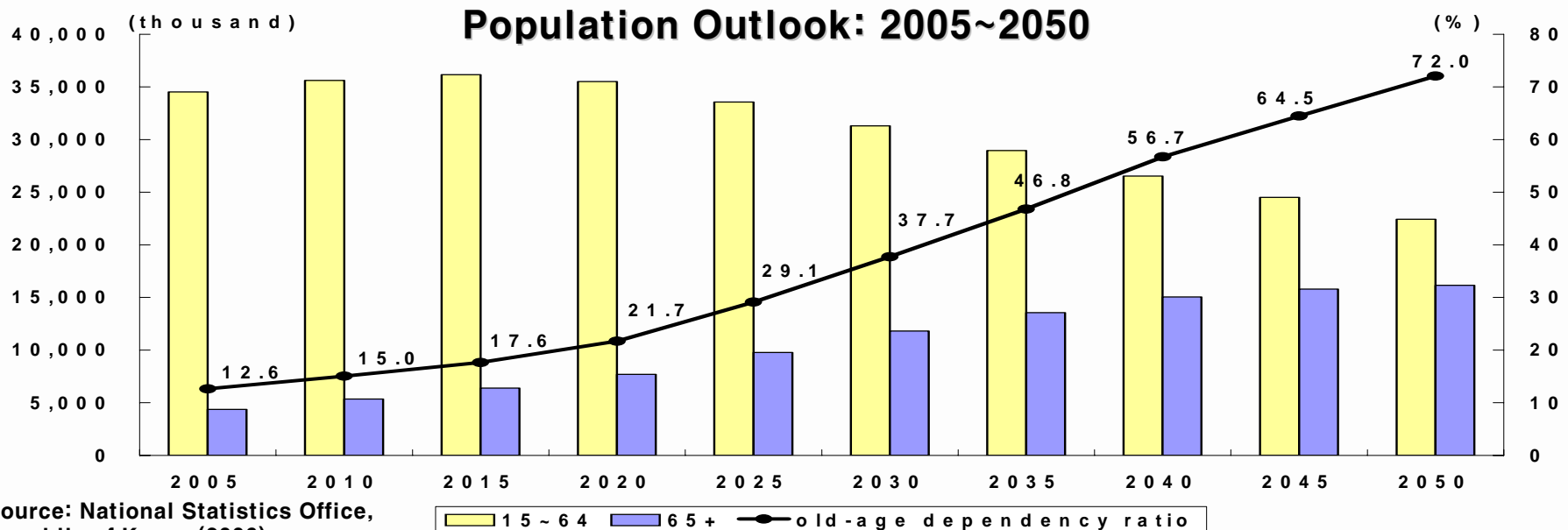
- The current social insurance plan is highly centered on regular workers, hence there is a strong possibility that during a crisis temporary, daily and self-employed workers will not be covered since their subscription rate is fairly low.
- Public assistance (the National Basic Livelihood Security System) has limited capacity in terms of benefit coverage and has an ex-post protection system which is inadequate in preventing poverty.
 - Also, "all-or-nothing" type of comprehensive pay system (livelihood · medical care · housing education, etc.) greatly reduces the incentives to work in order to extricate from poverty.

Category	Narrow Coverage in Social Insurance Programs
National Pension	5,107 payment-exempt insurer and 1,526 delinquent insurer (2 years) as of 2007
National Health Insurance	2,130,000 households exempt from paying contribution as of 2006
Long-term Care Insurance	3.1% beneficiary rate as of 2008
Employment Insurance	34.8% unemployment benefit payment as of 2007, 39% subscription rate of non-regular workers as of 2008
Industrial Accident Compensation Insurance	Excluding majority of non-regular workers

I . Current Social Issues and Problems

5. Low Fertility Rate and Population Aging

- Insufficient support system available for women to rear children while pursuing a working career and overly excessive costs of private education are some of the reasons behind the low fertility and women's low labor participation rate.
 - Total Fertility Rate: **1.19 in 2008** (OECD average: 1.6)
 - Female labor force participation rate: **58.7% in 2008** (G-7 average: 69.0%)
- Rapid population aging not only weakens the potential growth rate but also substantially raise social risks such as poverty among the elderly and their medical costs.



II. Directions for New Social Policy

1. The Meaning of New Social Policy

- Increasing instability in various social sectors calls for the government to move beyond the existing ex-post, residual, and passive attitude in its social policy stance and to intervene in more active and preemptive manner.
 - There is an urgent need to preemptively build and invest in the foundation to enhance human capacity, potential, and will in order to overcome poverty and revive the middle-income class.
- New Social Policy means “social policy for preemptive social investment and system improvement with an aim to build competency to counter potential risk factors in individual life cycle and enhance individual progress.”

II . Directions for New Social Policy

2. Vision and Goals of New Social Policy

- The core value is to embody “**integrated society pursuing shared growth**” through building a foundation to strengthen the capacity of all members of the society in order to actively participate in the knowledge-based economy of the 21st century.
- An ideal society envisioned in New Social Policy :
 - **Society with a large middle class as the foundation for social stability and balanced growth**
 - **Society that guarantees equal opportunity and high upward mobility of social strata**
 - **Society with a sustainable and broad-based growth potential**

II. Directions for New Social Policy

3. Driving strategy of New Social Policy

3-1. Preventative & Investable approach

- Sustainable and endogenous economic growth requires the accumulation of human capital resources, and to that end, it is important to strengthen non-cognitive skills such as endurance, motivation, self-control, etc. as well as to foster cognitive skills through education and training. (Heckman & Krueger(2002))
- Preventive intervention is applied to the issues surrounding poverty and income inequality through preemptive investment that aims to enhance competency-based human resources.
 - To lessen human capital inequality intensive focus will be put on the low-income class through investment on human capacity development so that equal opportunity will be guaranteed to all income levels.
- In particular, since childhood poverty leads to poor school performance and inferior social and economic status later in life (Lee(2006), Cocoran(2000), etc.), **New Social Policy considerably strengthens early intervention programs to heighten human capital development of children from poor families.** (ex.: Head Start (US), Sure Start (UK))

II. Directions for New Social Policy

3. Driving strategy of New Social Policy

3-2. User-oriented integrated approach

Problems

- Existing social policies on welfare, education, labor, etc. are provider-oriented, which caused efficiency loss, frequent overlaps and omissions.
- Even the method of financial support is provider-oriented, weakening the performance incentives
 - The education policy, in particular, was implemented by the principle of input equality, undermining the performance incentives of teachers and schools, which serves as factors for the collapse of public education and expansion of private education.

Improvement direction

- New Social Policy focuses on the enhancement of comprehensive human capacity (intelligence, social, emotional aspects) through integrated care, education and training services.
- Financial assistance is available through a direct **Voucher** method to users in order to expand their selection choices as well as to improve the service quality of provider institutions through healthy competition.

II . Directions for New Social Policy

3. Driving strategy of New Social Policy

3-3. Life-cycle approach

- **Because each life cycle of each individual differs risks faced and development stages of each individual differ as well and hence, the role of the government for each individual will differ.**
 - **New Social Policy puts concerted efforts on accurately identifying different risk factors in different stages of life such as preschool, school, productive age and old age in order to provide step-by-step customized services.**
- **In order to eliminate deficiencies in human capacity due to poverty it is most effective to intervene at the early stages of infancy and pre-schooling (Heckman & Lochner(2000)).**
 - **Under the strategic investment scheme of New Social Policy the priority is set on early intervention such as in the preschool stage for substantial development in human capacity.**

III. Major policy agendas

1. Reinforcement of Basic Social Safety Net

- In order to pursue a broader growth through restoring the middle class, it is crucial to reinforce social safety net which would improve economic security and upward mobility.
 - Proper social safety net will surely help each individual to recover from economic difficulties and also it will encourage people to invest in the uncertain future through start-ups or taking vocational training programs. In other words, it will function as a “**springboard for a better future.**” (Hamilton Project)
- Measures need to be considered :
 - **Health Insurance:** expanding its coverage and approving loans for medical bills for unemployed.
 - **Employment Insurance:** subsidizing insurance premium for low-income workers and pending approval on including self-employed to the coverage.
 - **National Pension:** pending insurance-matching support measures for low-income regional subscribers.
 - **Long-term Care Insurance:** improving access for the near poor elderly.
 - **National Basic Livelihood Security program:** In order to strengthen the incentives to escape poverty, allowances for medical, housing, education, etc. should be separately provided for a certain period of time to past recipients who are no longer eligible for the benefit.

III. Major policy agendas

2. Education

- **Guarantee equal education opportunity through upgrading public education and reducing the cost of private education.**
 - To strengthen performance of teachers and schools, it is important to **establish student-oriented teacher evaluation system, strengthen school autonomy and accountability, and expand the rights of student/school selections.**
 - To reduce the cost of private education, which is the main culprit for excessive burden of the middle-income households and their low rate of fertility, it is necessary to enhance **the quality of public education, improve the school entrance system, and prevent excessive growth of the private academic institute industry.**
 - To provide equal opportunity of education, it is necessary to **implement mandatory infant education, support more after-school programs, provide more education funds, and launch lifelong learning account projects.**
 - Further, **integrate education and childcare programs** as well as strengthen their quality along with providing more flexible working hours for woman workers, considering their rise in the labor market.

III. Major policy agendas

3. Welfare service

- **Through aggressive early investment policies, which allows for equal opportunity at the starting line, strengthen poverty prevention and social mobility.**
 - **Expand the 「Dream Start」 project nationwide, which is an ongoing program that integrates healthcare, childcare, and welfare focusing mainly on the children from low-income areas.**
 - **Implement the 「Healthy Start」 program which provides “house-to-house” health services to households with infants and toddlers.**

- **Prevent the fall into poverty due to temporary financial adversity, and provide support to escape poverty through jobs.**
 - **Expand the coverage and scale of emergency support programs for sudden accident, sickness, or business closure**
 - **Implement the 「Self-reliance Support」 program which incorporates self-help project, social employment, and micro-credit programs**
 - **Expand EITC to strengthen work incentive, adopt earnings disregards system to unemployment benefit (Making Work Pay)**

III. Major policy agendas

4. Labor Market Policy

- **A core challenge to restoring the middle class is job creation, hence, policies that promote quality and creation of jobs should be pursued as well as sustained.**
 - Under the premise “the government does not create jobs but ultimately jobs are created by private investment” , it is necessary to consistently implement measures that **alleviate the dual structure of the labor market, upgrade the labor management relations, correct the unfair trade practice, and enhance the productivity of the service industry.**
- **To improve the productivity of employees, it is important to develop their fundamental competency and support career development.**
 - **Provide more tax benefits for education and training, encourage voluntary OJT and selective training programs by employees in the private sector**
 - **Prepare active measures to encourage hiring of female workers as part timers so that they can manage both work and family**
 - **Streamline laws and regulations to correct gender and age discrimination practices in the labor market**

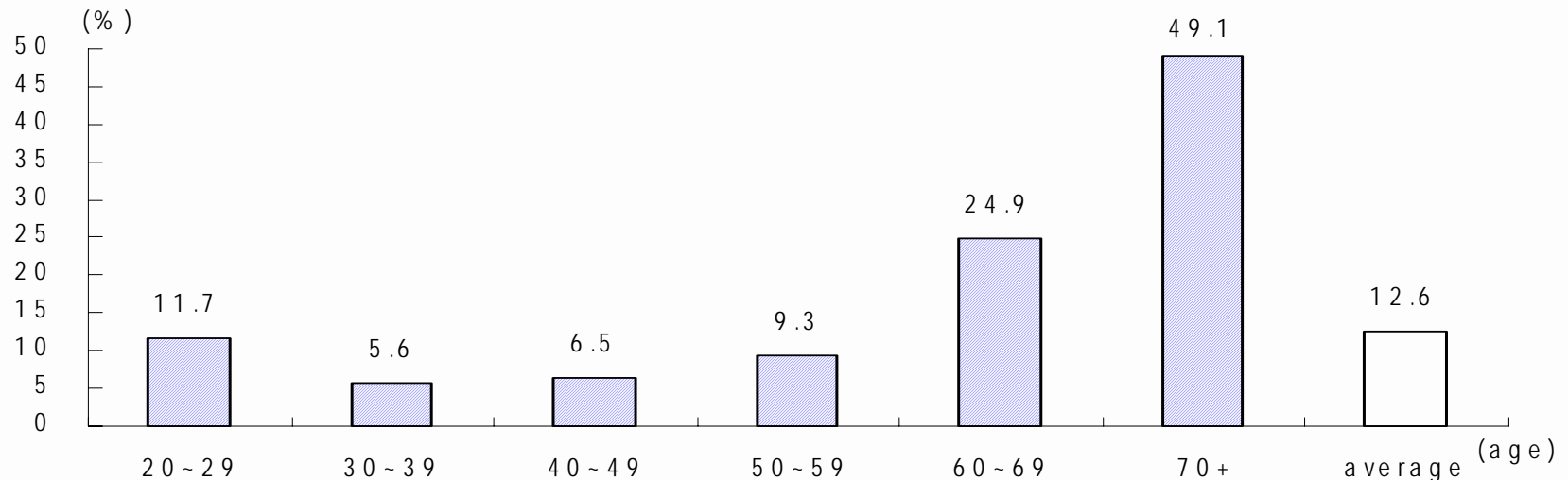
IV. Issues in Pension Coverage



1. Old-age Poverty in Korea

- Despite continuous economic growth, old-age poverty still remains a very critical problem.
- Korea's poverty rate of the elderly households is highest among the OECD member countries.

Poverty Rates by Ages of Household Heads in Korea (2006)



Note: Poverty line is set at 40% of the median income and the number of households is converted by applying equivalence scale.

Source: Korea National Statistical Office, 「National Household Survey」 (2006).

IV. Issues in Pension Coverage



2. Income sources of Elderly Households

- Majority of elderly households are financially dependent on their offspring.
- The public transfers, including pension and public assistance, still accounts for less than 20%.

Composition of Income Sources of Elderly Households

(Unit: %)

Income source	Payroll income	Business income	Asset income	Private transfers	Public transfers		Non-ordinary income	Total
					Public pension	Others		
	22.8	9.7	10.9	25.8	12.8	7.8	10.1	100.0

Note: Based on the households with a 65-year-old or over household head.
 Source: Korea National Statistical Office, 「National Household Survey」 (2006).

IV. Issues in Pension Coverage



3. Number of Insured Persons(NPS): 2006

- Currently, about 1/3 of the insured are non-contributors.

(ths., %)

total insured	workplace-based	individually insured			voluntary participants	
		contributors		exempted		
		collected	not-collected			
17,740 (100.0)	8,605 (48.5)	9,086 (51.2)	3,150 (17.8)	1,000 (5.6)	4,936 (27.8)	49 (0.3)

**Non-contributors
(33.4%)**

Data: NPS(2007)

IV. Issues in Pension Coverage



4. Major Policy Agendas: Better Compliance

- **Improvement of administrative capacity**
 - Promoting the transition of the insured status to the insured in workplaces
 - Improvement of infrastructure to seize earnings accurately

- **Some Measures to Promote Contribution Career**
 - Activating delayed payment and subsidizing contributions
 - Expansion of credits
 - Activating voluntary affiliation
 - Reduction of minimum qualifying years

IV. Issues in Pension Coverage



4. Major Policy Agendas: Contribution Subsidy

- **There is a strong possibility that the provision of contribution subsidy can substantially increase the compliance rates of atypical workers with low wages.**
 - **Contribution subsidy can be considered as a pre-emptive social investment, as it will alleviate poverty among the elderly in the future.**
- **How to design subsidy scheme:**
 - **provide incentives both to workers to participate in the NPP, and to employers to convert the individually insured workers into workplace-based insured.**
 - ※ **example: 3%(G)-3%(E)-3%(W) for very low-paid workers**
2%(G)-3.5%(E)-3.5%(W) for low-paid workers

IV. Issues in Pension Coverage

4. Major Policy Agendas: Old-age workers

- **Labor participation rates of the elderly population in Korea is already high (especially males), and need to be maintained.**
 - **mainly due to immature old-age income security system**
- **Various institutional barriers which hinder old-age workers from staying in the labor market should be abolished.**
 - **to help extend the firm-based mandatory retirement age, and rectify seniority-based wage schemes**
 - **the provision of incentives for employers to keep old-aged employees, and the creation of alternative job opportunities for displaced old-aged workers**
 - **the provision of programs and institutional settings for smooth transition from work to retirement**
 - **reduction in incentives for early retirement in public pension schemes**



Thank you!