

# Globalization and the emerging welfare state – the experience of South Korea

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This paper explores the experience of South Korea (hereafter referred to as Korea) as a testing ground for the prospects of the contemporary welfare state as affected by globalization. Korea is known as one of the most successful cases of intentional economic growth. Over three and a half decades, from 1961 to 1996, it grew from a war-torn wreck to become the world's 11th largest economy, with a per capita gross domestic product exceeding US\$10,000, and to become a member of the rich nations' club, OECD. But, with the financial crisis of 1997, the Korean miracle is said to have ingloriously ended. This paper examines the development of the Korean welfare state as a composite system of democratic welfare capitalism in the context of its export-oriented economic growth, and looks into the current features of the welfare state efforts under the direct tutelage of the IMF.

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## Introduction

With the collapse of communism and the end of the Cold War, the Marxist vision of the death of capitalism has been replaced by the notion of a new global capitalism. The market has become the credo and globalization has become the master concept of our time. The half century of worldwide consensus about the Keynesian welfare state has come to an end. Indeed, no country today appears to be immune to the pressures emanating from the globalization trend. Many have argued that the East Asian Tigers have been and will be the main beneficiaries of globalization. But this complacency has been cracked open by the sudden financial meltdown of Korea in December 1997, forcing us to re-evaluate the intellectual underpinnings of the export-led late development models.

Enthusiasts of globalization draw a rosy picture of the new global era, whereas critics attack the notion of the global integration of economy as a myth based upon considerable speculation. Regarding its implications for the welfare state, globalists claim that the welfare state is incompatible with the fabric of a global society, since it is an eminently national enterprise based upon an economy that can be regulated and modified by the nation-state. Defenders of the welfare

state, on the other hand, claim that the welfare state is a necessary prerequisite for globalization. They warn that if the foundations of the welfare state were to wither away, aggressive economic nationalism would soon fill the gap.

This paper explores the experience of South Korea (hereafter referred to as Korea) as a testing ground for the prospects of the contemporary welfare state as affected by globalization. One of the most striking features of contemporary Korea is its phenomenal economic growth since the early 1960s. Over three and a half decades, from 1961 to 1996, Korea grew from a war-torn wreck to become the world's 11th largest economy, with a per capita gross domestic product exceeding US\$10,000, and to become a member of the rich nations' club, OECD. At the heart of this dramatic emergence of the miraculous economy of Korea, three crucial factors coincide: first, the rapid expansion of world trade; second, a strong interventionist state determined to pursue export-oriented economic growth; and third, the availability of a high-quality, low-cost labour force.

As Amsden (1989:3) points out, Korea's economic performance represents a new way of industrializing that challenges assumptions long held by generations of Western economic thinkers. While orthodox or neo-liberal economic theories stress the economic benefits of a minimalist regulatory role of the state, Korea is

one of the most successful cases of intentional economic development, orchestrated by the ubiquitous authoritarian interventionist state. And while the dependency theory warned that world trade retards and distorts the development of Third World countries and forces them into a state of dependence, Korea ignored these warnings and moved in the opposite direction. It sought to join the world economy by following export-led growth policies, and actually achieved a phenomenal improvement in its living standards. Moreover, Korea's recent move towards increased democracy after its intensive economic development appears to support the linear relationship between economic growth and democratization as propounded by Lipset (1959), while many Koreans still stress the possible negative consequences of democratization for economic as well as political stability.

What does this peculiar combination of authoritarian state, coordinated market system and increasing democratization during the last two decades mean for the development of the welfare state in Korea, particularly in the context of globalization? What does the sudden financial collapse in December 1997 mean for the fate of the nascent welfare state thus far?

Increased intellectual curiosity notwithstanding, very little is known about the dynamics of the welfare states in East Asia. The ultimate purpose of this paper is to fill this knowledge gap, and thereby broaden the perspective of the studies of modern welfare states beyond the old, mature, Western democracies. This paper has two distinct but related objectives. The first is to deal with the past to identify and characterize the trajectory on which the hesitant embryonic Korean welfare state has developed. The second is to examine the new challenges it is now facing since the financial meltdown in December 1997 and identify the implications of globalization for its development. Will Korea opt for a model without a welfare state, in the name of global competition? Or will it consolidate the basic state welfare further, in order to overcome the economic crisis?

An underlying assumption is that the welfare state can take many different institutional forms depending upon national political culture and institutional heritage, not to mention its position in the world economy, and in seeking to adapt to the new globalizing environment, welfare states can do so very differently. Some analytic and theoretical considerations on the concepts of the welfare state and globalization are attempted in the following section. The third section covers the period from 1961 to 1987, during which three starkly authoritarian regimes seized power and the foundations of the current Korean social security system were laid down.

The changes and developments in the Korean welfare state after 1987 and up to 1997 will be explored in the fourth section, with turbulent democratization and new pressures from global capitalism as backdrops. The reactions and responses to the financial crisis in December 1997 will be dealt with briefly in the concluding section.

### **An analytic perspective: globalization and democratic-welfare-capitalism**

Globalization refers to a process through which national economies become more and more open and subject to supranational economic influences (Michie & Smith, 1995). This process mandates that capital, production, management, markets, labor, information and technology be organized across national boundaries (Castells, 1993:18). As economies lose their discrete, self-contained character and become enmeshed in global networks and processes, globalists argue, they become less and less amenable to national control and management. In other words, as the integration of the world economy advances, national governments are becoming less and less relevant, losing their autonomous powers not only to influence macroeconomic outcomes, but also to implement social programmes. Global economy punishes profligate governments and uncompetitive economies mercilessly. Globalization, from this perspective, denies domestic policy choices and implies a form of "end of ideology" in favour of a neo-liberal policy agenda dictated by the global economy. It means the end of full employment, reduced social spending and increasingly a residual social policy (Mishra, 1998:3). Whether wanted or not, the argument goes, the globalization of economies will displace the nation-states in time because the power of international capitalism is the superior force.

This logic of globalization implying the demise of the nation-state, particularly the dismantling of the welfare state, has been challenged by many writers. First of all, the hard data give little support to the globalist's logic. Contrary to popular belief, the levels of social expenditures in most OECD nations have remained essentially stable in the past decade (Esping-Anderson, 1996:11). Others, like Rucian Pye (1997) or Liebfried & Reiger (1995), emphasize that capitalist industrial economy has always been transnationally oriented, disregarding national borders as a natural frame of reference. Pye's point is that there is already a long history of wise men predicting that the globalization of economies will conquer the nation-state, but any objective view of history and especially recent history would suggest that the powers of national government have not declined (1997:168). Linda Weiss (1998) goes even further by contending

that as economic integration proceeds, state capabilities will matter more rather than less in fostering well-being and the creation of wealth. Liebfried & Rieger (*ibid.*) highlight that economic integration between national economies today is mainly a phenomenon between the welfare states, and without the welfare state no developed industrial society could participate in the global market. They have identified three phases in the globalization process – the first is the decades preceding World War I, the second the 1950s and 1960s, and the third is the period since the 1980s – and observe that the welfare state was and is a necessary prerequisite for this third push of globalization. They cite Katzenstein's study (1984, 1985) of small European states with more open economies to show that these could afford openness only with a high level of social protection and of policy concentration by social groups.

Esping-Anderson (1996) concludes that global competition narrows the field of domestic policy choice but that, in terms of managing welfare, employment and growth objectives, political and institutional mechanisms of interest representation and political consensus-building matter tremendously. He has shown that different types of advanced welfare states have taken different routes in adjusting themselves to the new globalizing situation since the early 1970s. Thereby he has proved that globalization is only one of many important factors accounting for the fate of the welfare state.

As already mentioned, the welfare state can take many different institutional forms. The basic commonality of welfare states is, in Keynes' expression, "wisely managed capitalism". For Keynes, capitalism in itself was in many ways extremely objectionable; nevertheless, if wisely managed, capitalism could probably be made more efficient than any alternative yet in sight for attaining economic ends. His problem was to work out a social organization that would be as efficient as possible without offending the notion of a satisfactory way of life (Keynes, 1926:53). It is from this vision of wisely managed capitalism that the Western postwar welfare state has developed. In Jessop's terms, the objectives of the Keynesian welfare state regarding economic and social reproduction were to promote full employment in a relatively closed national economy primarily through demand-side management, and to generalize norms of mass consumption through welfare rights and new forms of collective consumption (1993:36). The concrete forms of the Keynesian welfare state and the specific ways in which such objectives have been pursued naturally vary from nation to nation. In essence, they are the output of the continuous and dynamic interactions between capitalism and democracy.

In analysing this wide variation, many researchers have endeavoured to develop a frame for a macro-comparative typology of the welfare state. This paper draws on TH Marshall's definition (1972) of the welfare state as a hyphenated composite type of social system with the three components "democratic–welfare–capitalism" forming the basic framework for analysing the development of the Korean welfare state from a comparative perspective. Marshall himself did not provide a comparative perspective. But his definition zooms large this dynamic relationship between capitalism, democracy and the welfare state. As is obvious to many social scientists, democracy has many different variants in reality, and so does capitalism and the welfare state. Many different variants of each component can make numerous combinations of democratic welfare capitalism, that is, types of welfare states. The characteristics and balances of the relationships between these three pillars may change over time with the process of industrialization, economic growth and democratization.

While the British welfare state represents, in Marshall's analysis, a composite system of pluralist liberal democracy (which stands for equality of citizenship and majority voting), the *laissez-faire* market economy (which recognizes and rewards inequality) and welfare as "socialism without nationalization of industry" (Gaitskel, 1956:3–4), examining the Korean welfare state is, in effect, looking at a system of a basically authoritarian political regime, export-oriented intentional growth economy and socialism as an anathema, with the premise of the ever robust family and informal safety network.

Though the development of the welfare state is a continuous and incremental process, discussions in the following sections are divided into two periods: the first is the period of *de facto* authoritarian rule (1961–1987), and the second the period of democratic parliamentary rule, as a way to control the variable "democracy" in our three-part system of democratic–welfare–capitalism.

### **The Authoritarian Developmental State (1961–1987): the marginalist-instrumentalist approach**

Much of the foundations of the Korean welfare state were laid down by the authoritarian regimes, beginning in the early 1960s. In fact, the concept of the welfare state has been a part of Korea's constitutional framework ever since the first Republic adopted its Constitution in 1948, incorporating the ideals of the welfare state. But it took many decades for these imported ideals to germinate in Korean soil. Up until the early 1960s, people were suffering from

bereavement, loss and poverty. The corrupted and indulgent authoritarian state could not see welfare policy or labour policy as a structural necessity for modernizing a capitalist society. Welfare during this period was operated mainly as charity and emergency relief funded by foreign aid. During these years, absolute poverty was the rule, and the country itself was one of the world's largest recipients of foreign aid.

The student uprising of 1960 brought about the demise of the 12-year rule of the First Republic, which was followed by the democratic parliamentary government of Chang Myon which lasted only nine months. It was toppled by the *coup* led by General Park Chung Hee on 16 May 1961. From this day through to 1987, when parliamentary democracy was inaugurated once again, three authoritarian military regimes seized power: from 1962 to 1971 the Third Republic of Park Chung Hee; from 1973 to 1979 the Yushin Regime of Park; and from 1980 to 1987 the Fifth Republic of Chun Doo Hwan. They ran an authoritarian regime under a façade of democracy and constitutionalism. All three regimes shared the characteristics of, to use Charlmers Johnson's expression (1988), the Authoritarian Developmental State (ADS), and the welfare state responses of each regime were not identical but common in their basic premise that welfare state policies should remain minimal and can be utilized as political instruments for authoritarian developmental rule.

As is known, the Third Republic opted for outward-looking economic development policies, implemented a series of five-year economic development plans, and achieved remarkable economic success. The First Five-Year Economic Development Plan launched in 1962 resulted in an average annual real growth rate of 7.9%. It was followed by the Second Five-Year Plan which achieved an average growth rate of 9.6% a year. The Third Five-Year Plan (1972–1976) reached 9.2%, and the Fourth (1977–1981) 5.8%, despite minus growth in 1980. The Fifth Five-Year Plan (1982–1986) achieved a 9.8% average growth rate and the Sixth (1987–1991) continued the high growth rate at a 9.9% average. During the 25-year period between 1962 and 1987, the Korean economy grew at an average rate of 8.9% per year. The per capita GNP for 1960 was only US\$80, one of the lowest in the world. It rose to US\$ 252 in 1970 and to US\$3,218 in 1987. This rapid economic growth contributed to an overall rise in the standard of living for the general population and altered the composition of its industrial structure. In 1961 the primary sector accounted for 79% of the Korean labour force, but in 1988 70% of the labour force was employed in the secondary and tertiary sectors. Korea had transformed itself from a predominantly agrarian society into an industrial one.

Many attempts have been made to account for this remarkable sustained economic growth. The factor most often referred to as contributory was the role of the state which was determined to pursue outward-looking intentional economic growth. Charlmers Johnson (1988:11) labelled Korea from 1961 to 1987 as an Authoritarian Developmental State (ADS). By the ADS, he meant a state which eschews ownership but exercises control through the manipulation of incentives, rationing of resources and capital, cartels, and so-called administrative guidance. It leads economic development, directly mobilizes and allocates capital, licenses or subcontracts its projects to private entrepreneurs, and plays the predominant role in controlling the organization of workers. For authoritarian developmental regimes, economic development is of primary importance, not only because economic development is a major national goal of consensus, but also because economic progress is a means of acquiring political legitimacy.

The second factor accounting for the Korean success is the abundance of disciplined and low-cost labour. A competitive labour cost is one of the prerequisites of export-oriented industrialization. In order to maintain competitiveness in the international market, the labour movement was harshly suppressed throughout the period of ADS. In particular, the Yushin regime of the 1970s started with the repression of the labour movement in pursuing its overly ambitious heavy and chemical industrialization (HCI) and maintaining its autocratic political shell.

The third factor is the favourable international trading environment. The 1950s and 1960s correspond to Liebfried and Rieger's second push for globalization, which was basically US centred and was supported by the Bretton Woods and the GATT system which allowed for an escape clause and unilateral national protection (Liebfried & Rieger, 1995:4–6). It was an environment definitely favourable to developing countries. Korea could import foreign capital and technology relatively easily at favourable prices and export its goods at relatively favourable terms. It was in the context of this second push for world trade that the Korean economy could grow rapidly.

Although the Korean economy achieved an extraordinarily rapid growth, its political institutions suffered. The authoritarian elite of the Korean ADS responded to pressures from below with intensified repression, not with democratic reform or paternalistic protection. The notion of state paternalism toward workers and the poor was resisted by the state itself. Moreover, the social security programmes and policies were introduced selectively. For the authoritarian developmental state, the welfare component was to be kept marginal and legitimized only by the national

goal of economic development, which is seen as the only ground for authoritarian rule.

The Third Republic declared in 1961 the twin goals of abolishing poverty and establishing the welfare state. Park himself proclaimed that unless economic equality is guaranteed by establishing a welfare state in Korea, the Koreans will have to face another, as yet unspecified, crisis (Oh, 1990:28). But this early ambition of Park to establish the egalitarian welfare state resulted merely in the consolidation of a number of basic welfare-related laws. The incidence of absolute poverty was actually very quickly reduced. Applying a rather conservative poverty line, of the total population, 40.9% were under this line in 1965, while the figure fell to 23.4% in 1970 and further to 14.6% in 1976 (Suh, 1981:33). Indeed, Park had no trouble in dealing with workers in the process of promoting a labour-intensive export platform, at least until he prolonged his authoritarian rule by the Yushin system in the 1970s, because the market condition (unlimited labour surplus economy) had kept wages low without state intervention. Workers seemed content with getting regular jobs even at low subsistence wages (Im, 1989:59).

A wide range of welfare-related laws, including those pertaining to health insurance, disaster relief, veteran's welfare and child welfare services were enacted in the early 1960s, but many of them were the statutory consolidation of administrative orders and ordinances. And many still remained dormant. Only those of instrumental value were put into effect. These included public assistance programmes (1961), pension schemes for military personnel (1963) and government employees (1962), as well as workmen's industrial accident compensation insurance (1963). Government employees and military personnel were the first two occupational groups to receive public pensions in Korea. The pension was not only a means to protect the lives of retirees, but also a means to upgrade their status *vis-à-vis* other occupational groups, thereby securing their continuous loyalty to the new regime which had a great shortage of legitimacy.

The Workmen's Compensation Insurance Scheme was put into effect in 1963. It started as a state administered insurance for those employers deemed responsible for providing compensation for workers' industrial accidents. The initial coverage was limited to workplaces with 500 or more regular employees, and was gradually expanded to workplaces with 200 employees in 1970 and 16 in 1974. The Living Protection Law of 1961 was mainly a rewrite of the Chosun Poor Relief Order of 1944 which provided subsistence assistance only to those categorically poor and unable to work. It was the first statutory provision of public assistance in Korea, though the budget for the public assistance was not allocated until 1969.

Park's quest for prolonged rule ushered in the Fourth Republic with the Yushin (restoration) system which allowed Park to remain in power for life. The general political ideology was reorganized into a basically neo-Confucian structure. The Yushin system was legitimized by the government's drive for the heavy chemical industries (HCI) predicated upon the twin purposes of developing the indigenous defence industries and restructuring the export composition in favour of more sophisticated and high added-value industrial goods. Yushin started with the outright repression of labour. Workers' collective action and the labour movement were perceived as more threatening than any other social movement, as they could disrupt the whole national economy directly through work stoppage.

But the HCI drive in the 1970s was the watershed for the conglomerization and monopolization of the local capitalist class, and it deteriorated income distribution badly. The state encouraged the formation of big business groups instead of assigning the HCI projects to state enterprises or MNCs. Small and medium-sized businesses were alienated. While the wages of skilled workers rose sharply, wages in the labour-intensive light manufacturing sector had been kept at the subsistence level by the government policy of maintaining international competitiveness. Despite the unprecedented harsh repression, it was under the Yushin regime that the democratic union movement came about as the first organized labour movement based on rank-and-file workers at the grass-roots level. Labour disputes increased to 1,064 in 1977 and 1,206 in 1978 from about 112 per year during the 1960s (Choi, 1984:38). Economic growth notwithstanding, the widening income gap, labour's dissatisfaction with low wages, and the general revulsion against the political authoritarianism all combined to build social pressure against authoritarianism.

Two major pieces of social security legislation came into being during this decade. One was the National Welfare Pension Act of 1973 and the other was the revised Medical Insurance Act. The former had to wait 15 years to be implemented. Its enactment typifies the authoritarian developmental state's instrumentalist approach to welfare policy. It completely bypassed interest politics. The Third Five-Year Economic Development Plan prepared in 1971 did not mention the new public pension scheme. But in January 1973, the President proclaimed the launching of the national pension scheme, together with the HCI drive. And in December of the same year, the National Welfare Pension Act passed the National Assembly. The Korea Development Institute estimated that the national pension scheme would mobilize about 100 billion won in less than two years. As of 1973, the proportion of persons in Korea aged 65

and over was 3.3%. This is comparable to 5.2% of the population of the UK in 1911 when the first public pension insurance was introduced, 5.4% of the American population in 1930, and 5.1% of the German population in 1890. Still, the care of aged parents was the basic responsibility of adult children. The introduction of the new public pension scheme meant invariably an additional burden to employers. But the employers were quiet. The first oil crisis of 1973 postponed the implementation of this new Act. It was revised in 1986 and put into effect in 1988.

Three years after the enactment of the 1973 National Welfare Pension Act, the Medical Insurance Act (first enacted in 1963) was revised and put into effect in 1977. The Medical Assistance Act was prepared to provide medical assistance to the poor who were excluded from medical insurance coverage. President Park was enthusiastic not so much about medical insurance as about national welfare pension insurance. He agreed to implement it when he was assured that medical insurance in Korea would be financed differently from the British National Health Service (Son, 1986:460). Its compulsory coverage started with workplaces with more than 500 regular employees. Contributions were shared between employers and employees. And each medical insurance society maintained an independent insurance account. Distortions in medical resource allocation were already a social issue. It was of particular political importance since the South–North Korea dialogue was initiated.

In October 1979 President Park was assassinated and the Yushin regime's collapse was followed by the *en masse* demonstration of college and university students and workers on the streets of the major cities, demanding democracy and social justice. Against this background of chaos and uncertainty, another authoritarian regime under General Chun came to power in 1980. This was the year when the economy, hard hit by the second oil crisis in 1979, had a minus growth rate for the first time since 1961. The new regime was basically not much different in ideology from the previous one. It put forth the realization of the welfare state. Later, when the national economy rebounded, the welfare society became a political pledge.

Facing the extremely unfavourable economic situation, the new regime's social purification campaign was extremely harsh and new labour laws were enacted which were more repressive in character than those of the Yushin regime. At the same time, it adopted neo-conservative stabilization policies, including the repression of wage increases, rationalization of the HCI projects, fiscal austerity and the liberalization of the trade and financial markets. Particularly its economic liberalization policy

was claimed as distinct from the growth-oriented strategies of the past. In order to demonstrate that he would be a different and better president than Park, Chun stressed economic liberalization policies, in essence arguing that past state intervention may have been excessive and counter-productive to further economic growth. Although markets were being increasingly deregulated, restrictions on labour and wages were intensified.

After two years of recession, the national economy returned to the pattern of steady growth (6.6% in 1981, 5.4% in 1982 and 11.9% in 1983) from the negative growth of 1980. Unemployment decreased from 5.2% in 1982 to 4.1% in 1983. Unlike the pattern under the Park government (rapid growth with high inflation), the Chun government achieved growth with low inflation. In addition to inflation being controlled (dropping from 28.7% in 1980 to 3.4% in 1983), the budget deficit was turned to a surplus, and both current and trade balances of payments were substantially improved. The power holders got new confidence in the rebounding economy.

The Chun regime's pledge for a welfare society placed emphasis on the improvement of the medical insurance system and the revision and enforcement of social welfare service laws. And in response to the growing awareness of the ageing problem, the National Welfare Pension Act was revised to become the National Pension Act, though its implementation was handed over to the next regime. Medical insurance coverage was expanded to include persons employed in workplaces with more than 16 regular employees (1983). And the definition of dependants was broadened to include members of the extended family such as parents-in-law and siblings (1984). Thereby, by 1985, approximately half of the population (42%) came to be covered by public medical insurance, either as general employees and their dependents or as special occupational group insurees such as government employees and private school teachers (Lee, 1992:310). The self-employed, urban and rural, were still outside of the compulsory coverage, but they were planned to be covered by 1988. The medical insurance society-based, decentralized insurance management system was maintained despite ardent reform initiatives. In 1986 the National Welfare Pension Act of 1973 was finally rewritten and renamed the National Pension Act and was planned to be put into effect on 1 January 1988.

In the field of social welfare services, thousands of senior citizens' community clubs were organized with the support of the government and thousands of community daycare centres were established all over the country to help low-income working mothers. For these activities, the Welfare Act for the Elderly was

legislated in 1981 and revised in 1984, and the Law for the Education of Preschool Children was enacted in 1982. The Welfare Act for the Handicapped was legislated in 1981 and revised in 1984. The Welfare Act for Children was revised in 1984 to incorporate the universal perspective of child welfare services. The Social Welfare Service Act, the basic law regarding the delivery structure, organization, professional personnel requirements and financing of social welfare services, was revised in 1983 as an adjustment to the social situation which had changed drastically over a few decades of rapid economic growth. Still, the social welfare services were understood as services for public assistance beneficiaries.

The underlying spirit of the Chun regime's welfare policies was not to consolidate the state's responsibility for the people's right to welfare, but to emphasize the superiority of informal, familial, community-based mutual support groups and their cooperation with the state, particularly in the field of social welfare services. The power holders were already aware of the new conservative trend of welfare state retrenchment in advanced Western nations. By and large, they conceded that the expansion of welfare services was unavoidable but they tried to prevent the assumed negative effect of welfare disease.

By the end of the Chun regime, three major social insurance systems – Workmen's Compensation Insurance, Medical Insurance and National Pension Insurance – were in operation, in addition to the separate social protection schemes for military personnel, government employees and school teachers. Public assistance programmes gained the statutory base to protect the poorest of the poor, and the legal framework for social welfare services for children, the handicapped and the elderly had been consolidated, though with only meagre budgetary commitments. Expenditures for social security grew from 0.71% of the GDP in 1965 to 2.19% in 1987. The proportion of public assistance payments out of the total social security expenditure fell from 73.6% in 1965 to 20.7% in 1987. This was due to the growth of social insurance programmes in which the government's financial participation was minimal.

The structural characteristics of the Korean social security system during these formative years included a heavy dependence on social insurance schemes, insurance society-based medical insurance management, favourable treatment of special occupational groups, and minimum state commitment to the provision of social welfare services and public assistance. As will be shown in the following discussion, they continued to persist in the later democratizing context as well.

### **Democratization and economic liberalization: toward a market-conforming productivist approach**

Whereas the Korean economy has been on an extraordinarily rapid growth trajectory since the early 1960s, Korean democracy has travelled a rocky road. Its political institutions suffered from authoritarian rule, so Korea's economic and political development has been severely disjointed and lopsided. However, successful economic growth unleashed social changes that ultimately overwhelmed the authoritarian state and, in 1987, Korea crossed a historic political watershed into parliamentary democracy. The march of democratic transition had commenced, albeit not at the pace and scope the public had anticipated during the height of the democracy movement (Im, 1989:199–301). This section explores the interactions between the forces of democratization, economic liberalization and the welfare state's responses after 1987.

Chun's sponsorship of Korean nationalism in the form of the Asian Games of 1986 and the Seoul Olympics of 1988 proved to be a great challenge, opening a window of opportunity for protest action (Johnson, 1988:13). After a spell of the most turbulent eruption of popular cries for more democratization, more human rights, greater equity in income distribution, and social justice, Chun was driven to make concessions, culminating in the Declaration for Democracy by Roh Tae Woo in June 1987. The Declaration included fair and direct presidential elections as well as the release of political prisoners. Thus the Sixth Republic was ushered in, and parliamentary democracy was re-inaugurated.

During the first two years of President Roh's term, the nation was to encounter ceaseless political turmoil, social unrest and the erosion of social discipline. Roh, himself a former military general, was hampered by the image that he was close to the military and not a true civilian. The Roh government's early responses to the social unrest were compensatory and welfare oriented. At the end of 1987, the Trade Union Law and Labor Dispute Adjustment Law were amended to reduce or abolish major regulations on union establishment, government control over the management of trade unions and restrictions on collective actions (Bognanno, 1988). When, however, further revisions were attempted by the National Assembly in early 1989 to allow the government officials labour rights, political activity on the part of trade unions and third-party intervention (as was demanded by the trade unions), the presidential veto was exercised.

Instead, the Sixth Republic in its early years introduced five so-called master plans for workers' welfare, including the construction of 0.25 million

houses for workers by the end of 1992 and a further 0.1 million houses per year until 1996; self-reliant welfare projects including the establishment by the second half of 1992 of a workers' bank fully supported by the government; enforcement of the in-plant labour welfare fund system as well as the inducement of granting workers the right to accumulate property; the construction of public facilities to enhance workers' cultural cultivation, leisure and sports; and the introduction of other policies such as the establishment of an in-plant college system and preferential treatment of skilled workers. Furthermore, the minimum wage system was introduced in 1988.

In addition, the Medical Insurance System expanded its coverage to rural (1988) and urban self-employed (1989), and the National Pension Insurance Scheme was put into effect in 1988 as planned by the previous regime. Furthermore, it was promised that the Employment Insurance System would be prepared and implemented during the period of the Seventh Five-Year Economic Development Plan (1992–1997). In addition to these major social insurance plans, the public welfare service delivery system came to be provided with professionally trained social welfare workers (1988). Many other pieces of social legislation were introduced and revised as well, such as the Equal Employment Act (1987), the Maternity Health Care Act (revised 1987), the Maternity Welfare Act (1989), the Workmen's Compensation Act (revised 1989) and the Law for the Promotion of the Employment of the Handicapped (1990).

Not all of these actions involved the state's budget commitment, but for the expansion of medical insurance coverage to the rural population in 1988, half of the expenses were to be borne by the state. As already stated, the Roh government's early responses were compensatory and welfare oriented. To be noted is that all these were planned and implemented in the context of a relatively favourable economy. Despite domestic social and political unrest and the international recession, the Korean economic performance remained dynamic. The annual rate of growth of the three consecutive years of 1986, 1987 and 1988 was 11.6%, 11.5% and 11.3%, respectively. Current accounts also showed a surplus since 1986, peaking in 1988. This achievement was mainly due to a high rate of increase in exports and investments. The so-called three lows – low oil prices, a weak US dollar and low international interest rates – made possible the rapid expansion of exports and reduced the burden of imports and interest payments on foreign debts.

From 1989, however, the price competitiveness of Korean exports weakened due to wage hikes implemented since the second half of 1987 and the appreciation of the Korean won. As the economy began to show a relatively low growth rate (6.4% in

1989), three political parties (headed respectively by Roh, Kim Young Sam and Kim Jong Pil) announced their merger in January 1990, making the new Democratic Liberal Party (DLP) the largest political party in Korea. The merger was called the Grand Conservative Coalition and represented the interests of big business which had been demanding more state support and less state control. The new economic policy team that was installed in March 1990 initiated measures for regaining high growth rates, favouring big businesses which had enjoyed protection and assistance from the government for a long time at the expense of the working class. The earlier hands-off policy characterized by the relaxation of the regulatory labour laws and minimal intervention came to be replaced by the law and order stands. In 1990 and 1991, growth gained momentum again, but the balance of payments deteriorated sharply. In 1992, the current account deficit was reduced but the growth rate fell to 5.1% and continued so in 1993 at 5.8%.

Many Koreans consider the 1992 presidential election, which was won by Kim Young Sam of the DLP, to be the first real democratic election as all three presidential candidates were civilian. As mentioned above, during 1990 to 1991 the Korean economy regained momentum, but inflationary pressures mounted, and the current account deficit widened sharply. In 1992, the inflation rate fell and the current account deficit was reduced, but the growth rate slipped to 4.7% from 9% in 1991 (Cho, 1994:58). In the first half of 1993, at 3.8% it was at the lowest level since 1981. The new government placed policy emphasis over the short run on revitalizing the national economy through the 100-day New Economy Plan. For the long term, the government directed policies toward restructuring the economy and launched the Five-Year Plan (1993–1997) for a New Economy. In essence, as Cho (1994:56–58) summarizes, this differed little from the Seventh Five-Year Plan (1992–1997) which set as its principal goal "pursuing an advanced economy and society and heading toward national unification". Three major strategies were adopted including strengthening the competitiveness of industry, enhancing equity and a balanced development, and pursuing internationalization and liberalization, as well as providing a basis for national reunification.

The Kim Young Sam government in its early years believed that the factors contributing to the country's economic difficulties were not limited to a short-run cyclical deterioration but were also closely related to more fundamental problems, the so-called Korean Disease. Institutionalized corruption, political rent-seeking, the concentration of economic power and the loss of work motivation were to be uprooted. It was a much more ambitious task than economic



revitalization *per se*. In the middle of 1993, though faced with vigorous resistance from the establishment, the real-name system in financial transactions was launched as a means to eliminate corruption and achieve transparent financial transactions and equitable taxation. The watchword of the Kim Young Sam government in these early years was “Construction of a New Korea”.

But the Kim administration, whose political power base was the Grand Conservative Coalition of 1990, had inherent limitations in placing priority on reform policies to enhance equity and fairness. Moreover, international pressure for economic liberalization deepened during the early 1990s. As Kim (1997:285–287) writes, the nature of trade frictions with the US by the mid-1980s is different from that after the mid-1980s. While the former was characterized by US import restrictions on Korean export products, the latter shows more complexity. The US began to place so-called market opening pressures for the promotion of its exports, and from the late 1980s began to raise additional structural issues, such as the domestic economic policies or traditional commercial behaviours of Korea. Issue areas were broadened to include financial, agricultural and cultural sectors with the rationale of fair trade and new reciprocity. The exchange rate system was also pressured to be liberalized as a means to induce more structural change in the Korean economy. Also, in March 1990 the Korean government adopted a new exchange rate determination system.

As the 1990s wore on, particularly with the rice market opening of 1993 as a watershed (Choue, 1996), almost all the non-commodity markets, including construction, telecommunication, sales, education, etc., were forced to be liberalized. Even domestic commercial behaviours deemed to be trade barriers were requested to be reformed or eliminated. In March 1995, President Kim declared the *Segyehwa* (the Korean word for “globalization”) policy representing a national reform strategy designed to ensure that the nation would successfully meet the challenges of globalization. The earlier goal of constructing a New Korea came to be replaced by the new watchword, “Globalization”. The ultimate aim of the *Segyehwa* policy was to raise the country’s quality of life up to global standards of excellence. It was based on the notion of human security. In the age of globalization, achieving human security was just as important a task as achieving national security. Social unity and integration were crucial in accelerating national development. For a society to be full of vigour and vitality, the quality of life must be raised to a level high enough to make the people feel a sense of reward and pride. The limitless competition that characterizes the globalization age would, more likely than not,

broaden the competition gap between the highly competitive sectors of society and the not-so-competitive sectors. If and when this gap widened, it would breed conflict and division within the society. Social cohesion can be better maintained only when the quality of life is heightened equitably to benefit all sectors of society. Ultimately, the competitiveness of a country as a whole would be determined largely by the degree of its social unity and its national cohesion.

Thus the creation of a new paradigm, one which is capable of blending growth and welfare harmoniously, is required for long-term balanced development. Through measures focused on the development of human resources, welfare projects should function to stimulate the growth of the people’s potential while at the same time attempting to fairly distribute the results of socio-economic development, which is an essential requirement for enhancing the quality of life. In May 1995, the National Welfare Planning Board was formed by the *Segyehwa* Committee. And in February 1996, this Board announced the Vision of the 21st Century National Welfare Reform to enhance the quality of life. The Vision set up three specific goals as a means to achieving the main goal, which was to establish a future Korean welfare model and to provide advanced welfare services. The first specific goal was the attainment of a balance between economic growth and social welfare. The second was the integration of traditional Korean customs with the positive elements of the welfare system found in advanced countries. The last entailed the establishment of preventive and productive welfare services. Concrete strategies for achieving these goals were proposed. First, by constructing a nationwide social insurance network and improving the system and its management, the social insurance system should be mature. Second, securing a national minimum standard of living in the public assistance programme and expanding the base for self-reliance should result in the expansion of the productive welfare base. Third, social welfare services should be universal and preventive through family and community-oriented services. Also, the participation of non-governmental organizations, firms and local community members should be emphasized.

As mentioned above, the Kim administration had been cautious in implementing democratic reforms as well as in expanding the social security system. The Employment Insurance Act was promulgated in 1993 and put into effect in 1995, as planned by the previous administration. As also stated above, when the National Welfare Pension Law was rewritten in 1986, the compromise was made to merge the severance allowance into the national pension gradually, and to create an unemployment insurance

system. Long before the National Pension Scheme was introduced, the Severance Allowance System, predicated upon the Labor Standard Law of 1953, was functioning as a lump-sum pension for retiring elderly employees and as unemployment compensation for young workers who had been laid off. The Law stipulated that employers should pay departing employees a severance allowance (one month's remuneration for one year's service). Employers insisted that to introduce the national pension insurance system, the employer's burden of financing the severance allowance should be reduced or eliminated. For the workers, as the severance allowance was already an established legal right as a deferred wage which is solely the responsibility of the employers, the employers' demand was not acceptable. The compromise was to merge the pension and the severance allowance and to implement unemployment insurance during the period of the Seventh Five-Year Social-Economic Development Plan (1992–1996).

The new Employment Insurance Law of 1993 clearly emphasized its prioritized function of job training, education and placement over and above the income support function for the unemployed. It has three major elements. The first is the Employment Stabilization Scheme to prevent unemployment, bring about a smooth employment adjustment, improve employment conditions and increase employment opportunities. The second is the Job Ability Development Scheme to encourage vocational training in the private sector and to enable workers to develop and improve the capabilities required in their jobs throughout their working lives. The third is the Unemployment Insurance Scheme to alleviate hardships resulting from the loss of wage income through unemployment. The unemployment insurance component began with establishments having 30 or more employees, while the first and second components were applied to establishments with 70 or more employees, until their coverage expanded further in January 1998. The Korean Employment Insurance System was motivated by the necessity of an active labour market policy to help the structural adjustment effort in the labour market. The labour market was still very tight. The rate of unemployment had remained under 3.1% ever since the late 1980s. The problem was not the high rate of unemployment. The problem was the relatively high rate of unemployment among the young aged 15–24 (8.9%) and the highly educated (college graduates) (4.4%). One of the major targets of Korean labour market policies then was to solve the mismatch problems in youth labour markets by supplying better job information and job preparation.

The features of the Employment Insurance System are in tune with the Vision of the 21st Century

National Welfare Reform unveiled in 1996 in emphasizing the development of human resources and the productivist approach. Also, the conclusions of the National Pension Reform Committee, which was instituted in 1997 for a six-month period to explore and prepare the ways to expand the coverage of the national pension scheme to urban self-employed residents by 1998, also represented the market-conforming productivist approach. One conclusion was to reduce the vertical redistribution effect by revising the benefit formula to be less redistributive among the income strata and to be sounder in actuarial terms. The date of implementation was left to the decision of the next government. In the field of social welfare services, the Kim administration placed emphasis on the provision of daycare services for children as an investment in human resources.

Generally speaking, the efforts of the Kim Young Sam administration in social welfare reform were focused on the systematic search for a new comprehensive model of Korean social welfare which would enhance national competitiveness in the changing international environment. It wanted to encourage private sector initiatives to participate in the provision of social welfare services and to expand the social security system within the general principle of small government with productivist priorities. But it had neither the comprehensive immediate action plans to strengthen the private sector, nor the notion of the balance of the responsibility between the state and the private sector. In other words, much of the concrete and specific choices of policies and programmes were left open for further discussion.

With the easing of government restrictions on public debates and democratic participation since 1987, independent citizens' groups of all sorts mushroomed. Many of the early members came from the ranks of the student movement which had played a part in toppling the former military regime. Their constituent committees delineated policy positions on pressing social issues, including environment, consumer protection and civil rights, for public debate and submission to the government through newsletters, public forums and mass rallies. There is broad agreement that this innovative approach to promoting civic responsibility has had an impact on public opinion. As for the business sector, ever since 1987 the increase in the number of corporate foundations has been conspicuous. As the concentration of wealth to a small number of conglomerates became a social issue after 1987, many *chaebols* began to establish foundations for social responsibility. The majority of the Korean foundations are still scholarship foundations, but quite a number of corporate foundations have attempted to address social problems pertaining to the environment, research, education and

social welfare. Statistics are fragmented but these corporate foundations began to bear an increasing part of the incomes of the private social welfare institutions in the 1990s. Furthermore, they typically supported and promoted civil society organizations and voluntary associations.

In the process of social welfare policy making, the role of the committees composed of members representing both public and private sectors became prominent. In 1996, the Welfare Policy Committee for Handicapped Persons was established with the Prime Minister as the head of the committee to coordinate and integrate the functions pertinent to the welfare of the handicapped. In April 1996, the Medical Care Reform Committee was established. And in 1997, in accordance with the Basic Law of Social Security, the Examining Committee for Social Security Policies met with the Prime Minister as chairman. The Committee established the First Five-Year Welfare Development Plan (1997–2001) covering the fields of social insurance, public assistance programmes, health, housing, education and employment. In the same year, the National Pension Reform Committee was instituted to examine ways to expand the coverage of the national pension scheme to self-employed urban residents by 1998. The dilemma of all these newly established policy-making or advisory committees lay in finding the right balance between the goal of human security on the one hand and the goal of budgetary austerity and small government on the other. The strong rhetoric of the *Segyehwa* policy notwithstanding, how far and how faithfully its visions will be honoured either by the Kim administration or by following administrations remains to be seen. Democracy means respect for diverse values and slow and patient compromise.

By the end of the Kim Young Sam administration, all four major social insurance programmes were instituted, starting with Workmen's Compensation Insurance (1963) and continuing with Health Insurance (1978), National Pension Insurance (1988) and Employment Insurance (1995). All Koreans were already covered by health insurance plans, excluding about 5% of the total population taken care of by medical assistance programmes. In addition, now in operation are workmen's compensation insurance, public pension insurance and employment insurance, though the coverage has yet to be extended. Public assistance covers the poorest of the poor, approximately 5% of the total population, and various personal social service programmes are being developed. By establishing various committees for welfare planning at the central government level with wide participation by private sector representatives, social welfare has become one of the mainstream policy issues for the first time in Korean history. Thus, the authoritarian instrumentalist approach vanished

from the scene, and a genuine search began for a Korean welfare state model to enhance the quality of life for all in the era of globalization.

As shown in Table 1, however, the total expenditure for social security, that is, the expenditures for social insurance, public assistance and personal social service programmes combined, amounted to 4.5% of the GNP in 1996. This represents a considerable growth from 0.7% in 1965 and 2.2% in 1987, though it is far below the average social security expenditure level of the OECD nations. The amount of social insurance expenditure increased fast and steadily from 24% in 1965 to 86% in 1996, whereas that for public assistance decreased drastically from 74% in 1965 to 9% in 1996. Expenditures for social welfare services fluctuated between 1.8% in 1970 and 6.3% in 1990. But the government's financial commitment as a percentage of the GDP remained relatively stable, around 0%, including insurance contributions for government employees. This means that the Korean social security system has grown into a model heavily dependent on social insurance schemes, with low government expenditure. Avoidance of relief is the expression of a strong work ethic, and low provision of social services is related to the belief in familism.

One more important change to be mentioned here is the passage of the landmark labour legislation in 1997. With this revision of the labour laws, as Brady and Mo (1997) write, Korea overcame one of the last hurdles toward the consolidation of democracy. It took almost ten years to revise the contested labour laws inherited from the authoritarian regime since the democratic reforms of 1987. At dispute were the provisions of labour laws that labour and management had opposed for years. Labour had long fought the bans on multiple unions, third-party intervention and union political activities (the so-called Three Nos) and restricted labour rights for certain sectors of the economy such as the defence industry as well as the deprivation of labour rights for government employees and teachers. Management also argued for labour reform, but for different reasons. Firms complained that rigid labour standards undermined their competitiveness by keeping labour costs artificially high. They asked for more flexible regulations on layoffs, working hours and paid leave. After a long and tortuous process, the National Assembly finally passed a bipartisan bill in March 1997. Labour won major concessions in the laws regulating the formation and activities of labour unions. In return, it had to accept weaker labour standards.

In retrospect, this give-and-take seems rather natural. However, it was by no means an obvious outcome at the time. Few had thought that such a natural trade-off was feasible in the adversarial, contentious environment of Korean industrial relations. While international pressure did not determine the

Table 1. Trend in social security expenditure by programme

	Social security expenditure				Total SS exp. % GDP	Central gov't SS exp. % GDP	Exp./ capita* (1,000 won)
	Total (billion won) (%)	Social ins'nce (%)	Public ass'tnc (%)	Welfare svc (%).			
1965	58 (100)	24.4	73.6	2.0	0.71	-	0.2
1970	261 (100)	55.5	42.7	1.8	0.97	-	0.8
1975	870 (100)	41.6	56.1	2.3	0.89	-	2.5
1980	6,107 (100)	65.9	32.0	2.1	1.67	0.5	16.0
1985	16,766 (100)	76.2	21.1	2.7	2.32	0.5	40.8
1986	19,461 (100)	75.6	19.7	4.8	2.15	-	47.3
1987	23,181 (100)	74.6	20.7	4.8	2.19	-	55.8
1988	30,594 (100)	75.2	21.2	3.6	2.43	-	72.9
1989	40,036 (100)	75.3	20.4	4.3	2.83	-	94.5
1990	53,919 (100)	74.3	19.4	6.3	3.15	0.8	125.8
1991	70,846 (100)	68.5	19.2	5.7	3.43	0.9	163.8
1992	80,484 (100)	77.8	16.9	6.0	3.50	1.0	184.3
1993	105,717 (100)	81.4	10.4	4.6	3.98	0.9	201.1
1994	116,779 (100)	85.1	10.8	4.1	3.84	0.9	239.2
1995	137,008 (100)	85.6	10.0	4.6	3.93	0.8	303.8
1996	172,879 (100)	85.9	9.2	4.9	4.47	0.9	379.5

Source: Author's calculation from *Summary of Government Budgets*, the Ministry of Economic Planning Board, each year; *White Paper of the Ministry of Health and Welfare*, *White Paper of the Ministry of Labor*, *White Paper of the Ministry of Education*, *Ministry of Defense*, *Ministry of General Affairs*, each year; *Yearbook of Local Finance*, the Ministry of Interior, each year.

policy outcome by itself, it prompted the government to reconsider its labour politics. Since 1993 the International Labour Organization has called on the Korean government to reform its labour laws consistent with ILO standards and the principle of freedom of association. International pressure intensified in 1996 as Korea negotiated with the OECD for membership. The OECD raised concerns about Korea's labour laws, and as one of the entry conditions, the Korean government had to promise to bring its labour laws up to international standards. There were also fears of the possible Blue Round which many feel is necessary to keep countries from compromising labour rights to maintain their competitiveness. Under the post-Blue Round environment, a foreign firm, for example, may petition to restrict Korean imports because Korea's labour laws give Korean firms unfair advantages through lower wages.

These reforms proceeded in the context of the economic boom of the mid-1990s, when it appeared that the Korean economy could do no wrong. The years between 1993 and 1995 saw continuous economic expansion, with growth rates exceeding 8% in both 1994 and 1995, exports rising (fuelled by knowledge-intensive exports such as semiconductors) and gross domestic investment rates exceeding 35% each year. Per capita, the GDP rose from US\$7,484 in 1993 to US\$10,543 in 1996, by which Korea became a member of the rich nations' club, OECD. The capital needed for such high levels of investment was found by companies and newly deregulated banks by borrowing abroad.

From 1994 onward, financial liberalization and deregulation proceeded apace. By the end of 1996, Korea's top 30 *chaebol* had run up external debts on their own of 275 trillion won (around US\$30 billion) to finance sometimes extravagant diversifications, many of which turned sour (Mathews, 1998). It all fell apart with the financial meltdown in December 1997.

### After the financial crisis: implications for the Korean welfare model

There are many explanations for the financial meltdown of Korea in 1997. But this is not the place to discuss how it came about. Obvious is that when a moratorium on debt repayments was imminent in Korea, the International Monetary Fund stepped in and hammered out a bailout package amounting to US\$57 billion in immediate advances and longer term guarantees. Although this had an initial calming effect internationally, it further tightened the liquidity squeeze in Korea, and bankruptcies continued apace. By the third week of December, the Korean economy was out of control, tossed on the seas of international finance. It was the victory of Kim Dae Joong in the 18 December election, and his stated determination to abide by IMF commitments and force some bitter medicine on the Korean economy, that provided the trigger for a renewed IMF intervention. This time actively brokered by the US government, a second IMF package was announced on 24 December, which had the effect of halting the slide in the country's

foreign exchange and currency markets. This opened the way for serious negotiations over debt restructuring in January, which culminated in a successful rescheduling of US\$24 billion in short-term debt by the end of the month. This, in turn, gave Korea's beleaguered financial institutions and corporations time to restructure (Mathews, 1998).

Despite IMF rescue packages, the financial crisis is not showing any signs of receding. Instead, soaring unemployment and sharply devalued currencies are leading to the further deterioration of an already weakened economy. According to the Ministry of Finance and Economy, Korea's gross domestic product will contract 4–6% in 1998, with the won-dollar exchange rate averaging about 1,400 won. These macro-economic figures will bring Korea's per capita GNP to US\$6,200–6,400 this year, a sharp drop from last year's US\$9,511. The per capita GNP of US\$6,200 would be the lowest level since the US\$5,822 figure in 1990 and would represent a gap of more than US\$500 compared with US\$6,745 in 1991. The outlook for Korea's per capita GNP remains grim for the next few years. Economists predict that it will take at least four or five years for Korea to regain the landmark US\$10,000 level.

The unemployment rate rose to 7.6% in July 1998, from less than 3% before 1997, and it is expected to keep rising during the latter half of the year due to the massive layoff scheduled by the restructuring public sector and big business corporations. In 1999, the economy is expected to grow by 2.0%, but the unemployment rate is expected to remain at the 8.3% level on average. It is probable that even if the economy recovers in the years after 2000, the unemployment rate will remain high at around 7–8%. The duration of unemployment is also expected to be lengthened from four to five months thus far to seven to eight months from now on.

These official statistics on unemployment do not include the unemployment of daily workers, whose numbers add up to some 1.9 million. More than 1.5 million unemployed officially counted plus about 0.4 million unemployed daily workers makes about 2 million unemployed already. The rise in the number of the homeless is a relatively new but prominent social problem in most of the large cities. A good deal of survey research on the situation of the unemployed and the homeless is needed to develop appropriate programmes for them.

It is apparent that the nascent welfare state schemes developed during the last 30 years of rapid economic growth are helpless, facing the outpouring of unemployed breadwinners and disorganizing families. The National Pension Scheme, which requires a 20-year maturity period, accommodates only a few elderly. The Health Insurance Scheme in Korea provides only healthcare, not cash benefits. The

Employment Insurance Scheme, started in 1995, covers only those workplaces with 30 or more employees, and as stated above, it is concerned more with the problem of the mismatch in the tight labour market. Public assistance in Korea excludes the unemployed able-bodied. Public relief workfare is another field of little experience in Korea. Other social welfare services are also limited to the needs of the traditional categorically poor and have little extra room for emergency services. The Employment Insurance Scheme quickly liberalized its coverage and eligibility. As of January 1998, the coverage of the unemployment insurance component has been expanded to workplaces with ten or more regular employees. The employment stabilization component and job capability development component were expanded to cover workplaces with 50 or more regular employees. In March 1998, unemployment insurance was further expanded to cover workplaces with five or more regular employees and was expanded again in October 1998 to workplaces with fewer than five regular employees as well as temporary or part-time workers. The eligibility requirement of three months' duration of employment was reduced to one month. Furthermore, the duration and level of unemployment cash benefit payments were also extended from 60 to 210 days, varying from case to case, and from 50% of the minimum daily wage to 70%. Nevertheless, the ratio of unemployed covered by Employment Insurance was only 30% of the total number of unemployed, and only 7% of the unemployed were receiving unemployment benefits as of May 1998. For the increasing number of homeless, local governments are developing various social programmes. In Seoul Metropolitan City, for instance, homeless people are interviewed, classified and placed in various social welfare agencies and institutions.

At the central government level, an inter-departmental Committee for the Unemployment Problem was established to plan and coordinate various programmes under different ministries. The role of the private sector, particularly the funding role of the business sector, has greatly diminished as the economy itself is sluggish. Efforts of churches continue but not in an organized way and only on a small scale. The major source of assistance is still the state. Twenty billion won, more than half of the general budget of the Ministry of Health and Social Welfare, was allocated as the special budget for programmes for the unemployed, including public works programmes, subsidies for unemployment avoidance efforts, job training and job placement services, and cash assistance for the unemployed such as unemployment benefit payments, a loan programme for the unemployed, allowances to enable people to prepare for the winter, and assistance for the educational expenses of children of the unemployed.

While an important element in the IMF agreements was certainly the IMF's usual calls for monetary and fiscal responsibility, and calls by the US government for a further opening up of Korea's financial and stock markets, there are also important structural reforms embedded in these agreements. They call for the restructuring of financial institutions of supervision, such as the creation of a powerful new office for financial supervision separate from both the Bank of Korea and the Ministry of Finance, to be located in the Prime Minister's office. They call for substantial reforms in the practices of corporations, requiring them to produce consolidated balance sheets that will reveal the affairs of the entire group, and reducing their ability to diversify through cross-affiliate debt guarantees. They call for substantial changes in Korea's political economy, introducing procedures for the normalization of bankruptcies and labour layoffs by firms facing market downturns. Many of these structural reform items were included in the Seventh Five-Year Plan (1992–1997), and they have often been claimed as constituting the core of the problems of the old Korean model. Though there is criticism of the austerity and high interest rate imposed by the IMF, many see structural adjustment as a long overdue reform task that the country has to undertake to fashion a new economic model.

To be noted here is that, together with these structural adjustment policy requirements, the IBRD usually requests strengthening of the social safety net. According to the letter of the development policy for the 2nd Structural Adjustment Loan from the IBRD, dated 24 September 1998 (Ministry of Finance and Economy, 1998), with the support of the World Bank the Korean government has substantially strengthened its social safety net programmes. The extension from October 1998 of coverage within the Employment Insurance System to workplaces employing fewer than five workers and to temporary and part-time workers was a part of this agreement. For those covered by unemployment insurance, the public works programme and the means-tested non-contributory income support programme for the unemployed poor will be extended. Moreover, there is a clear commitment to expand in real terms budget allocations for poverty-targeted programmes, such as the livelihood protection programme, proportionately with any increase in the prevalence of poverty as a result of the crisis. In the areas of health and pension insurance, reforms will be initiated to increase the protection of poor beneficiaries, improve coverage of major financial risks and raise administrative efficiency. Particularly stressed are improving the transparency and efficiency of pension fund management and strengthening links to capital market development.

The overall direction of the social safety net policy matrix attached to the 2nd IBRD structural adjustment

loan is in tune with earlier efforts to consolidate the Korean welfare model, in its emphasis on efficiency, productivity and the responsibility of the government for securing the minimum standard of living. The only concern is the weakened element of human resource development. Given the international pressures for the liberalization of trade and the financial market, neo-conservative stabilization policies and the worldwide trend of restructuring the welfare state under relatively conservative states, it seems highly probable that the Korean welfare state will drift toward the integrated market-conforming handmaiden model.

This paper has addressed the Korean case of welfare state development as affected by the forces of globalization. Korea was regarded as one of the main beneficiaries of the expansion of world trade. Now it has become one of the main victims of the third push of globalization which lacks a stable international frame for action. This third push of the globalization of capitalism reduced the national government to helplessness in the face of the financial crisis in Korea, but after the crisis, it now demands the government's active role in overcoming the crisis. Contrary to expectation, to the globalist's argument of the dismantling of the welfare state by the logic of globalization, the Korean welfare state seems to be creating social safety nets.

State policies differ even in reaction to the same market pressures. In some countries the state tends to step aside and leave great freedom of play to market forces, whereas in other countries governments feel compelled to counter market tendencies judged to be detrimental. Hence the debates between the advocates of the managed trade and free trade ideologies. Both sides of the debate will appeal to considerations about globalization to justify their positions, but in the end there is nothing inherent in the nature of the world economy that determines the political outcome of the clash of ideologies.

In Korea, with very weak social safety nets and little experience of mass unemployment or other vagaries of capitalism, emergency measures are sought from the state. Thus, one might say that the extent to which the state becomes involved in shaping economic activities is determined less by the pressures of globalization itself and far more by the structural, institutional and cultural peculiarities of the different countries. The social capacities of countries are not the same for there are significant differences in levels of education and urbanization, in intellectual and religious traditions and in business practices. The basic structure of firms in different countries, with their differences in management style, organizational forms and cultures, also means that there will be significant differences in national reactions to the world economy. Thus, the strength of globalizing

economic pressures is determined largely domestically, and the effect of such pressures varies with the strength of domestic institutions.

Korea has faced huge crises before and emerged stronger from the experience. The current crisis of 1997 has been financial and economic, and out of it should emerge Korea's restructured and strengthened industrial, financial and welfare institutions.

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