

Change and Continuity in Social Policy Responses to Economic Crises in South Korea: 1979~81 vs. 1997~98

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I. Introduction

○ Korea as one of the advanced countries:

- The 15th largest economy in the world with a per capita income of \$29,792 in 2010.
- “fully functioning modern democracy (CIA, 2008)”

○ **Puzzle:** Different social policy responses to similar economic crises in Korea

- Social policy responses
- The Change and Continuity of social policy choices

○ **Method:** Comparison of the governments’ responses in 1979-81 vs. 1997-98

Chun Doo Hwan government (1980~1987)	Kim Dae Jung government (1998~2002)
Neo conservative reforms	Neoliberal economic reforms



II. Social Policy Responses by the Chun Doo Hwan Government

1. The Rise of the 1979-81 Economic Crisis and Economic Reforms

○ The Rise of the 1979-81 Economic Crisis

- After a relatively long period of sustained economic growth, the Korean economy began to falter in 1979. (Figure 1). _____
- GDP contraction, inflation, falling exports, growing current account deficit, rising unemployment rate. _____

Figure 1. GDP Growth Rate and Unemployment Rate (1970-2010)



Sources: www.kosis.kr (accessed on May 22, 2011)



II. Social Policy Responses by the Chun Doo Hwan Government

1. The Rise of the 1979-81 Economic Crisis and Economic Reforms

○A broad consensus that economic mismanagement over the 1970s was also to blame.

- an excessive increase in the total investment in heavy and chemical industrialization
- inflationary pressure, labour shortages
- the sharp surge in wage rates
- the HCI drive fostered Chaebol (family-owned business conglomerates in Korea)

<Response 1>

- **Fiscal austerity**
 - Drastic budget cut
 - substantial fiscal cuts in most Funds
 - tight monetary and credit controls

<Response 2>

- **Reorganization of the industrial policy**
 - the rationalization of six problem sectors
 - reduction of economic concentration



II. Social Policy Responses by the Chun Doo Hwan Government

2. The Consequences of Fiscal Conservatism and Social Policy Responses

<The consequences>

- negative impact on social spending
- no noticeable program development
- “the off season” for the development of social welfare in Korea (Lee, Hyekyung, 1993: 73).

<Efforts to escape from the dilemma to fiscal conservatism and the political necessity>

- the gradual expansion of the existing social Insurance Schemes (NHIS + Industrial Accident Insurance)
- the increase of voluntary corporate welfare through tax incentives and policy loans
- Corporate welfarism began to be rooted in the Chun period, signaling a widening gap between the large and small businesses in the future.



III. Social Policy Responses by the Kim Dae Jung Government

1. The 1997-98 Economic Crisis and Social Consequences

<The Economic Crisis' effect>

➤ Undermining economic performance

- Korea's inability to service its debt payments
- Foreign reserves dwindling to less than \$8 billion
- the Korean currency's rapid depreciation
- The government's budget balance plunging to -4.4% of GDP in 1998

➤ Serious consequences for social equality and welfare

- Growing poverty and inequality Increasing inequality of wealth

Table 1. Poverty and Inequality Pre- and Post-Economic Crisis in Korea

	1996	1997	1998	1999.1/4	1999.2/4	1999.3/4
Headcount Poverty Index (urban) ^a	9.6	8.6	19.2	-	-	-
Wage Income Share ^b						
- Highest 20%	37.9	37.2	39.8	41.3	39.5	39.0
- Middle 60%	53.9	54.5	52.8	51.6	53.0	53.6
- Lowest 20%	8.2	8.3	7.4	7.1	7.5	7.4
Wage Income Ratio ^b	4.63	4.49	5.41	5.85	5.24	5.29
Asset Income Ratio ^c	-	17.1	-			38.6
Gini Coefficient ^b	0.291	0.283	0.316	0.333	0.311	0.310

Note: Wage Income Ratio = Highest 20%'s share/ Lowest 20%'s share; Asset Income Ratio = Highest 10%'s share/ Lowest 10%'s share

Source: Moon and Yang (2002a: 142).



III. Social Policy Responses by the Kim Dae Jung Government

2. Economic Reforms by the Kim Dae Jung Government

- Drastic reform measures to deregulate and liberalize the economy.
 - lifting restrictions on capital movement and foreign ownership
 - the government's facilitation of the laying-off of workers to increase labour market flexibility
 - the government's a series of measures to make the economic system more transparent and accountable



III. Social Policy Responses by the Kim Dae Jung Government

2. Social Policy Responses by the Kim Dae Jung Government

<Responses>

- **Expanding the coverage and the benefits of the four major state-administered social insurance schemes**
 - due to the mass unemployment and related social problems, programs protecting individuals against unemployment grew at the fastest speed
 - the state-administered pension and health insurance schemes made another rapid expansion of pension, employment insurance scheme
 - Integration of NHI also contributed to the tightening of the nation's social safety net

- **Thoroughly overhauling the public assistance program**
 - rejuvenation of public assistance programmes with fresh legislation to guarantee a minimum standard of living regardless of age or work capacity
 - it marks a turning point from the Elizabethan Poor Law-style public assistance in which the state distinguishes the deserving from the non-deserving poor and protects only the former (Ministry of Planning and Budget, 1999; Ministry of Health and Welfare, 1999).



IV. Discussions

1. Democracy and Change in Social Policy Response

- The Korean cases verify that the impact of economic crisis on social policy responses is neither uniform nor unidirectional.

Chun Doo Hwan government (1980~1987)	Kim Dae Jung government (1998~2002)
Inactive comprehensive social safety nets	Considerable stride toward a welfare state in economic hard times
Emergency measure: public works • temporary increase in social assistance and expanding job opportunity in the Middle East • Gradual expansion of social insurance coverage • Corporate welfare	<ul style="list-style-type: none"> • Social insurance coverage was expanded to cover the entire working population • fragmented health associations were unified • public assistance program was beefed up

- **Why?** Democracy brought about a new playing ground for pro-welfare political forces.
 - Kim Dae Jung took power and the progressive forces
 - In democracies, there is no other way for politicians but to respond to growing demands on social policies and electoral competition induces greater government spending to reduce crisis-generated inequalities of risk and income (Garrett, 1998). These tendencies were stronger where leftist political forces hold onto power. South Korea in the late 1990s was the case in point. Without democracy and power shift to progressive political forces, continuity rather than change would have dominated social policy responses to economic crisis.



IV. Discussions

2. Strong Principle of Contributory Social Insurance, Fiscal Conservatism and Continuity of Social Policies

- Substantial improvement was made during and after the 1997-98 economic crisis under the leadership of President Kim Dae Jung. But this change was also accompanied by path-dependent continuity.
 - contributory social insurance was the solution
 - There remains a large loophole in the social safety nets (Table 2).
 - The NBLSS was tarnished by strict means test and family responsibility rule.

Table 2. Effective Coverage Rate of Social Insurances and Retirement Allowance

(August 2008, %)

		Pension	Health	Employment	Retirement Allowance
Large Firms	Regular Workers	99.1	99.7	78.7	98.3
	Non-regular Workers	83.7	96.5	74.5	71.5
SMEs	Regular Workers	78.3	95.7	63.6	70.5
	Non-regular Workers	47.6	88.9	37.0	33.4

Note: Large firms are enterprises with 300 and more employees. SMEs are abbreviation of small and medium-sized enterprises with less than 300 employees.

Source: Calculation by author based on Korean Statistical Information System (<http://www.kosis.kr>)



IV. Discussions

3. Policy Implication for Developing Countries

- We can draw some lessons from the two Korean cases
 - ① the utility of public works
 - Public works have been an effective counter-cyclical measure for income assistance and employment creation in Korea.
 - But it should be noted that public works were as an emergency measure to provide unskilled and semi-skilled workers with short-term employment at lower wages than the statutory minimum wage. In order to provide protection for the entire working class, comprehensive measures such as universal social insurances are recommended.
 - ② the necessity of pre-emptive introduction of social security schemes, especially unemployment insurance and pension programs
 - ③ combining tax-based scheme with statutory social insurance programs (refer to Table 2)



V. Conclusion

- Social policy responses by two Korean governments to the similar economic crisis
 - There are differences between Chun and Kim's Government
 - Democracy and partisanship helped expand the Korean welfare state in economic hard times.
 - Nevertheless, the Kim government's pro-welfare policies could not break the old mold based on strong contributory social insurance principle.
 - If Korea had developed tax-injected social insurance schemes (especially EIS) earlier, then it could have more effectively protected the victims of economic crisis.
 - Pre-emptive introduction of tax-injected social safety nets in good times are recommended for developing countries.



Thank you