

**THE POSSIBILITY OF SOCIAL POLICY:  
THE POLITICAL CONSTRUCTION OF STATE  
WELFARE IN THE REPUBLIC OF KOREA**

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## ABSTRACT

The principal theme of this research is its insistence that we must consider the ways in which ideas are formed through a political process if we are to understand why social policy is configured in a particular way and why this configuration changes to a certain direction over time. This research examines the sorts of ideas, a series of laws, and a framework of legislation that matter greatly in shaping social policy within a society (i.e. South Korea) at a different stage of industrialisation to Western counterparts, which has begun its economic development from different initial levels and cultural traditions and has undergone authoritarian governments and military regimes.

The central argument of this research is that ideas become powerful in shaping social policy, not just because they are autonomous following a logic of their own but because they are mediated, modified and sometimes metamorphosed by political contexts, conditions, and decisions. Institutional change is facilitated by this complex interplay of internal sources that hold decision-making power, and both internal and external sources of instability that condition decisions of political incumbents, and historical events that dislocate the established continuity of the existing policy path. It is this framework that imposes specific constraints on the choice of policy strategies that in turn creates a particular path and determines the available course of action.

For this reason, the ideas that only relate to normative conceptions of what can be ideally achieved are less influential than the ideas that identify the historically complex and uncertain settings of political forces. By analysing these ideas that accommodate and challenge social policy in times of uncertainty and that differentiate it from other policy areas, we can better explain why policy changes occur. In other words, when ideas connect to the balance of those political forces, they are likely to become more powerful than otherwise. It is under this logic that ideas can become powerful in reshaping the politics of social policy and it is this ideational logic that can offer us the opportunity to analyse institutional possibilities instead of impossibilities, and to fuse the politics of change and the politics of possibility because policy-making is a process that not only faces constraints but is also a process that requires creativity.



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## LIST OF ABBREVIATIONS AND ORGANISATIONS

BoK	Bank of Korea
CCEJ	Citizens Coalition for Economic Justice
CSS	Committee for Social Security
DJP	Democratic Justice Party
DKP	Democratic Korean Party
DRP	Democratic Republican Party
EMC	Economic Ministers' Conference
EPB	Economic Planning Board
ESS	Employment Stabilisation Scheme
FSC	Financial Supervisory Commission
FSS	Financial Supervisory Service
FDI	Foreign Direct Investment
FKTU	Federation of Korean Trade Union
GLKTU	General League of Korean Trade Unions
IES	Income Estimated Standard
IMF	International Monetary Fund
KCCI	Korea Chamber of Commerce and Industry
KCIA	Korea Central Intelligence Agency
KCTU	Korea Confederation of Trade Unions
KDI	Korea Development Institute
KDP	Korean Democratic Party
KEF	Korea Employers' Federation
KIHSA	Korea Institute for Health and Social Affairs
KIPH	Korea Institute for Population and Health
KITA	Korean International Trade Association
KLI	Korea Labour Institute
KMA	Korea Medical Association
KNP	Korean National Party
KPA	Korean Pharmaceutical Association
L/C	Letter of Credit
MLS	Minimum Living Standards
MoEHRD	Ministry of Education and Human Resources Development



MoFE	Ministry of Finance and Economy
MoGAHA	Ministry of Government Administration and Home Affairs
MoHSA	Ministry of Health and Social Affairs
MoHW	Ministry of Health and Welfare
MoL	Ministry of Labour
MoLeg	Ministry of Legislation
MoPB	Ministry of Planning and Budget
NA	National Assembly
NAO	National Assembly Office
NBLSA	National Basic Livelihood Security Act
NCKLU	National Council of Korean Labour Unions
NCTU	National Council for Trade Unions
NEC	National Election Commission
NPC	National Pension Corporation
NPF	National Pension Fund
NSO	National Statistical Office
PSPD	People's Solidarity for Participatory Democracy
R&D	Research and Development
SCNR	Supreme Council for National Reconstruction
SoNA	Secretariat of the National Assembly



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## INTRODUCTION

Over the past three decades the East Asian Newly Industrialised Countries (NICs) of South Korea (hereafter Korea), Taiwan, Hong Kong and Singapore have become an intriguing subject area in the social sciences. This is not only because these four countries have converged on a distinctive path to growth different from the Latin American NICs - Brazil, Argentina, Mexico - but also because their growth patterns have formed a new development orthodoxy that has achieved a relatively egalitarian distribution of income. This new development orthodoxy has brought about the idea that the East Asian NICs may have undergone a distinctive path to welfare development too. Much of the literature on the East Asian NICs is therefore about the field of development economics, comparative political economy, and the uniqueness of welfare systems. In this fast growing subject area, however, there have been some critical elements missing or lacking within the discussion which should be brought into the analysis.

### *Three Wave Studies on the East Asian Countries*

There have been three waves of studies on the East Asian countries. The first wave studies have two broad paradigms that have dominated thinking on the economic development of the East Asian NICs. The first paradigm takes the idea that these NICs have marked astonishing economic growth by adopting the principles of neoclassical economics (Friedman and Friedman, 1980). As East Asia's experience shows, they argue, neoclassical economics is superior to nonclassical economics for rich and poor countries alike (White and Wade, 1985). The second paradigm assumes that the international economy is a hierarchically ordered system of dominance and argues that the 'postulate of external dominance' explains the periphery's (East Asian NICs) development (Haggard, 1990:16). However, both these liberal and dependency perspectives share common weaknesses such that they neglect the ways in which 'domestic political forces constrain economic policy and shape state responses to the external environment' (Haggard, 1990:21).

The increasingly prevalent criticisms of these first wave studies have brought about the necessity of the second wave studies that paid a great deal of attention to the field of comparative political economy. While the role of the state in the market-oriented economy was discussed by the first wave studies, these second wave studies pay more attention to the



sociopolitical and institutional bases for the unique capacity of the East Asian NICs (e.g. Deyo, 1987c; Haggard 1990; Haggard and Moon, 1990; Hughes, 1988; Wade, 1990, 1992). These studies appear to be influential not only in providing more systematic explanatory frameworks but also in bringing politics back into the discussion. This political economy approach has since been dominant in explaining the economic growth in the region on the one hand, and the East Asian financial crisis in 1997 on the other (e.g. Chang, Ha-Joon, 1998; Chang, Palma and Whittaker, 1998; Chang, Park and Yoo, 1998; Haggard, 2000; Wade, 1998a, 1998b).

In short, academic enquiry and interest have been centred around the field of development economics and comparative political economy. These first and second wave studies on the subject have shared two common objectives that were also shared by the third wave studies from the early 1990s. The first objective was to investigate whether the East Asian countries provide any distinctive model that might be emulated by the West. The second objective was to construct or to develop a theory. Japan was the first country for Western scholars to turn to followed by the East Asian NICs, as the existing paradigm of predominantly Western-centred welfare regime typologies has been challenged by examples drawn from this set of countries<sup>1</sup>. One set of literature argues for the uniqueness of welfare systems in the region (e.g. Goodman and Peng, 1995; Jones, 1990, 1993), while the other set maintains a pessimistic view on their distinctiveness (Esping-Andersen, 1997, 1999; White and Goodman, 1998).

In fact, these third wave studies are numerically substantially inferior to the first and second wave studies. Yet, as these third wave studies become an important academic and political enquiry or debate, they have made a significant contribution to broadening the knowledge on the region by bringing the idea of political economy, democratic legitimacy and welfare systems into the discussion in a more systematic and integrated way. These studies have identified the significance of domestic politics in each country where distinctive historical

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<sup>1</sup> For a country by country comparison, especially to Japan, see Gould (1993), Kato (1991); for theoretical application to a number of East Asian countries as a totality, see Esping-Andersen (1999), Goodman and Peng (1995, 1996), Holliday (2000), Hutton (1995), Jacobs (1998, 2000), Jones (1990, 1993), Kwon, Huck-Ju (1998a), MacPherson (1992), Midgley (1986); for an East and West, Orient and Occident, or East-Asian and Anglo-Saxon dialogue, see Rose and Shiratori (1986), Said (1978), White and Goodman (1998).

trajectories were followed. Kwon (1998a: 66), for example, argues that 'the history of East Asian welfare states is most importantly determined by the distinctive institutional matrix of politics in each country'.

### ***The Purpose of the Research***

There is little doubt that these three waves of studies on the East Asian countries have produced a substantive body of theory. However, there are three critical points that have largely been underestimated within the studies on social policy in the East Asian NICs. First, much of the literature on social policy tends to argue that countries in the region have developed their social policies as a strategic political concern against economic and social requirements. Intentional explanation has been over-emphasised while any use which excluded unintended results has been downplayed and impoverished. In the analysis of social policy, we need to embrace both what is intended and what occurs as a result of the intention. In a memorable phrase, Titmuss (1974:131) once observed that 'social policy is all about social purposes and choices between them'. The conflicts between these choices, he further argues, simultaneously involve 'the means-ends equation'. We take that assertion seriously and trace this means-ends equation that brings about a great deal of debate over the true intentions of state policies and their political outcomes. Policy is more than the intended course of action (Hecló, 1972). We need to encompass both purposive action (i.e. the intended course of action) and the actual behaviour implementing the intention (i.e. the actual behaviour attempting to effect the goals). For this reason, the first objective of this research is to argue that we should consider the questions of what has *not* been done as equally importantly as what has been done. In so doing, a course of action or inaction should also be considered as importantly as specific decisions or actions<sup>2</sup>.

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The rationale of this first purpose of the research can be linked with theories of power. By criticising Dahl's empirical study of New Haven (1961), Bachrach and Baratz (1962:948) argue that 'power is exercised when A participates in the making of decisions that affect B. But power is also exercised when A devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A'. From their later study on anti-poverty programmes in Baltimore (Bachrach and Baratz, 1970), they have shown how those who have been subject to the existing unequal value allocation have suppressed and thwarted both latent and manifest challenges to the prevailing allocation. They have also shown how challengers with outside aid have been able to shift this prevailing 'mobilization of bias'. For a further development of the debate, see Lukes (1974). There is another important point that can be drawn from this 'politics matters' thesis and its critique (see Castles and McKinlay, 1979; Castles, 1981). While Dahl's research was a landmark study using case studies of key community decisions, Bachrach and Baratz (1970) have also found it important to



Second, political actors operate within structural constraints. Some of the constraints derive from the political institutions within which actors operate, others are economic in origin. These constraints are often under conditions of uncertainty. Uncertainty about the cause of problems and the effects of the previous decisions causes actors to search for better policies. Yet, there has been a lack of exploration about this uncertainty and complexity that each country has faced through their distinctive historical paths. Haas (1992:4) argues that 'state actors are uncertainty reducers as well as power and wealth pursuers'. Little is known about how state actors reduce this uncertainty and what conditions their actions. In order to capture this principle of indeterminacy (Popper, 1957), we need to develop a more systematic and holistic framework for the analysis of social policy. Thus, the second objective of this research is to construct a framework to explain how actors make decisions, under what conditions and in what context. This objective is set out to explore the process of how policies emerge and develop.

Third, policies change in many different ways. Some policies are new and innovative, while others are merely incremental refinements of earlier policies (Hogwood and Peters, 1983). In answer to the question of why policies change, a pluralist, corporatist or Marxist view presupposes relatively passive or defensive actions taken by a government in favour of social forces and conflict (Nordlinger, 1981). These conflict-based theories tend to ignore an important source of influence that epistemic communities maintain in shaping the intellectual premises and performance measures employed by policy-makers. However, following Heclo's (1974) lead, such an insight into the role of ideas in the policy process has become a central area that political scientists and policy analysts are engaged in<sup>3</sup>. For example, Haggard (1990) pays attention to the importance of ideas in comparing and explaining development paths of each country. He disentangles the influence of ideas and argues that 'the plausibility of ideological arguments for policy choice increases with the degree of autonomy of political elites from societal or international constraints' (Haggard, 1990:47). Yet, Wade (1992) criticises Haggard's research suggesting it remains abstract in

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conduct case studies in correcting Dahl's neglect of 'nondecision-making'. Given this, we shall use case studies in order to demonstrate the importance of both decisions and non-decisions in the analysis of social policy in Korea.

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For detailed discussion, see Chapter 1.

providing answers to why changes occur. Given the immaturity of the research examining the role of ideas in the development of the East Asian NICs, the third objective of this research is to argue that by focussing on the role of ideas, we may better understand how policy changes occur and how decision-makers come to recognise interests under conditions of uncertainty.

### *The Methods of the Research*

In order to achieve the research objectives outlined above, this thesis examines: (1) how social purposes are constructed; (2) what conflicts emerge and how these conflicts become resolved (or mediated) by whom (or what); and (3) where these processes occur under what conditions. These questions will be answered in reference to Korean social policy development. This is not only because Korea has been one of the fastest growing economies, yet at the same time subject to a further investigation for its economic downturn, but also its substantial welfare policies are relatively unknown to outsiders. Though a few case studies have investigated the determinants of social policy development in Korea, little is known about how specific policies have been configured and implemented, the consequences of these dynamic and sequential processes and how we interpret and evaluate these changes. This research investigates these issues through its distinctive historical path.

Methodologically, we shall use the historically-oriented interpretative policy analysis on the basis of a historico-descriptive method. Ragin (1987:3) argues that this is a 'type of empirical study in a way that it attempts to account for specific historical outcomes or processes chosen for study because of their significance for current institutional arrangements or for social life in general'. Castles (1989:12) also made plain:

'[A] historical approach is essential not merely in providing analytical leverage on the role of human agency in the public policy equation but, no less important, in making it possible to treat structural contexts as a totality, rather than as mere rankings or weights on a series of discrete variables. History reveals the one sense in which it is meaningful to say that the sum is more than its parts: the sense in which human action is embedded in its particular context.'

Given the historiographic nature of this research, the diachronic (i.e. based on time series data) rather than synchronic analysis is of central use which could benefit from secondary analysis by analysing data collected at different times on similar issues. This secondary



analysis enables us to employ longitudinal research designs (Frankfort-Nachmias and Nachmias, 1996:306). At the same time, the 'documentative method' (see Jones, 1985:27-31) using both primary (official and other records) and secondary documentary sources (constructive descriptions included) shall be used for 'conceptual (armchair) theorising', the usefulness of which is pointed out by Jones (1985:29):

'The value...lies not so much in whether any particular theory is considered to be right or wrong, but in the extent to which various of the conceptual frameworks put forward turn out to be useful aids to the interpretation of social policy material.'

The historiographic material used in this thesis is obtained through documentary research and interviews. As a secondary analysis and as a part of unobtrusive (non-reactive) measures of data collection, documentary research was carried out by using archival records such as actuarial records, electoral and judicial records, government documents, the mass media, and private records such as autobiographies (see Frankfort-Nachmias and Nachmias, 1996: Ch. 13). For the analysis of the sociopolitical conditions examined in this thesis, we have made an extensive usage of political and diplomatic records including reports of proceedings in the National Assembly (equivalent to 'Hansard' in Britain), content analysis of presidential speeches, newspaper articles, monthly periodicals, and related laws and regulations. Scott (1990:59) argues that these administrative papers are 'the single most important category of documentary sources used in social research'. Also, official statistics produced by government, government affiliated organisations, and a number of think tanks have been collected for a longitudinal and nationwide analysis. However, statistical compilations of longitudinal data sets are not always readily available, partly because the official department or organisation responsible for producing the documents and statistics had not firmly been settled before 1961, and partly because data sets are often not available in a consistent manner. Hence, most tables and figures produced in this thesis have been reconstructed using various sources including up-to-date statistics available through the Internet supplied by government departments. Yet, a great effort has been made to use the same source of time-series data in order to maintain the same standard of data collection and to minimise possible errors.

In addition to these secondary sources and documents, semi-structured qualitative interviews have been conducted using the elite-interviewing technique (see Dexter, 1970). There are

several advantages to secondary analysis which has a rich intellectual tradition in the social sciences. Nonetheless, this method also has certain inherent limitations such as access to data, and the possibility of insufficient information about the ways in which the data was collected. More importantly, there is likely to be an inevitable gap between the use of primary data and its secondary use as far as specific research purposes and intentions behind the data collection are concerned (see Frankfort-Nachmias and Nachmias, 1996:305-308). For this reason, the analysis of primary data has been used in order to bridge potential gaps and also to find out officially unknown ideas and processes which sometimes go beyond the findings from administrative records. The interviewees were selected on the basis of their possession of expertise in welfare policy from among high ranking government officials who have been involved in the design and making of social policy and from those involved in the implementation of such policy. Interest group members and a former member of a think tank were also interviewed since the influence of their involvement in policy making has changed and has been considered to be of great significance. All interviews were recorded, transcribed, and translated. A topic guide of a core list of questions at each interview was prepared. Although all interviews were conducted based on a different list of questions, some questions were asked many times if the interviewees were thought of as being in possession of similar knowledge.

### *Organisation of the Thesis*

The outline of this thesis is broadly divided into two periods, before and after 1987, that being the point at which the political source of government was legitimised by way of democratisation. This is also the point at which the history of struggle between the open and the closed society reflects. Interestingly, this division can also be seen as a distinction between the 'traditional stage' and 'transitional stage' (Peters, 1972)<sup>4</sup>.

The thesis is composed of six chapters including the Conclusion. The first chapter is organised into four sections. The first section elaborates an ontological question of what

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Peters (1972) argues that in the traditional stage of policy formation, the 'levels of expenditure and policy are influenced largely by the ideas of the political decision-makers, and relatively little by the socioeconomic and political conditions of the society.' The political system variables and mass participation measures become important during the transitional stage. In the 'modern stage', socioeconomic variables become more critical than political variables in policy changes.



social policy is and how it is different from a welfare state. This question is important in examining images, values and ideas embodied in social policy programmes. In the second section, we review the literature that identifies the principal theoretical approaches on the relationship between social policy and social development. Instead of being exhaustive or doing justice to all individual theories, we review five Western-driven theories or perspectives of welfare state development, followed by a review of their application to the Korean case in the third section. Then, we turn to examine the most compatible and helpful theoretical approaches for examining the role of ideas in shaping social policy. By reviewing these approaches, we develop a conceptual framework for analysing the policy formation and changes in the last section of this chapter. It is argued that the process of policy formation and change can be better understood in a triangular formation of political context, conditions, and decision-making points. In this chapter, we also introduce important analytic concepts which are operationalised in the process of policy change.

This framework is then developed in four subsequent chapters. These four empirical chapters are designed to test the validity of the framework, analysing the emergence of central social programmes in Korea before and after 1987, the politics of implementing these programmes and the contemporary potential for further development of the Korean welfare state. In the second chapter, we ask two questions: (1) why and how are social policies introduced and modified? (2) why do some social issues fail to become the subject of policy initiatives? In order to answer these questions, we first examine the historical underpinnings of the Korean nation state formation. Then, we turn to analyse the role of ideas under the authoritarian military governments. By identifying the key actors and key issues through case-studies, we investigate pervasive legacies behind the institutional structure. It is argued that the configuration of social policy in Korea was greatly affected by the role of ideas. However, the original ideas were often metamorphosed by the institutional structure, the mediation of which occurred during the process of interplay between political contexts, conditions and decision-making points.

The third chapter examines the expansion and consolidation of social policy in transitional politics. We identify and discuss different sources of power and their influence in shaping social policy. By examining four case-studies of social policy making, it is argued that democratisation has brought about substantial changes in the process of social policy

making. However, it was not democratisation *per se* that became a determining factor in shaping social policy but its implication that required decision-makers to follow principles institutionalised in the form of rules and norms. When principled reasons are required for proposed courses of action, ideas become important.

In the previous two chapters, we identify the political processes that have metamorphosed the original ideas in the making of social policy. In the fourth chapter, we examine the institutional structure of social policy in Korea. We analyse four major social insurance programmes and the public assistance programme by identifying principled ideas embodied in social programmes and by examining the politics of implementing these programmes. It is argued that when social consensus is required, political expediency can no longer be an effective means to an end. This principle of political expediency has increasingly become a functionally disruptive element in reforming social programmes.

In the fifth chapter, we explore the contemporary potential for further development of the Korean welfare state. First, we identify how international competitiveness from a global economy has influenced social policy development in Korea. Second, we then turn to examine the government's restructuring strategies in response to the economic crisis. Third, by bringing the issues of poverty and redistribution into the discussion, we evaluate the overall effectiveness and efficiency of state welfare. It is argued that external pressures on social policy become stronger as domestic politics are challenged by global forces. Yet, policy changes are still greatly affected by domestic politics. In this context, we can identify distinctive ideas institutionalised in the Korean welfare state.

In the final chapter, these themes are integrated and some conclusions drawn by developing a broad view of the factors that conditioned the progress of values behind economic growth and social policy development. We also identify the historical elements that rendered one rather than the other value more influential at one particular time in history than another. Finally, we demonstrate the value added in the research as a whole by underlining the significance of our analysis, pointing out the limitations in our material, and suggesting the possibilities of further research.



# CHAPTER 1

## The Possibility of Social Policy

### 1.1 Introduction

A history of welfare state development is a history of conflict between what is socially desirable and what is economically feasible. The welfare state emerged at the moment that these opposing interests of economy and society were required to be integrated by state intervention (Briggs, 1961). For example, Hall (1984) argues that the emergence of the British welfare state was possible because these two opposing ideas were met by the hands of social reformers (Beveridge) and of economists (Keynes). However, the underlying assumptions in the era of the 'Keynesian consensus' no longer obtain. There has been growing perception on a trade-off between social security and economic growth, between equality and efficiency. Accordingly, the increasing challenges after the 'Golden Age' have brought about a converging trend that stresses human capital investment in the guise of 'productive social policy' (Esping-Andersen, 1996). In the East-Asian NICs, productive social policy is taken to mean the supremacy of economic policy over social policy (Holliday, 2000).

This economy versus society paradigm was developed by a variety of schools of thought including functional and structural accounts. Yet, this socioeconomic analysis ignores the formulation and transmission of concepts and ideas, thereby treating them as a residual problem (Ashford, 1986a). Given this, the aim of this chapter is to suggest that the explanatory frameworks and rules associated with the development of welfare states require modifications and a wide range of applications to a somewhat unknown context. For this reason, we organise this chapter into four sections. We first examine political and social policy values of welfare and conceptual challenges to them in constructing welfare states. We then move onto different theoretical perspectives primarily developed in Western academia. In the next section, we turn to review how Korean scholars have applied these theories to the Korean case. In the following section, we build up a theoretical framework that guides this research in the analysis of policy formation and change.



## **1.2 Political Values of Social Policy: Positive or Negative?**

In the search for the institutional roots of welfare states, Ashford (1986a: 31) correctly argues that ‘the main problem of the nineteenth-century liberal thinkers was not that they lacked an image of welfare, but that they had too many of them’. These images were formed into different institutional shapes in specific political situations. In other words, how these images were filtered and buffered varies to a particular political context. Nonetheless, what is commonly found in most welfare states is that they are meant to favour ideas of redistribution or equality. These ideas originated from the problem recognition such that the ubiquity of the challenges to capitalism needs a response (Pierson, 1991:100). T.H. Marshall (1950, 1963) argues that liberal democracy and its heritage, capitalism, constitute two institutional pillars that underlie the construction of welfare states. In defining the welfare state, Thoenes (1962) adds to this a new form of responsibility that guarantees collective social care to its citizens. Therefore, the welfare state is ‘a form of society characterized by a system of democratic, government-sponsored welfare placed on a new footing and offering a guarantee of collective social care to its citizens, concurrently with the maintenance of a capitalist system of production’ (Thoenes, 1962:125). From this definition, it becomes clear that the welfare state cannot be understood in isolation from capitalism and democracy. On the one hand, the welfare state was a ‘necessary element in an efficient and competitive capitalist economy’ in the early postwar years (Gough, 1996:209). On the other hand, as Hall (1984) puts it clearly, the determining base that integrated two opposing ideas by the hands of Beveridge and Keynes might be the fully fledged coming of democracy during the period of 1880 to 1920 in Britain.

There is little doubt that the historical and political transformation of nineteenth-century liberal democratic states into what is now called the welfare state involved an institutional change of great significance as well as its legacy of capitalism (Ashford, 1986b: 97). The capitalist system was a logical component of liberal society which has required a certain degree of modification and restriction. Political democracy, in comparison, is not only the institutional means of making the welfare state possible, but is also a powerful means of forcing political elites and ruling-class political representatives to accept welfare state arrangements (Offe, 1987:509). In other words, democracy provides a reasonable guarantee for the survival of a welfare state. Yet, Thoenes (1962:127-137) argues that it is not a prerequisite for the good functioning of the



welfare state. Rather democracy contains very difficult elements to deal with. Offe (1987:511) also argues that the 'mutually supportive relationship of mass democracy and the welfare stateness no longer amounts to a convincing hypothesis', because 'there are many indications...that lead us to expect that democratic mass politics will *not* work in the direction of a reliable defense of the welfare state' (italics in original). In an ideal setting perhaps, elements of the welfare state may be introduced by democratic means and methods that are controlled and kept in being. In practice, however, welfare programmes are not introduced for purely democratic reasons. They are sometimes introduced even if their introduction has not been desired by either citizens or the parties representing the citizens. How social policy fits in with this contradictory context is the subject that we now turn to.

Esping-Andersen (1999:33) argues that 'social policy has existed as long as there has been some kind of collective political action in address to a social risk'. This implies that social policy can exist without welfare states but the converse is not possible. For him, 'social policy means public management of social risks' (Esping-Andersen, 1999:36). As many others have argued, social policy can be a bridging instrument that mitigates conflicts between different risk categories (Baldwin, 1990; Giddens, 1998). However, it is also clear that social policy can be a means of legitimising political and economic institutions and setting limits for how much social distance can be acceptable before conflict emerges (Flora and Heidenheimer, 1981; Mishra, 1977; Offe, 1984; Øyen, 1986; Piven and Cloward, 1971; Titmuss, 1958). In the Marxist analysis of social policy, social policy is often seen as the main form and mechanism of control in the form of repression, exploitation and co-optation (Piven and Cloward, 1971; Squires, 1990; Janowitz, 1975, 1976). By contrast, social policy can function as a defence mechanism to the interests of a minority against those of the majority (Higgins, 1978:193). For some, social policy undermines work-incentives and economic competitiveness (Friedman and Friedman, 1980; Hayek, 1944, 1960; Murray, 1984; Wilson, 1987). For others, social policy can make a positive impact on the national economy (Gough, 1996; Gramlich, 1997; Pfaller with Gough, 1991, Rimlinger, 1966). In short, social policy can be an effective social engineering technique for securing the efficient functioning of a particular society. The point is that social policy cannot be devoid of social and political meaning. Its interpretative functions can vary to the context of what it aims to achieve in a distinctive sociopolitical setting. We need to know why



social policy exists in what form for whom.

In the practical context of social policy, social welfare is principally an operational concept wherein the idea of welfare refers primarily to physical and material well-being. Even within this limited scope of social services, however, the provision of welfare is highly contentious for there are many different and conflicting views of what is good for whom (Spicker, 1988:4-5). These conflicting views can manifest in a continuum, of which one may constitute a 'society of positive welfare', and the other may compose of a 'society of negative welfare'. The relationship between these two types of society may not always be clear because social policy values underpinning social programmes may become merely symbolic and diminishes during the political process, and at the same time, they may serve purposes other than those which they were designed to meet (Øyen, 1986). This is often the case also because 'welfare provisions may pull in contradictory directions. The issue is not that social services generally control people, but that welfare provision can be spoiled by the use of power in a way which works against the interests of the recipients' (Spicker, 1988:102). Similarly, it is possible to demonstrate extreme definitions of the relationship between citizenship and social policy. 'For some, citizenship is enhanced and extended by the existence and use of social services. For others, citizenship is debased by reliance upon such aid' (Pinker, 1971:201).

Given this, the idea that altruism is valued as an authentic part of human consciousness in the construction of welfare states requires critical re-thinking. Pinker (1979) criticises the conventional wisdom of welfare scholarship built around contrasting concepts (e.g. altruism versus egoism, collectivism versus individualism, social market versus economic market). He argues that the political and ideological dispositions of scholars, particularly Titmuss, interpret welfare in a disembodied and sanctimonious way. The analysis based on a notion of altruism is blind to institutional and historical realities and to the organised sentiments of ordinary people about obligation and entitlement. Instead, he emphasises the importance of variations in political and cultural histories of different societies (Pinker, 1979)<sup>1</sup>.

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Regarding cultural elements embedded in the idea of welfare. Fukuyama (1996) places a particular emphasis on the idea of trust. The idea of trust indicates that economic activity is fundamentally motivated



Altruism is genuinely constituted by moral order and primarily concerned with the motivation for an action, thereby confining itself within the one-way communication rather than the relationships between a person and a society as in the case of integration, or between a person in relation to a group as of solidarity. For this reason, altruism tends to ignore mutual responsibilities essentially embodied in state welfare arrangements. The idea of welfare always appears in the form of the product of varying degrees of compromise between numerous sectional interests such as class affiliations (Pinker, 1979: 225). From its nature and its compromises, a certain decision must be made in the ordering of welfare priorities and choices between social purposes, which in nature cannot always be of a permanent kind (Pinker, 1979; Titmuss, 1974; Klein *et al.*, 1996). The welfare interests of one section of the population are frequently advanced by state welfare at the expense of another. As the national economy generates greater wealth, a larger proportion of citizens become involved. Yet, the political logic of resource allocation remains unequal. Hence, the universalistic arrangements of social welfare, or the collectivist approach of social policies end up as a functioning residual. Therefore, it seems fair to conclude that 'social welfare, in one form or another, is the professed aim of most political and economic activities' (Pinker, 1971:9).

A distinction between the residual and the institutional model can be read as an ideal-typical form of a 'society of negative welfare' and a 'society of positive welfare'. Under the residual model, it is assumed that the vast majority of a population is supported by its own channels of welfare. Hence, the residual model favours self-reliant individualism and the classical liberal market mechanisms. The benefit level is generally low and means-testing is placed at the centre which draws a clear distinction between deserving and undeserving poor. By contrast, the institutional or universal model addresses the entire population and 'embodies an institutionalized commitment to welfare' (Esping-Andersen, 1990:20). The individual's welfare

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by something more than individual self-interest. The level of trust inherent in the society is the key to determining the quality of economic performance and its attendant social implications. In a similar vein, Offe (1987) considers trust as reciprocity, solidarity or justice in validity of beliefs that solidarities and modes of normative integration enable the state to be a welfare state. Thus, culture-specific arrangements of welfare in different societal settings bring about the idea of whether welfare policy is to be solidaristic, embracing a vision of social citizenship and seeking to assure for all a common core of equality regardless of class-based social hierarchy in civil society.



is the responsibility of the social collective, and the principle of social citizenship and property rights are fully guaranteed by the state. Hutton (1995:264) also argues that if a welfare system is meant to function to provide a high degree of social protection with the visible expression of social solidarity, universal programmes are desirable.

Baldwin (1990:36) argues that the basic premise of solidaristic welfare is its implicit universality. But the solidarity of social policy can only be realised when those who are sufficiently powerful also see their interests to be best safeguarded. He argues further that the activities of relief-giving can rarely be advantageous to those in great need unless risk, redistributive advantage and political clout coincide. Therefore, 'not until otherwise privileged groups discovered that they shared a common interest in reallocating risk with the disadvantaged was a real redistribution of burdens possible' (Baldwin, 1990:292)<sup>2</sup>. However, the issue here is not whether universalism is undoubtedly superior to selectivism in achieving the solidarity of social policy but that its political values may function better in integrating different risk categories without disadvantaging privileged groups. In a similar vein, as Reddin (1970) argues, it is misleading to debate universal versus selective benefits as a discussion of absolutes or diametrically opposed systems because a service may be universally available but its use may be severely restricted between groups. A universal service may be selectively financed through the fiscal system. For this reason, a universal service may in practice not conform to the image conjured up by the notion of benefit provided for rich and poor alike. In short, the principles of welfare become meaningful when they are viewed along the line of their political underpinnings.

In sum, ideas underpinning the construction of welfare states are essentially double-edged. Some ideas may be positive representing altruistic and egalitarian qualities. But not until these

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In shaping the solidarity of social policy, Baldwin (1990:51-52) addresses three issues that provide a gauge of solidarity and social citizenship embodied in social insurance. First, it was the quintessential characteristic of universalism that generated a victorious era of wartime reform in Britain and Scandinavia. Second, tax-financing as a corollary of universalist reform rather than the contributory principle broadened the common risk pool and narrowed the gap between those who stood to gain or lose. Third, as a mark of solidarity, egalitarian distribution of resources in accord with equal human worth, rather than economic prowess, were best achieved by flat-rate or uniform benefits, not by an earnings-related approach.



ideas are translated into policy is their positivity meaningful. This raises the question that political values of social policy may have to be redefined. It is worthy of examining whether social policy can serve as a bridge or a barrier in the conversion of ideas into a particular organisational form or policy. These conflicting concepts and ideas underlying political values of social policy are however entirely Western-driven. A wider application is required for theory construction. How these Western-built theories of welfare position themselves and serve as a valid or invalid explanatory framework in the development of social policy elsewhere is the subject of the next section.

### **1.3 Conflicting Theories and Explanation of Welfare State Development**

In Korean academia, the determinants of social policy development have become an increasingly popular subject area since the early 1980s<sup>3</sup>. Mostly Western-built theories of welfare have been employed in Korean academia, ranging from the logic of industrialism and neo-Marxism through historical institutionalism and political economy. However, because of the substantial amount of literature on the determinants of social policy development in Korea, both written in English and in Korean, an exhaustive review of its entirety can be a very challenging task. Yet, it is still plausible to make five groupings regarding their criticality and applicability. These are: (1) logic of industrialism; (2) neo-Marxism; (3) corporatist approach; (4) state-centred approach; and (5) historical institutionalism. This section examines these perspectives and their subsequent criticisms in turn followed by the applications made by existing literature to the case of Korea, both in the form of comparative studies and single case studies in the next section.

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After the Beveridge Report '*Social Insurance and Allied Services*' (Beveridge, 1942) was translated by the Committee for Social Security (CSS) in 1966, a substantial amount of literature on the development of welfare states was translated into Korean especially from the early 1980s (e.g. Furniss and Tilton, 1977; Mishra, 1977) through the second half of the 1980s (e.g. George and Wilding, 1976; Mishra, 1984; Wilensky and Lebeaux, 1965) to the first half of the 1990s (e.g. Gough, 1979; O'Connor, 1973; Offe, 1984; Pierson, 1991).



### 1.3.1 The Logic of Industrialism

The sociological tradition of perspectives on social policy has developed in conjunction with theories of the welfare state which operate with political implications. The central account of social policy development is readily associated with the functionalist theory of welfare which is intended to perform political functions. Proponents of the 'logic of industrialism'<sup>4</sup> argue that normative consensus is a more important determinant of social policies than ideological conflict. In other words, the basic premise of these pluralist industrialism approach is that industrialisation causes new social needs while economic growth provides the material basis for social policy expansion to meet these new social needs, thereby the welfare state is on the whole egalitarian in result (Kerr *et al.*, 1973; Wilensky, 1975: Ch.2).

The logical conclusion that has been drawn from this premise is convergence theory or technological determinism. Kerr *et al.* (1973) argue that the process of industrialisation causes all countries to move to a point where they were converging and growing more alike. This industrial development indirectly leads to greater social equality through higher welfare spending from which those in need benefit most. In his comparative historical analysis of social security development in countries with different political, social and economic traditions, Rimlinger (1971) also argues that modern social security systems emerge in the liberal-individual (e.g. England, France and America), the patriarchal (e.g. Germany) and the collective tradition (e.g. Russia) in order to provide for social needs through broadly similar forms of welfare intervention. Further to this, Wilensky's (1965, 1975) long-standing interest in the discussion about the cause of welfare development in different societies confirms that economic growth is the root cause of the development of the welfare state as a historically inevitable process.

This view that understands social policy development as evolutionary quantifies the level of public expenditure which ranks societies as a device for distinguishing the 'welfare state leaders' from the 'welfare state laggards'. Wilensky (1975: xiii) concludes that:

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Also known as the 'pluralist industrialism approach', or the 'logic of industrialisation thesis' or the 'laws of capitalist development', or the 'embourgeoisement thesis', or the 'middle-range theory of social stratification' in a similar vein with the macro-theories of convergence and the 'end of ideology'.



‘economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state – the establishment of similar programs of social security, the increasing fraction of GNP devoted to such programs, the trend toward comprehensive coverage and similar methods of financing. In any systematic comparison of many countries over many years, alternative explanations collapse under the weight of such heavy, brittle categories as “socialist” versus “capitalist” economies, “collectivistic” versus “individualistic” ideologies, or even “democratic” versus “totalitarian” political systems. However useful they may be in the understanding of other problems, these categories are almost useless in explaining the origins and general development of the welfare state.’

In short, industrial development is the decisive factor of welfare effort to explain the basis for social policy expansion. Thus the introduction of welfare provisions is shared by different industrial societies.

In consequence, ideological factors and partisan politics are believed to be of little or no significance (Korpi, 1989:311). The ‘end of ideology’ which came to be known as ‘the end of history’ thesis assumes that the idea of a future classless society is hardly realistic (Fukuyama, 1989, 1992). This classless society has been the major concern of Marxist theories on the development of communism as an inevitable path. Fukuyama’s idea of the ‘end of history’ is based on the notion of ‘convergence’ where future society will be based on liberal capitalist democracy which will appear in both western and eastern worlds. This contention that ideology no longer matters tends to consider politics as merely a technological matter and therefore the stability and the legitimacy of the state seem to be bound on technological success and prolonged economic growth (Carrier and Kendall, 1971:210). This clearly generates the danger of a legitimization crisis. Habermas (1976:46) argues that once the economic system is required to be steered by the imperatives, even while the steering imperatives are carried through, the requisite level of mass loyalty can hardly be maintained. This is because the political system requires an input of mass loyalty that is as diffuse as possible.

All ideologies are historically bound and none can be eternally valid (George and Wilding, 1994:4). A certain ideological explanation of the situation could be a correct diagnosis at a particular point in time but wrong at another. There is also no clear international trend of convergence and this convergence thesis tends to ignore the important structural variations in the organisational and institutional features of welfare states. Moreover growth patterns based



on liberal democracy fail to explain the propositions of pluralism where those in dire need and excluded would benefit most from the development of the welfare state.

### **1.3.2 Three Perspectives of Neo-Marxism**

Another functionalist account of welfare state development is neo-Marxism. The underlying propositions of social policy development from neo-Marxism are that social policy is regarded as either a response or preemptive mechanism. It is a response because political elites introduce welfare programmes in response to labour disputes (i.e. the Bonapartist interpretation), and it is preemptive since social policy is a strategic apparatus to repress and control society (e.g. Bismarck's social insurance legislation).

The accounts of welfare state development under the heading of neo-Marxism are divided into three perspectives: Instrumentalism, structuralism, and the political class struggle approach. First, as the closest perspective to the classical Marxist theory, the role of the state is viewed as an instrument which attempts to perform on behalf of the capitalist's interests. It criticises the role of the state in political pluralism where the state is viewed as a mediator from the neutral stance to represent and mediate the common interests between a variety of interest groups. This instrumentalism is based on the idea that the economic organisations in capitalist societies are monopolised by the capitalist, accordingly political organisations too are strongly influenced by them. Social policy is thus determined by the capitalist depending on the necessity of capital accumulation. Social policy is a response to the crisis of capital accumulation such as the period of depression or political challenge led by the popular movement.

The instrumental notion of neo-Marxism is best seen by Miliband (1977:91), arguing that 'the intervention of the state is always and necessarily partisan: as a class state, it always intervenes for the purpose of maintaining the existing system of domination, even where it intervenes to mitigate the harness of that system of domination'. Therefore, welfare reforms basically function as a form of social control rather than of social investment (Miliband, 1991). Neither the basic structure of the capitalist society nor status, income, and political power of those who have already been influential is affected by social policy.



Second, in contrast to instrumentalism, structuralism stresses the objective relation between the state and the capitalist. The structure of the capitalist economy itself rather than instrumentalising state organisations enables agreement between the state function and the capitalist's interests. That is, regardless of the influences from the capitalist, the state should necessarily function to preserve order and to sustain and enhance the conditions for capitalist economic activities (Gough, 1979; O'Connor, 1973; Offe, 1984). The state might pursue welfare provisions against the capitalist with a certain degree of autonomy in order to strengthen the long term stabilisation of the economy. Skocpol (1980) labels this structuralism as 'political functionalism' and argues that the political system can only function in the interests of capitalists in the long term when a relatively autonomous state not directly controlled by capitalists remains stable. Accordingly, political conflicts especially challenged by the working class can be threatening. Thus, controlling and dismantling the labour force is one of many important functions of the welfare state. Welfare provisions therefore can be expanded as a part of a co-operative strategy of control (Piven and Cloward, 1971).

The third perspective is based on political class struggle which rejects the idea that the welfare state does not exist in either the long or short term interests of capitalists. The welfare state is characterised by the determinants of political and class struggle between capitalists and labourers. Increasing power of the working class can therefore enable the state to exist truly for them. The development of the welfare state is regarded as the triumph of the working class against capitalists. In this sense, this perspective lies in the same vein with the social democratic model<sup>5</sup>.

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By contrast to the fact that both functionalist accounts tend to have downplayed the significance of political struggles in industrial or capitalist democracies (Skocpol and Amenta, 1986:136), the social democratic model embraces both the pluralist view and neo-Marxism. The social democratic model accepts a belief in the role of pressure groups and of great individuals in reform. Influenced by the ideas of Marshall on citizenship and by principles of the Fabian Society in many ways, the social democratic model begins with the idea of Keynesian economic theory (although Keynes was not a social democrat in the Fabian sense), whereby the government can influence the economy to achieve economic ends (George and Wilding, 1994:91). This social democratic model shares the ideas of neo-Marxists in the sense that both have focussed on political class conflict between the working class and capitalists in advanced capitalism. Yet, the social democratic model pays more attention to the political side of class struggle in neo-Marxist theory. It is however somewhat different from logic-of-industrialism and neo-Marxist functionalists in that while functionalists underplay the role of politics, social democrats consider politics.



The neo-Marxist analysis of how a capitalist system works indicates three inter-related reasons why the welfare state emerges. First, state action to promote the needs or requirements of capital (accumulation); second, state pre-emptive action which was seen in Bismarck's social insurance legislation in the 1880s (legitimation); and third, a response to class conflict. Whilst the topic of the welfare state is originally absent from the classical Marxist literature for self-evident historical reasons (Therborn, 1986), neo-Marxism accepts the idea of a democratic capitalist state. However, since the neo-Marxist analysis of welfare places ideology as contributing to the legitimacy as well as securing the stability of a democratic capitalist state (Taylor-Gooby, 1981:433), there are two basic and mutually contradictory functions which must be fulfilled by the capitalist state (O'Connor, 1973:6, 1984). On the one hand, the state has an important role to play to maintain or create the possible capital accumulation which will be able to generate profits. These profits however eventually become the main source of its own power. On the other hand, the state must harmonise society which may be violated by losing its legitimacy. The loss of legitimacy results from the state's coercive forces to accumulate capital of one class at the expense of others. These contradictory functions of the capitalist state are first accounted for by the framework of ideas used by the ruling class in coercing and persuading others to maintain the *status quo*. Neo-Marxist scholars such as Miliband (1973), O'Connor (1973) and Gough (1979) see the suitability of the state as a vehicle for maximising welfare by way of persuasion. The other account of neo-Marxist analysis of ideology is best seen by the works of Habermas (1976),

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especially party politics to be of great significance. The welfare state develops as a social democratic party or labour party becomes powerful. The party in this line represents the working class, and highly centralised labour unions. Wilensky's (1981) notion of 'Catholic party power' and Borg and Castles' (1981) findings of right-wing parties' antagonistic representation to social spending also endorse the significance of party politics. Therefore, although labour is inferior to capital in the market, this economic inferiority can be compromised by their capacity for collective action in democratic politics. The social democratic model deserves credit in that it has further expanded its explanatory categories above and beyond economic variables. The problem of this account is however that even though it applies best to the relative expansion of national social expenditures after the Second World War, it has failed to provide answers to the questions of when, how, and why social policies were created and expanded in industrialised capitalist democracies (Skocpol and Amenta, 1986:142). Also, the social democratic model cannot explain why there was working class hostility to the state provision of welfare when state welfare measures were first introduced (Pierson, 1991:54). Rimlinger (1971) argues that in the initial stage of welfare state development, the working class refused the idea because the expansion of welfare provision could weaken the autonomy of the labour union or could function as a means of control to reduce wages. Thus, though the social democratic model can best apply to the development of Scandinavian welfare states, it can hardly be generalised.



Ginsburg (1979, 1991) and Offe (1984). They argue that both the self-activity of the dominant class and the material relations of a particular kind of social life under particular circumstances create a climate of ideas which make persuasion more acceptable.

The third aspect of neo-Marxist analysis lies in the class-based theories. The welfare state is understood as the outcome of a long process of a working-class struggle against entrenched opposition from the capitalist class and its allies (George and Wilding, 1994:74). This power resources approach in other words assumes that the fundamental power resources in advanced industrial societies are divided by economic or capital resources. These resources derive from the labour control based on the market mechanism and by political power resources from the capacity of collective action (Korpi, 1989:312). Therefore, the working-class mobilisation theory or the labour movement theory explains that the development of the welfare state is dependent upon the strength of the labour movement and its political ability to implement collective welfare provisions through electoral control of the state. Similarly, proponents of the mass disruption thesis (e.g. Piven and Cloward, 1971) argue that social policies have improved by elites' responses to protest by the poor and workers. But it is also argued that this thesis only works when and where the existence of regular institutional channels for influencing social policies by working classes and other organised democratic power are challenged (Skocpol and Amenta, 1986:139).

By and large, therefore, neo-Marxists conceive the extent of class struggle as the key determinant of the nature of any welfare state that develops. The welfare state is regarded as a form of social control which is the crucial difference from approaches exemplified by the logic-of-industrialism. Accordingly, even if both the logic-of-industrialism theorists and neo-Marxists approaches are deterministic and have utilised functionalist reasoning to predict the converging patterns of social policy, neo-Marxists argue rather differently from the structure-functionalists in the area of social policy development. This is so in the sense that social policies are viewed by neo-Marxists as facilitating social reproduction which is essentially required in advanced capitalism. Consequently, welfare provision in capitalist society is not for poverty elimination but merely for ensuring that the poor can physically survive. The reason for this is that capitalism requires a reserve labour force which will be



remaining as a threat of unemployment to workers. Ginsburg (1979:47) argues that this role of the welfare state is achieved by the social security system as a backup of wage cut strategy so as to improve the capitalists' competitiveness. The idea of welfare from the neo-Marxist point of view is perhaps best explained by Offe (1984). He argues that the welfare state is itself highly dependent upon the prosperity and continued profitability of the economy instead of being a separate and autonomous source of well-being which provides incomes and services as a citizen's right. Hence the welfare state has structural limits to its powers as evidenced by its reliance on tax revenue (Offe, 1984).

Neo-Marxist accounts however fail to explain existing patterns of welfare provision such as the continuous expansion of the welfare state and the emphasis given to the disadvantaged in society. Different countries may respond differently to similar accumulation demands. Countries with similar levels of democracy may result in quite different systems and levels of welfare. The diversity of modern political life and the pressures and constraints of democratic politics are exceedingly simplified and disregarded by excessive focus on economic determinism that blinds neo-Marxism to be able to address similarities and diversities between different countries.

### **1.3.3 The Corporatist Approach**

The corporatist approach has placed its theoretical core of power at the complex tripartite arrangements involving the state, organised employers (capital), and organised labour. State control over prices and markets including wages and investment decisions appears to be considerable. Trade unions and business organisations are incorporated by a political structure in national planning (Taylor-Gooby and Dale, 1981:250). However, there appears to be a significant difference between corporatist theory and labour movement theory in terms of power. The former tends to accept an 'end of ideology' perspective in the sense that strong labour movements are viewed as distinct from labour dominance. A compromise between capital and labour is mediated by the state within a capitalist framework. On the other hand, labour movement theory rejects the idea of 'end of ideology' as well as that of capitalist hegemony. It sees therefore the welfare state as a staging post towards socialism where the labour movement is to obtain control over the state for its ultimate end. In this sense, the closest ideological stance to this theory is Democratic Socialism. Labour movement theory is



interpreted as closer to radicalism than corporatist compromise. Notwithstanding, both theories of power have a common feature of the power structure of modern societies. They recognise the existence of the large organised interest group engaging in a bargaining process of compromise where the state plays a mediating role.

The essential features of corporatism are that an economy of the corporatist principle is primarily based on private ownership with considerable state intervention in the market economy by way of a system of wage and price controls and decisions on investment. Moreover, the state plays a central role in planning the national economy by incorporating business organisations and the trade unions. Another important characteristic of corporatism is that the acute class conflict in association with the left is taken for granted by its supporters because state intervention under corporatism goes to its maximum limit and almost all areas of social life are politicised, thus generating social conflict. Social policy is sometimes viewed as a product of this bargaining procedure which generates concessions from the state. These concessions may harm capital but the state otherwise remains authoritarian and repressive.

Corporatist theory places the active role of political elites at the centre of the development of social policy. According to Offe (1984:29), there are three possible circumstances where corporatist mechanisms are most feasible. First, when national traditions of opposition by capital and labour to the state are weak. Second, when levels of political repression are high and third, where uninterrupted economic growth makes a 'positive sum game' between capital and labour possible. Yet Offe also notes that all of these circumstances cannot be fulfilled, hence his suggestion goes beyond the corporatist solution. Social policy develops in the form of social services introduced by political elites in order to manipulate organised groups such as trade unions and to strengthen the state power in relation to economy as well as society. This in turn enables them to maintain social order led by structural integration and equilibrium. Whereas the logic of industrialisation thesis, in strong association with the functionalist theory of welfare, proposes that industrial development is a key determinant of welfare effort and change, corporatist theory explains the role of political elites as a mediator to manage problems created by industrialisation. In sum, corporatist explanations of the development of social policy are concerned with the analysis of structures in the period of industrialisation. Thus, social policy is

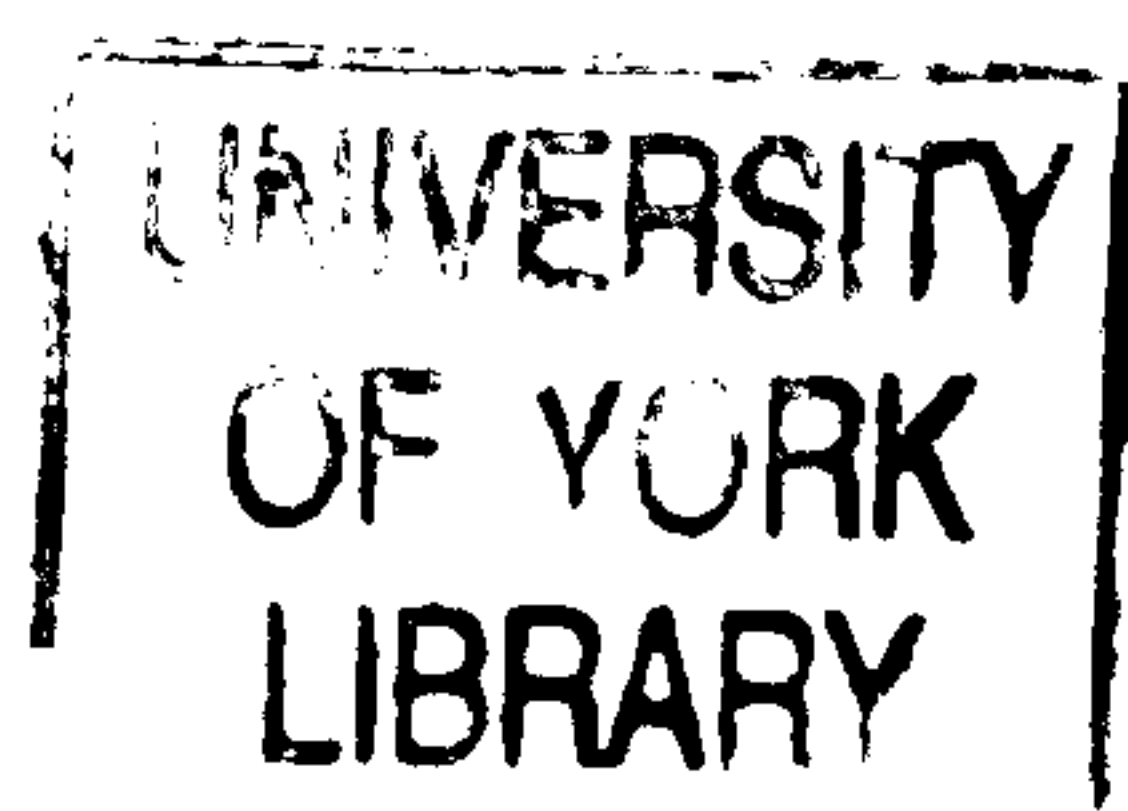


viewed as 'a consequence of the purposeful action of the state in its attempt to maintain an integrated corporate structure' (Midgley, 1986:226).

Nonetheless, the weakness of corporatist theory lies in various forms. First, there are various usages of the concept of corporatism that have obscured meaning. On the one hand, it has become very nebulous for it has been used almost everywhere. On the other hand, it is strictly attached to a unique phenomenon (Schmitter, 1974:85). For instance, Esping-Andersen (1990) uses 'corporatist' to describe the conservative welfare states, while Mishra (1990) uses it to describe the social democratic welfare states. The point is made by Ginsburg (1991: 75) that this discretionary usage of terms in addition to the synonymous usage of 'socialist' and 'social democratic' by Esping-Andersen engenders a source of confusion.

Second, the term 'corporatism' has been presented in the form of wide variations. Mishra (1984:102) has classified the welfare state model into the pluralist or differentiated welfare state and the corporatist or integrated welfare state. In the former, social welfare is seen as distinct from the economy and welfare policies are fragmented and residual as seen in the United States and the United Kingdom, whereas in the latter, the economy and social welfare are interdependent and integrated. Corporatism, the ideal-typical features of the integrated welfare state, carries 'the logic of collective responsibility for the social economy beyond Keynesianism' as seen in the case of Austria and Sweden (Mishra, 1984:105). Mishra (1984:106-107) also made a clear distinction between liberal (democratic) and authoritarian (dictatorial) forms of corporatism. The former is seen as a voluntary and gradual development of corporatism whereas the latter is involuntary and imposed by a ruling elite in which political competition and trade unions are forcibly integrated by the state apparatus. These variations generate much confusion.

Third, more theoretically, according to corporatist theory, the more corporatist the polity of a country, the larger the welfare state in the form of corporatist arrangements. The more corporatist a country, the larger the gap between welfare provisions for the organised and the unorganised. This means that 'we should expect the political equality of citizens in large welfare states to be less than in less-developed welfare states' (Therborn, 1986:142). In other words, it is logically expected that the marginalised population of non, or weakly-organised groups in





strongly corporatist societies should be more marginalised than those in the weakly corporatist or non-corporatist countries. Empirically, this is shown to be wrong because highly corporatist countries such as Sweden have been more effective in alleviating relative poverty than weakly corporatist countries such as the United States (Therborn, 1986:144).

Finally, corporatist theory has been less developed than it might be in the sense that the highly corporatist societies such as Sweden, Norway and Austria typically identified by corporatist theory have exhibited the largest working-class power resources (Korpi, 1983:40). This means that class solidarity may be a more important determinant than monopolistic, centralised interest organisations (Baldwin, 1990:299; Therborn, 1986:142).

Much that has been discussed so far relates to demands of external groups on the government. The statist critics criticize that these demand theories fail to take the state itself seriously as an independent actor and as an independent variable. Do the statist provide a distinctly superior model of political explanation to the models they criticize? This is the question that we now turn to answer.

#### **1.3.4 The State-Centred Approach**

As an early variant of new (polity-centred) institutionalisms which will be discussed in detail later in this chapter, the state-centred approach on social policy formation takes the idea that instead of similar demands of national circumstances, the state responds in a different way based on its particular structure. In other words, while structure-functionalists (industrialism and neo-Marxism) see the development of social policy as the functional requisite of industrialisation and monopoly capital accumulation, and the social democratic model and interest group politics view it as the increasing demand of welfare stimulated by pressure groups and working class political conflicts, the state-centred model accepts the idea that all of these models have affected the development of the welfare state but are mediated by the state which is seen as the active political actor (Evans *et al.*, 1985a; Skocpol and Amenta, 1986:147-149). That is, states are reconceptualised as 'autonomous actors and as consequential structures and sets of policies' if not entirely but partially (Skocpol and Amenta, 1986:147).



The key actors from the statist perspective are state managers including political elites, administrators and policy experts as advisers, those visionary state officials and political leaders who have propelled the important part of social policy formation (Ashford, 1986a; Orloff and Skocpol, 1984). Further, state structures and policy legacies are conceived as a crucial determinant of politics and social actions. Krasner (1984:225) clarifies one of the characteristics of statist arguments that:

‘Political life is characterised, not simply by a struggle over the allocation of resources, but also periodically by strife and uncertainty about the rules of the game within which this allocative process is carried out’.

This approach basically pays a great deal of attention to claims that: first, the development of the welfare state is primarily determined by key interventions between an inter-state system of state managers or executives and policy-relevant expertise (Orloff and Skocpol, 1984); second, welfare states develop through a specific process of political learning (Hecl, 1974) which considers the actual processes and conditions of policy making and administration; and third, the historiographic approach of statism highlights the historical legacy which may have been largely ignored by many general theories.

The weakness of statism however is that the approach has a limited capability to generalise how welfare states develop, since statism or the Skocpolian approach stresses a specific historical analysis above and against general theory (Amenta and Skocpol, 1986; Skocpol, 1985). Any particular pattern of welfare states is not thereby envisaged. Further, the impact of large social forces tend to be ignored (Almond, 1988:872). The borderline between society and the state is also sometimes vague, and when agreement is reached, whether borderlines are historically constant remains unsolved. Statism furthermore tends to pay less attention to the relation between the state and society since a strong state in relation to its social setting does not necessarily mean that it ends up providing the most effective solutions to policy problems (Ashford, 1986a: 27).



### 1.3.5 Historical Institutionalism

The emergence of the 'new institutionalism' was an attempt to make 'comparative politics' more explicit. Institutions are seen to be critical in examining both the consequences that they may have for actors and actions within their domains and the genesis of and transformation of institutional arrangements themselves (Scharpf, 2000:763). Mostly developed by American political scientists, new institutionalists criticise the old tradition of comparative politics that they suggest was often deeply normative and compared simply by juxtaposing descriptions of different institutional configurations in different countries, hence failing to facilitate explicit comparative explanatory theory. Therefore, by incorporating a more behaviouralist approach<sup>6</sup>, new institutionalists attempt to explain systematic differences across countries that had been obscured by previous theories (Thelen and Steinmo, 1992:3-4). Its core argument is the emphasis on institutions as intervening or intermediate variables that shape behaviour and political outcomes (Gorges, 2001:165; Krasner, 1984:224).

The aim of any institutional analysis is to find out the relationship between institutions and individual behaviour and distinctive political outcomes produced by this relationship. Yet, there has been no unified body of thought about what this new institutionalism is and how it differs from other approaches. Rather, different schools of thought within the new institutionalism have been identified by those who are interested in comparative politics and comparative political economy. Nonetheless, all different schools of thought seek to elucidate 'the role that institutions play in the determination of social and political outcomes' (Hall and Taylor, 1996:936). Historical institutionalism arose from the works of comparative political scientists. While rational choice institutionalism<sup>7</sup> evolves from rational choice theory and sociological

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Behaviouralists argued that, 'in order to understand politics and explain political outcomes, analysts should focus not on the formal attributes of government institutions but on informal distributions of power, attitudes, and political behavior. Moreover, in contrast to what was perceived as the atheoretical work of scholars in the formal-legal tradition, the behavioralist project as a whole was explicitly theoretical' (Thelen and Steinmo, 1992:4).

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Rational choice institutionalism derives from traditional rational choice theory. Its theoretical origins can go as far back as classical political economy of the eighteenth century. Not surprisingly, thus, this approach emerged predominantly out of new institutional economics (e.g. North, 1990; Shepsle, 1978, 1986, 1989, 1991; Williamson, 1975, 1985). It was then applied to the study of American politics,



institutionalism<sup>8</sup> from organisation theory, historical institutionalism developed in response to the group theories of politics and structural-functionalism in political science during the 1960s and 1970s (Hall and Talyor, 1996:937). Historical institutionalists begin with the idea that the

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renamed as 'public choice theory' (e.g. Moe, 1984, 1995; North, 1990; Shepsle, 1978, 1986, 1989, 1991; Williamson, 1975, 1985). As much economic theory begins with a series of assumptions (e.g. game-theory, Pareto-optimum, Nash-equilibrium), rational choice institutionalism starts with an assumption that actors are utility maximisers. In order to maximise their utility, they are likely to deduce the 'preferences of the actors from the structure of the situation itself' (Thelen and Steinmo, 1992:8). Hence, this approach pays primary attention to the use of a series of bargaining games or strategies in order to solve individual collective action problems (Hall and Taylor, 1996:943). As the classic prisoner's dilemma game in economic theory shows, for example, the prisoner's choices for the strategies are defined and constrained by the changes of the rules (institutions) in order to maximise his or her self-interests. Political outcomes are therefore determined by strategic interaction between actors. In this context, because institutions structure strategic interactions between actors, institutional arrangements are the key to guaranteeing that the actors take a 'collectively-superior course of action' (Hall and Taylor, 1996:944-945). However, the rational approach or the rational-comprehensive approach has been criticised by the incrementalists (Lindblom, 1959; Lindblom and Woodhouse, 1993; Simon, 1957). They argue that political and bureaucratic roles are complex. Hogwood and Gunn (1984) arrive at an argument that organisations may not reach the most rational decision as it is unrealistic or impracticable. This incrementalism suggests politics is based on *ad hocism* and situational expediency rather than rational utility maximising. Moreover, this approach fails to explain why a set of policies are adopted by decision-makers at particular times and places. Decision making can be rational at certain times; at other times it is incremental. At the beginning of a programme, for instance, policy-makers may rank their objectives to select the preferred option, but once the programme is in place decisions may become incremental.

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If the rational choice approach arose from the works of economists, sociological institutionalism derived from the works of sociologists. Sociological institutionalists see rational action itself as socially constructed. Powell (1991:187) made this point clear, arguing that 'even the most efficiently-minded organizations rely on socially constructed beliefs such as more is better'. Thus, while rational choice institutionalists contend that strategic calculations of individuals are affected by institutions, sociological institutionalists argue that institutions affect their most basic preferences and very identity too. Hall and Taylor (1996:949) point out that 'if rational choice theorists often posit a world of individuals or organizations seeking to maximize their material well-being, sociologists frequently posit a world of individuals or organizations seeking to define and express their identity in socially appropriate ways'. Thus, in contrast to a 'logic of instrumentality' modelled by rational choice institutionalists, sociological institutionalists understand the relationship between institutions and actions as a 'logic of (social) appropriateness'. Rothstein (1996) argues therefore that institutions inform the relevant actors about what they ought to prefer in the specific situation. He made plain that 'institutions not only determine actors' preferences but also to some extent create them. Institutions create or socially construct the actors' identities, belonging, definitions of reality and shared meanings. In a given institutional setting, the agent usually does not calculate what action would enhance his or her utility the most. Instead, by reference to the institutional setting...what is the appropriate action for such an individual in this situation' (Rothstein, 1996:147). Hall and Talyor (1996:951) also concur that culturally-specific repertoires can be a decisive factor when a highly instrumental actor makes their choice. Actors choose the strategies that may be affected by the institutional environment.



assumptions considering political actors as rational maximisers are overly confining. Instead, they tend to follow Simon's model of 'bounded rationality' whereby human behaviour is 'limited' though not 'irrational' (Simon, 1957, 1985).

Given this, historical institutionalists argue that institutions shape not just actors' strategies, as rational choice institutionalists have argued, but also their goals. This approach therefore suggests that individual preferences are not simply determined by actors' own self-interests. Rather, preferences are often socially and politically constructed and sometimes in conflict. Because more than one, often conflicting, interests are involved in preference formation, historical institutionalists argue that the political processes should be examined within the structure of how particular coalitions are formed (Thelen and Steinmo, 1992). In this respect, historical institutionalism owes its theoretical groundings to pluralism or interest-group politics on the one hand and structural functionalism from neo-Marxism on the other.

Compared to the state-centred approach which takes institutions and political beliefs more seriously (Krasner, 1984:228), historical institutionalists have made an attempt to link initially state-focussed analysis of institutions with other social and political institutions in order to find out the logic behind structural interactions that generate distinctive national trajectories. For example, by comparing the British and French economy, Hall (1986) made an extensive linkage between the state and society. He argues from the contemporary historical institutionalist point of view that there is a certain institutional logic to the process of economic intervention within which interests are articulated, ideas are disseminated, and market behaviour is constructed. Also, most studies conducted by this school are exclusively guided by the method of cross-national comparisons of public policy (e.g. Hall, 1986, Immergut, 1992b; Pierson, 1994b). However, especially, where and when the historical institutional analysis is confined to a country-specific case study (e.g. Skocpol, 1992), this approach tends to be eclectic and diffuse. Nonetheless, the historical institutionalist framework captures critical junctures. Thelen and Steinmo (1992:10) made plain:

'This approach has been applied in a wide range of empirical settings, but in each case what has made this approach so attractive is the theoretical leverage it has provided for understanding policy continuities over time within countries and policy variations across countries...institutionalists have constructed important analytic bridges: between state-centered



and society-centered analyses by looking at the institutional arrangements that structure relations between the two, and between grand theories that highlight broad cross-national regularities and narrower accounts of particular national cases, by focusing on intermediate-level variables that illuminate sources of “variation of a common theme.”

Hall and Taylor (1996) have also pointed out that historical institutionalism is distinctive in that it pays attention to a particular concern with contingency and the unintended consequences of strategic action, with the distribution of power, often unevenly distributed across social groups in the polity, and with a focus on the path dependency of institutional change. The core arguments of historical institutionalism are also made by March and Olson (1989:5-6):

‘[I]nstitutions and behavior...evolve through some form of efficient historical process. An efficient historical process...is one that moves rapidly to a unique solution, conditional on current environmental conditions, and is independent of the historical path.’

Thus, historical institutionalists have been especially attentive to historical development. Historical institutionalism develops further to provide a theoretical basis which offers an image of social causation. This image of social causation is ‘path dependent’ and can explain changes that occur during the process of political interactions.

First, an image of social causation is ‘path dependent’ in the sense that the same operative forces will not always generate the same results everywhere. The ‘effect of such forces will be mediated by the contextual features of a given situation often inherited from the past’ (Hall and Taylor, 1996:941). Largely drawn from Tilly’s contention (Tilly, 1994), Hay and Wincott (1998:955) clarify the term ‘path dependence’ as ‘the order in which things happen affects how they happen; the trajectory of change up to a certain point itself constrains the trajectory after that point; and the strategic choices made at a particular moment eliminate whole ranges of possibilities from later choices while serving as the very condition of existence of others.’ Early analysts of the historical institutional tradition put a special emphasis on the impact of existing ‘state capacities’ and ‘policy legacies’ on subsequent policy choices (Weir and Skocpol, 1985). But later analysts of the tradition have developed it one step further. For instance, Pierson (1993, 1994b, 2000a) has developed this notion of a ‘path’ to development by paying particular attention to the process of ‘policy-feedback’ or ‘increasing-returns’ in policies that are costly to shift. He argues that increasing returns provide an answer to the question of why broadly similar



countries developed highly specialised comparative advantages. The reason is that positive feedback effects help countries that gain a lead in a particular field to consolidate that lead over time. Pierson (2000a: 255) points out that:

‘Comparative advantage is not simply given, it is often created through a sequence of events over time...A single gain in knowledge can be applied in many settings and can lead to dramatic improvements in productivity. Economic growth generates the positive feedback that defines increasing returns processes.’

Second, although historical institutionalists by and large view ‘change’ as the consequence of strategic action in an institutional context that favours certain options over others, they also believe that institutions are not the only causal force in making a change. Socioeconomic development and the diffusion of ideas are also considered to be important factors. In other words, how political ideas are filtered through institutional structures in the formation of specific policies should be answered by giving due attention to the role of ideas in shaping institutional trajectories (Hay and Wincott, 1998:956-957).

In answer to this question, along with the relationship between structures and agents, Hall and Taylor (1998) argue that not just institutions but ideas (new ideas) can change the basic and strategic preferences of actors. Because actors’ preferences are multiple in nature, how to define the relevant issue will affect the choice that actors make. The kind of ideas that might matter to actors also appears important. The kind of ideas could range from information about the causal relations that govern the world or the likely behaviour of other actors to moral visions about what is good or what is bad (Goldstein and Keohane, 1993a). A course of action chosen by actors is likely to be governed by a repertoire of ideas, rather than a set of ideas because ideas are the ‘building blocks of action’ (Hall and Taylor, 1998:962).

Although historical institutionalism has been seen as an alternative to existing grand theories, it has also been subject to criticisms. It seems possible to summarise three sets of criticisms. First, rational choice theorists criticise historical institutionalism as inelegant, atheoretical and storytelling or historical narratives. The reason for this is partly because many studies in this school have been motivated by ‘substantive issues rather than a narrow theoretical program’ (Immergut, 1998:27) and partly because it has been seen as a mere synthesis of a series of



existing theories. The point has been made clear by Immergut (1998:27), arguing that 'the historicist stress on indeterminacy and uniqueness mitigates against theory building'.

Hay and Wincott (1998) also argue that a distinction made by Hall and Taylor (1998) between calculus and a cultural approach within historical institutionalism is basically a distinction between rational choice and sociological institutionalism. To an extent, this may be one of the strengths that historical institutionalists provide. By linking different variables instead of pointing to particular variables that are often decisive, historical analyses focus on the balance between 'necessary complexity' and 'desirable parsimony' (Thelen and Steinmo, 1992:12-13). Fiorina (1995:109) nonetheless points out that 'institutionalism is not an approach or a set of commitments. Rather, institutions are subject matter to be approached in different ways by scholars with different interests operating out of different traditions. Here, as elsewhere, let a thousand flowers bloom'. Immergut (1998:27) argues that the historical institutionalists tend to criticise a dominant model by showing where the facts do not fit. But this leaves them wavering between the 'moral anarchy of postmodernism' and 'falling back into the social determinists' reduction of social justice to the coordinates of the social structure'.

Another criticism comes from inside the school, arguing that partly because institutionalists tend to place a great deal of emphasis on institutional constraints instead of institutional possibilities, the earlier approaches of the tradition have been relatively confined in the terrain of policy outcomes. This in turn means researchers offer few explanations of change and possibility focussing instead on continuity and impossibility (Ikenberry, 1988; Krasner, 1984; Thelen and Steinmo, 1992). Though the recent historical institutionalists are increasingly looking for the answer to why and how institutions change, they do not take into account normative questions about institutions, ideas and changes. While they argue that institutions are shaped by human beings who are 'conscious and deliberating, and more or less rational' (Rothstein, 1990:318), they ignore the question of why institutions should be arranged to benefit human beings. This impossibility theorem endangers the 'possibility of social policy' that raises normative enquiries such that the world can and should be changed to become a better place to live. Unlike social determinists such as Marxists, it is unclear where historical institutionalists position themselves in an ideological spectrum ranging from social reformer to system conformer.



The last set of criticisms comes from comparative political economists, arguing that historical institutionalists emphasise the causal significance of institutional arrangements and neglect the effects of other structural variables. For example, Pontusson (1995:130) arrives at his argument that the 'causal significance of economic-structural variables ought to be an object of empirical analysis rather than being dismissed to clear the way for an analysis of the effects of political or intermediate-level institutions'. Then, he concludes that 'we should pay more systematic attention not only to economic institutions but also to a range of economic-structural variables that lie beyond the conventional confines of institutional analysis' (Pontusson, 1995:143).

### 1.3.6 Discussion

Each theory exhibits a rather different mode of explanation. Nonetheless, some of them such as functionalist welfare-industrialisation, neo-Marxism, and corporatism, tend to share common features. The emergence of modern statutory welfare provision, for instance, is based on industrialisation and the role of political elites is placed at the centre even though purposeful initiatives of operating programmes vary depending on their objectives (Midgley, 1986: 227). To figure out the distinctive positions of each theory, theories of the welfare state can be summarised by questioning each theory's distinctive treatment of 'who benefits from the welfare state?' In answer to this question, proponents of the logic of industrialism have demonstrated that the socially marginalised group tends to benefit from the welfare state<sup>9</sup>. The social demands of the disadvantaged group resulting from industrialisation are largely fulfilled through the welfare state. In contrast, both the corporatist theory or interest group politics and neo-Marxism disagree with the fact that welfare states develop on behalf of the marginalised groups such as the poor and low wage workers. The difference lies in the sense that the disadvantaged groups are still excluded as the welfare state develops because of the nature of the capitalist economy from the neo-Marxist point of view and, from the corporatist viewpoint, that the marginalised groups fail to be integrated due to their fundamentally weak political power.

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The social democratic model shares this view and explains that as this marginalised group - the working class - has enlarged its political power, welfare states have thereby developed.



As we have seen, historical institutionalism does not provide explicit answers to this question. However, the benefits of the historical institutionalist approach stand out in demonstrating the relations between particular kinds of politics and specific institutional arrangements. This approach helps to identify cross-national differences and the persistence or changes of patterns or policies over time. By focussing on the institutions that shape political strategies, peoples' ideas, attitudes, and preferences, it offers a 'framework for directly confronting the central question of choice and constraint in understanding political life' (Thelen and Steinmo, 1992:28). There is little doubt that historical institutionalism provides many strategic advantages in the analysis of social policy development. In addition, Reich (2000) argues that in analytic terms a different form of institutionalism is most compatible with different respective policy domain. Given this, historical institutionalism seems best suited for its explanatory power in the context of redistributive policies<sup>10</sup>.

Despite a number of strategic advantages, its theoretical applicability is not always valid. For example, Gorges (2001) has applied the new institutionalist approach to the case of social dialogue in the European Union (EU), and concluded that it cannot account for why the social dialogue was institutionalised in a particular form at a particular time. Kwon (1999a) has adopted this approach and argued that it has a strategic advantage in the analysis of social policy development in Korea. He argues that 'most social policy decisions have been made in a confined institutional terrain, to which only a small number of decision makers had access until the democratisation process began' (Kwon, Huck-Ju, 1999a: 17). However, as he clearly points out, this assertion is only valid before the democratisation movement. As seen earlier through the review of a wide range of literature, other political institutions apart from a small group of decision makers have increasingly become critical in the process of decision making. Shin (2000b: 56) also points out that most studies within historical institutionalism pay little attention to the interrelationship between economic policy and social policy, thereby providing little

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Reich (2000:512) argues that 'historical patterns of development are very influential in the broad determination of "who gets what", limiting the propensities for change in an environment where the state looms so importantly in the context of primarily domestic considerations. Domestic interests therefore compete within an environment where external factors may condition the size of the pie, but not how it gets divided-the latter being strictly a zero-sum game'.



explanation of the dynamic linkage between them. This is because historical institutionalism tends to focus on the 'regularities of policy reform that are typical of the resilient institutional characteristics of different political economies' (Shin, Dong-Myeon, 2000b: 56). We now turn to review how these Western-built theories of welfare have been applied to the development of social policy in Korea.

#### **1.4 Theoretical Application to the Development of Social Policy in Korea**

The development of social policy in Korea has been extremely incremental and *ad hoc*, and on a discontinuous and piecemeal basis. However, theoretical application has been made by various schools of thought. First, mostly carried out by economists, the early studies on the development of social security in Korea share the tradition of the functionalist approach. Social policy develops as the national economy begins to grow, they argue. Park (1975) stresses that social security programmes should be designed in order to maintain a balance within the broad framework of socioeconomic development. Kwon (1993b) argues that social development in Korea has lagged behind its economic growth because of overarching development strategies. These studies have made important contributions to understanding the development of social policy in Korea in that social development cannot be ignored in the paradigm of economic growth. In other words, the emphasis was given to the relationship between economic growth and the gradual expansion of social expenditure spending. Nonetheless, they fail to explain why a set of welfare programmes came to be introduced at a particular point in time. Also, their emphasis on the government expenditure approach ignores the variation of items, financing mechanisms, and service delivery of welfare<sup>11</sup>.

Second, the application of neo-Marxist perspectives can be subdivided into two streams. The first application has evolved from the social control functions of social policy. Ham (1986) argues that by analysing welfare laws and welfare expenditures as dependent variables, social welfare had been used as the means of social control from the First to the Fifth Republic of Korea (1948-1988). The governments introduced a series of welfare laws and increased welfare

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For more detailed criticisms on the government expenditure approach, see Castles (1994); Korpi (1989); Kwon (1997).



expenditures during the period of political turmoil evidenced by constitutional violation for example but returned back to as they were when the issues of political illegitimacy no longer remained at stake. The other application has derived from the idea of monopoly capitalism perspectives. For instance, Moon (1993) argues that as capitalism develops, monopolistic capitalism is exposed by intensified contradictions and that, in turn, these contradictions became threatening to the given regime so it introduces social policy measures to counter these threats. Both these applications open the way to a deeper understanding of the various roles and functions of social policies. Nonetheless, these explanations are bound to a specific type of political regime. They also fail to account for the increasingly beneficial character of the social security system in modern Korea. More importantly, they ignore the fact that the unintended consequences of welfare state legislation may significantly strengthen the defensive powers of the working class.

Third, under the corporatist tradition, there seem to exist two waves of interpretation. First, the earlier school of corporatism reaches the conclusion that the underdevelopment of state welfare in Korea is caused by the weak structure of corporatist arrangements between labour, capital, and the state (Choi, Jang-Jip, 1984, 1987, 1989; Im, Hyug Baeg, 1987; Shim-han, Young-hee, 1986-1987). In other words, state labour policy had by and large been authoritarian, coercive and exclusionary until the late 1980s. Consequently, there was no tripartite agreement amongst large business organisations and their workers and the state in the period of 1960s to the end of 1980s in Korea, because interest representation organised by workers had been excluded from these bargaining procedures. Second, after the democratisation movement (see Chapter 2), company welfare began and continued to grow. This transition enabled employees to achieve better welfare provisions, yet by providing welfare benefits, employers were able to control their employees where necessary (Park, Charnim, 1996). Therefore, social policy is seen as a product of bargaining procedures which generate concessions from the state<sup>12</sup>.

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For the detailed criticisms about the application of corporatism to the development of state welfare in Korea, see Chapter 3.



Fourth, while working class mobilisation thesis or interest group politics has not exclusively been applied to the development of state welfare in Korea due largely to the across-the-board weaknesses of its applicability, the fourth category became an important part of studies produced by those who paid a great deal of attention to political variables. These studies vary greatly in their central concern of analysis ranging from (1) state-autonomy; (2) the nature of political regime; and (3) the process of policy-making. They differ from previously normative-based studies in which Western-built welfare states are set a model to emulate in order to suggest the future orientations of the Korean welfare state (e.g. Koh, Se-Hoon, 1992; Lee, Sang-Young, 1997; Rhee, Sang-Yoon, 1990; Won, Yong Chan, 1992). The first perspective derives from the state-centred approach with a clear focus on the correlation between state-autonomy and welfare expenditures or welfare policies. The state is viewed as an actor that provides resources from this perspective (Chung, Moo-Kwon, 1992). This study has focussed on the configuration of the executive branch, especially between economic and social ministries, and argued that the more autonomous the state is, the lower the level of welfare expenditures, while the lesser the autonomy of the state, the higher the level of welfare expenditures. Another approach was made by Kwon (1999a) from the same perspective but he has focussed on the political interests of state elites and policy experts. He argues that the political and institutional logic behind social policy in Korea has been primarily determined by the 'politics of legitimation'. He explains that a set of social policy programmes were introduced at a particular time in Korean history in order to legitimise the activities of those in power.

The second perspective has focussed on the nature of the political regime as a framework that produces welfare policies (Seong, Kyoung-Ryung, 1990, 1995:Ch.9; Im, Hyug-Baeg, 1989). These studies argue that under the authoritarian regime, social factors such as the power of interest groups are weak concerning the making of welfare policy, while political response in relation to social demands is likely to be elastic under the democratic regime. These studies have explained why democratisation occurs from the correlational dynamics between the state and society. Democratisation is seen to be a critical factor in developing welfare programmes. Working-class mobilisation thesis or interest group politics therefore also comes to be critical in



the process of democratisation<sup>13</sup>.

The third perspective has focussed on the process of policy making by examining detailed cases of welfare programmes. Using qualitative research methods, these studies have at their core the analysis of the role of major actors, but differ in terms of the central attention of the analysis, placing emphasis on different aspects such as political elites, especially bureaucratic elites, executive branches, and the National Assembly. These studies have enabled us to conduct micro-analyses of the process of policy-making by examining dynamic correlations in policy formation. Some of these studies have focussed on the role of executive branches (Oh, Chung-Soo, 1987; Chun, Nam-Jin, 1981), bureaucratic elites (Sohn, Chun-Kyu, 1981), and relations between interest groups and the state's response in the process of health insurance making from the institutional perspective (Park, Chan-Ung, 1997). Others have paid more attention to the role of the National Assembly (Huh, Man-Hyung, 1995; Song, Hee-Jun, 1992) and the dynamic relations between political actors within it (Choi, Jeong-Won, 1998). Finally, if studies under the fourth category have focussed on political factors in the process of policy-formation, others have paid more attention to the development of political economy<sup>14</sup>, and attempted to find the linkage between economic policy and social policy (Lee, Hye-Kyung, 1999; Shin, Dong-Myeon, 2000a, 2000b). These studies explain the development of social policy in Korea within the framework of economic policy while stressing the historical

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The timing of welfare reforms is by and large contingent and dependent upon the interest and skills of state decision makers. Notwithstanding, normal procedures of policy making can be simplified and speeded up during times of threat by working class or other popular movements to the existing social and political order (Therborn, 1986:159). Further, perspectives of those who are in opposition movements on welfare are of considerable importance as seen in the invalid applicability of the working-class mobilisation thesis to Korea since trade unions made no efforts to enforce the introduction of welfare programmes once their political power was acquired through political struggle (Kwon, Huck-Ju, 1999a: 15).

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This tradition asks whether the economic logic, which is often regarded as impeccable, is immune to political and traditional values. It thus involves a careful consideration of the pull factor of supply including political determinants of policy making, the timing and the nature of social reforms, and its relations with exogenous factors such as political turbulence and electoral period (e.g. the timing of introducing four major social insurance programmes: the Industrial Accidents Insurance Programme in 1964, the National Health Insurance Programme in 1965, the National Pension Programme in 1988 and the Employment Insurance Programme in 1995).



transformation of the state welfare system. They have broadened the scope of analysis in the development of state welfare in that socioeconomic and political variables have been systematically integrated. Changes of regime and institutional arrangements, for example, are given attention.

In sum, there is little doubt that general theories have both strategic advantages and disadvantages in the analysis of the development of social policy in Korea. However, the later application made by the fourth and final category has enabled us to enlarge a scope of analysis. These studies have captured important variables including socioeconomic structure and international market, social coalitions, the requirements of economic policy, and policy legacies. Surprisingly however, very little is known about the role of ideas, especially those embodied in social programmes: (1) how the initial intentions of these ideas have been formed; (2) how these ideas go through the process of policy-making that often results in metamorphosis of the original notions; (3) how particular ideas take a particular institutional form at a particular time in history; (4) where those ideas come from (the sources of ideas); and (5) the conditions under which particular norms and rules are diffused and adopted. These questions should be answered in the process of policy formation, implementation, and evaluation because ideas themselves cannot cause outcomes (Jacobsen, 1995; Yee, 1996). They must still be translated into a particular organisational form or policy (Gorges, 2001). Answers to these questions would contribute to solving the puzzles of how ideas matter given the overdetermined nature of dependent variables and the significance of other independent variables. In order to answer these questions, we now turn to build up a new framework.

### **1.5 A Framework for Policy Formation, Change and Outcomes**

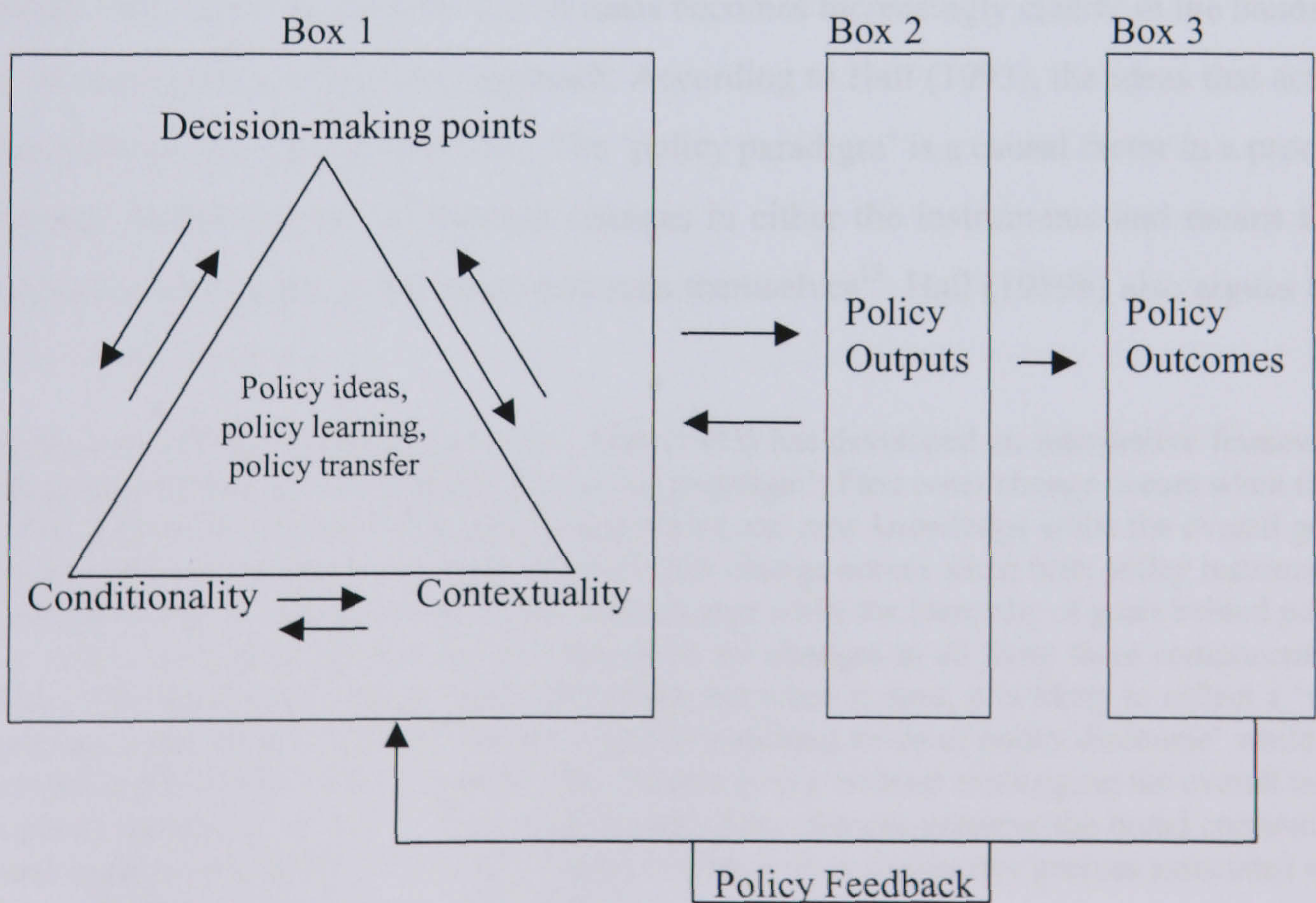
Institutional change and political outcomes are not only shaped by institutions themselves but also by exogenous, non-institutional or systemic variables. Historical institutionalists have made a major contribution to introducing a number of useful explanatory variables including policy ideas, yet these variables seem to be laid out on a per-need basis rather than with any regularity. In order to place these variables in a logical framework that may better explain policy formation, change and outcomes, we have developed a triangular formation of social policy making as seen in Figure 1.1. This model aims to simplify the vast array of decisions and forms of behaviour that



characterise social policy making. Because the policy process is complex and apparently chaotic, there is a need to impose some conceptual order on the policy process in order to comprehend it. If models try to include the role of all the political actors who have some say in decision-making and tried to take account of the many disjunctures and contingencies, they might not be able to do any more than describe the complexity. We now turn to the operational grounds of ideas, to the process of their interaction, and to the results and outcomes of social policies.

Figure 1.1 has a number of implications for the correlation between the making of social policy, the structure of social policy, and the outcomes of social policy. Figure 1.1 illustrates that how ideas are configured under what condition and in what context (Box 1); how this formation becomes institutionalised (Box 2); and how this process becomes subject to evaluation (Box 3). It implies that the process of social policy formation is not in a linear continuum. Critical decisions taken by decision-makers are affected by conditions and contexts, as well as their subsequent consequences. Box 1 is formed in triangular formation because variables interact and are subject to coordination. No single variable determines the optimum status. This model focusses on the dynamics and processes of a political system in its own context.

Figure 1.1 A Systematic Model for the Social Policy Process





### 1.5.1 Policy Ideas, Policy Learning and Policy Transfer

Ideas are interpreted differently by those who interpret institutional choices and changes in a different way. Rational choice institutionalists believe that the founders of institutions try to institutionalise particular sets of rules and choices to prevent future defection. Thus, institutions are a product of deliberate choice and reflect a certain equilibrium. Yet, institutional outcomes are not in uniformity. Utility maximisers could be satisfied by many different institutional outcomes. From this, ideas are introduced in their analysis. For them, ideas serve as a focussing device, facilitating the selection of one best equilibrium. They introduce ideas in their analysis of institutions in order to answer the question of what accounts for institutional choice and change. The answer is that ideas help 'actors achieve their desired ends' (Garrett and Weingast, 1993:178).

For some historical institutionalists, ideas are brought in as an explanatory variable in specific attempts to link society and the state. Ashford (1986a: 30) argues that 'perhaps the most brutal distortion imposed on our interpretation of welfare states by the socio-economic analyses is that the formulation and transmission of concepts and ideas necessarily becomes a residual problem'. In other words, the intricacies of the struggle of ideas are excluded in the analyses of welfare states. The significance of the role of ideas becomes increasingly clearer in the hands of those who are engaged in a historical approach. According to Hall (1993), the ideas that actors share affect policies that change over time. The 'policy paradigm' is a causal factor in a process of institutional change that occurs through changes in either the instruments and means they employ to pursue their goals, or the goals and ends themselves<sup>15</sup>. Hall (1989b) also argues that

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Inspired by Kuhn's (1970) 'scientific paradigm', Hall (1993) has developed an interpretive framework that distinguishes three subtypes of changes in a 'policy paradigm'. First order change occurs when there are changes in instrument settings influenced by experience and new knowledge while the overall goals and instruments themselves remain the same. Second order change occurs when both policy instruments and their settings change in response to past experience change while the hierarchy of goals behind policy remains the same. Third order change occurs when there are changes in all these three components of policy change. This third order change rarely takes place but when it does, it is likely to reflect a 'very different process, marked by the radical changes in the overarching terms of policy discourse' while the first and second order change reflects a process that 'adjusts policy without challenging the overall terms of a given policy paradigm'. In short, 'if first and second order changes preserve the broad continuities usually found in patterns of policy, third order change is often a more disjunctive process associated with periodic discontinuities in policy' (Hall, 1993:279).



the policy makers' response to Keynesian ideas and their subsequent diffusion have been conditioned not only by the economic viability of those ideas, but also by their administrative and political viability. Given this, we argue that this process of conditioning would greatly influence the formation of social policy. The process of conditioning often results in the metamorphosis of the original ideas. Original ideas, whether they are right or wrong and just or unjust, may not be institutionalised in their original form. Ideas can become a politicised instrument which can have a major impact on policy change<sup>16</sup>.

A successful application of ideas to policy choice over time requires a greater specification of how ideas emerge and change or evolve and are selected for (Haas, 1992:27). The construction of ideas and their dissemination are greatly affected by 'policy learning' or 'policy transfer' which is also an important part of policy change. Primarily developed by comparative policy analysts, a focus on learning as the source of policy change challenges existing conflict-based theories. Learning theory is also advantageous in explaining how political actors or decision makers take a certain course of action under conditions of uncertainty. Heclo (1974:305) points out that 'politics finds its sources not only in power but also in uncertainty - men collectively wondering what to do'.

Conceptually, policy learning is a collective term that encompasses five conceptions of learning - political learning (Hecló, 1974), government learning (Etheredge, 1981), policy-oriented learning (Sabatier, 1987, 1988), lesson-drawing (Rose, 1988, 1991, 1993) and social learning (Hall, 1993). Yet, Bennett and Howlett (1992:278) argue that these concepts are not, in fact, interchangeable. They have different origins and describe different aspects of the learning process. For instance, Hecló (1974) identifies the high level politicians and civil servants to be key actors of policy learning. For Etheredge (1981), key actors extend to most civil servants and

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Hood (1994:2-18) identifies four possible forces of the cause of policy change ranging from new ideas, the pressure of interests, changes in environments, to the legacies of previous policies (see also Joo, Jaehyun, 1999a, 1999b). However, we should bear in mind that 'interests are interpenetrated by ideas, but then ideas must be shown to exert influence untainted by the interests they have just been shown to interpenetrate' (Jacobsen, 1995:286). In other words, 'ideas and interests are "not separate entities, only analytically separable ones"' (Jacobsen, 1995:309). Further, these factors have overlapping elements and there are certainly grey areas between each of them.



state organisations, while Sabatier (1987, 1988), Rose (1988, 1991, 1993) and Hall (1993) consider complex arrangements of state and societal actors in various types of domestic and transnational policy networks and policy communities as key actors. In discussing different types of learning, Heclo (1974) is concerned with the substance and process of policy. In Etheredge's (1981) view, it is organisational features of state bureaucracies that key actors learn. For Sabatier (1987, 1988) and Rose (1988, 1991, 1993), what is learned is instruments and programmes adopted by governments to implement policies. In Hall's (1993) view, learning affects fundamental beliefs and values which underlie public policies, thereby actors learn both policy goals and the means of implementing policy.

Despite all these differences outlined by different scholars, each concept has one notion in common. That is, policy learning refers to 'a commonly described tendency for some policy decisions to be made on the basis of knowledge of past experiences and knowledge-based judgements as to future expectations' (Bennett and Howlett, 1992:278). Policy learning is often carried out by studying past initiatives. Criticisms and lessons learned from past experiences inform contemporary choices. At the same time, lessons learned can be both positive and negative. Yet, positive lessons do not necessarily result in positive impact on policy change because political actors operate within structural constraints. This policy learning approach can offer the answers to the questions of how ideas are formed and diffused through institutional structure.

To an extent, policy learning is one of many different forms of policy transfer<sup>17</sup>. In other words, both policy learning and policy transfer are concerned with the 'process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place' (Dolowitz and Marsh, 1996:344). However, the distinction between the two can be made by asking whether the process of policy learning or policy transfer takes place on a voluntary basis. While most cases of policy learning assume that it occurs voluntarily, policy transfer can

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Dolowitz and Marsh (1996:357) defines policy transfer as 'the process by which actors borrow policies developed in one setting to develop programmes and policies within another'.



also occur involuntarily, thereby policy transfer sometimes being a term preferred to policy learning (see Dolowitz, Greenwold and Marsh, 1999). Voluntary policy transfer occurs in many cases, two of which are Thatcher's adoption of a dependency culture and Labour's borrowing of welfare to work policy from the United States. Involuntary or coercive policy transfer rarely occurs, but when it does, it often involves supra-national institutions that play a key role. For example, when the East-Asian financial crisis occurred in the late 1990s, the International Monetary Fund (IMF) stipulated certain economic and social policies that had to be implemented if a loan was to be granted.

The analysis of the policy transfer or policy learning process enables us to identify both main categories of actors who are engaged directly or indirectly in the process of policy making and different categories of a subject for policy change. Identifying the key actors will enable us to examine different motivations that different actors have. At the same time, identifying different categories of a subject for policy change will enable us to analyse the relationship between policy change and policy failure, and between policy configuration and policy implementation. In short, policy transfer may shape policy change, but at the same time, it may also lead to implementation failure (Dolowitz and Marsh, 2000:21). This is however not to argue that policy transfer is the sole explanation of any policy development but to argue that the analysis of policy change requires the analysis of policy transfer which may or may not be contextually explicit.

### **1.5.2 Decision-Making Point, Conditionality and Contextuality**

The first box in Figure 1.1 illustrates a triangular formation in which policy ideas, policy learning and policy transfer operate. The first component of this triangular formation is a 'decision-making point'. This includes veto points that are 'points of strategic uncertainty that arise from the logic of the decision process itself' (Immergut, 1992a: 66). Immergut (1992a, 1992b) has brought in the concept of the 'effective point of decision', and argued that the ability of executive governments to introduce new policies is constrained by the rules of the game. These rules of the game are primarily formed by constitutional rules and electoral results. These institutional and political hurdles direct decision-making along different path in different politics. A small change in the rules of the game however may change the location of the veto points and their strategic importance. Different policy outputs result (e.g. specific pieces of



legislation), depending on the location of the effective point of decision, ranging from the executive arena, the parliamentary arena, or the electoral arena.

However, we shall not use the term ‘effective point of decision’ in favour of the point of decision-making because important policy decisions are not always effectively made. Further, the point of decision-making may stay in one particular position or may vary with time and change. If we narrow down our analytic focus only on the concept of veto points rather than the general location of decision-making points, we are likely to undermine the role of other political actors such as policy experts, executive ministries, policy administrators, political parties, interest groups and the National Assembly. Given a variety of actors engaged in the process of policy-making, policy network analysts have developed the concept of ‘epistemic and epistemic-like communities’ as carriers of ideas. They argue that the question of how an idea has or has not impacted on policy requires an examination of the particular network or community involved. For example, Haas (1992: 27) points out that the ‘ideas would be sterile without carriers, who function more or less as cognitive baggage handlers as well as gatekeepers governing the entry of new ideas into institutions’. Haas (1992: 3) also defines an epistemic community as ‘a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area’. Members of epistemic communities are often not involved in the decision-making process. Yet, this knowledge-based network plays a role in reducing uncertainty that decision-makers confront by articulating the causal relationships of complex problems, helping them identify their interests, identifying salient points for negotiation, framing the issues for collective debate, and proposing specific policies and/or programmes<sup>18</sup>. By focussing on the role of epistemic communities, we shall argue that the construction of social policy is greatly affected by the political infiltration of an epistemic community into governing institutions. The analysis of epistemic community will also enable us to answer how ideas are constructed and accepted, how these ideas are diffused, and why some ideas prevail over others.

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Dolowitz and Marsh (2000:12) identify that policies are ‘broader statements of intention’ and ‘generally denote the direction policy-makers wish to take’, while programmes are ‘the specific means of the course of action used to implement policies’. Thus, ‘each policy can have multiple programs, while a program is a complete course of action in and of itself’.



The second component of triangular formation is 'conditionality'. Largely drawn from the 'logic of situation' identified by Popper (1957:149), it implies that the conditions of society are in a constant flow that cannot be the same again thus preventing any possible outcomes being repeated. For instance, welfare reform or social progress cannot only be explained by the decision made by decision-makers but also by conditions on which it may depend. Also, the present conditions are at least partially conditioned by their past. In this respect, it contains 'policy legacies' identified by historical institutionalists (Weir and Skocpol, 1985). The actual historical patterns of revolutions were explained by Skocpol's examination on both international and domestic political conditions that produced different outcomes of three great revolutions in France, Russia, and China (Skocpol, 1979). Institutional change therefore must be examined by an institutional analysis of the conditions of progress (Popper, 1957:154).

Then, we may have to ask the question of what constitutes this conditionality under which institutional change occurs. It is important because decision-makers' perceptions and behaviour are governed by the best solution within given situations (Sabatier, 1988). First, we need to focus on administrative conditions partly because the administrative system is to meet value-oriented demands with available means of control and partly because the way in which benefits and services are delivered is at the heart of the system of mass surveillance. Second, we need to pay attention to legal conditions because (1) welfare legislation provides the basis of the introduction of a set of welfare programmes; (2) legislation itself declares the accountability of the state; (3) the legislation reflects both the political legislative intention of the system and effectiveness of administration as an empirical aspect as well as the changing patterns of social expenditure. Therefore it is also important to take account of the timing and contents of a set of legislative measures.

Further, beyond the logic of situation or perhaps as a part of it, an analysis of social movements is a necessary component in explaining institutional change. In addition to the collective entities such as states, governments, or markets, we should produce an analysis of political situations as well as of social movements. We need studies of these social institutions through which ideas may spread and captivate individuals, of the way in which new traditions may be created, and of the way in which traditions work and break down. The impact of social movements is likely to



structure socioeconomic conditions in part yet the reverse order may also be possible. This includes international relations and international pressures and constraints.

The third component of triangular formation is 'contextuality'. Policy changes at a certain time and space as a response to the existence of certain conditions. Political actors work with constraints and operate through the resources, tactics, or channels available to them. Institutional settings can be part of conditions that may affect policy makers' decisions (Scharpf, 1989). Yet, at the same time, whether they are consistent or inconsistent in complex situations may only become understandable in the context of institutional settings (Ashford, 1992:18). In other words, some variables are part of conditions and part of contexts. International economic constraints may condition domestic decision making. But how they condition it may only become understandable in the context of international political economy (see Chapter 5). Therefore, context is a 'conceptual device' to differentiate different rules of the game and 'methods' to compare these differences across time, space, organisations, and functions (Ashford, 1992:13).

Contextual statements are stipulations about realities in widely different situations. Given this, 'critical junctures' become an important variable (Pierson, 1993). In addition to 'normal periods', 'critical junctures' constitute history. Critical junctures are 'moments when substantial institutional change takes place thereby creating a 'branching point' from which historical development moves onto a new path' (Hall and Taylor, 1996:942; see also Collier and Collier, 1991:29). For example, Gourevitch (1986) focussed on three periods of economic crisis and compared responses from Britain, France, Germany, Sweden, and the United States. Therefore, critical junctures are the points at which crises occur. Krasner (1984:240) argues that 'new structures originate during periods of crisis'. Rapid change during periods of crisis followed by long period of consolidation and stasis is patterned as 'punctuated equilibrium'. This model of change further implies that a 'particular structural development reflecting marginal advantages at a particular point in time may constrain future evolutionary developments' (Krasner, 1984:243). Crises bring on abrupt institutional change because they present 'leaders with an opportunity to enact new plans and realise new ideas by embedding them in the institutions they establish' (Gorges, 2001:156). These crises can be 'domestic or international', 'class conflicts'



and the 'evolving complexity of routine social interactions' (Skowronek, 1982:10). Thelen (1999:399) argues that 'for in moments of crisis, the elements that previously held a system together come into full relief' (see also Gourevitch, 1986). We shall use these points of critical junctures in order to identify contextual variables that influence policy change.

### **1.5.3 Policy Outputs, Policy Structure, and Policy Implementation**

To a large extent, channels in which policy is formulated and implemented can be described as implementation structures, policy networks, policy communities, relational contracts, partisan mutual adjustment, coordination, or clans (Scharpf, 1993; Smith, 1993). The idea of these concepts was developed to provide a 'conceptual perspective from which to examine purposive action in those situations where such *parts* of public and private organizations cooperate in performing the different tasks involved in the implementation of a particular programme' (italics in original, Hanf and O'Toole, 1992:175). A series of analyses of this kind tend to focus on 'policy communities', and 'policy sub-system' both in examining the interactions of actors involved in policy formulation and in analysing the management of the structures through which policy is implemented<sup>19</sup>.

Nonetheless, while these studies pay a great deal of attention to the process of policy, they pay little attention to the actual policy structure and the substance of policy in which policy goals and intentions are embodied. O'Toole (1993:27) argues that policy implementation focuses on the 'connection between the expression of governmental intention and the achievement of action'. Poulantzas and Miliband (1972) also point out that institutional configurations of ideas are best seen in the form of state welfare arrangement. Through the institutional process, ideas become embodied in institutions. The institutional structure of social policy programmes can also encounter negative as well as positive effects (Walker and Wong, 1996:74). Titmuss (1976) argues that the particular infrastructure of social programmes wherein a set of services can be

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For network analysis, see Evans (1998, 2000); Hanf and O'Toole (1992); O'Toole (1993); Scharpf (1993). For implementation studies in general, see Hill (1993); Parsons (1995); for a series of classical arguments on top-down and bottom-up division in particular, see Elmore (1978); Hjerm (1982); Hogwood and Gunn (1984); Hudson (1989); Lipsky (1971, 1980); Pressman and Wildavsky (1984); Sabatier (1986).



implemented and developed is seen to be a more challenging task to resolve than the choice between universalist and selective services themselves. For this reason, the analysis of policy implementation requires a close examination of policy structures in which policy outputs are institutionalised.

The second box in Figure 1.1 illustrates policy outputs in which policies configured in box 1 are executed. According to Skocpol (1985:16), 'the implementation of state policies often leads to unintended as well as intended consequences, both when states attempt tasks they cannot complete and when the means they use produce unforeseen structural changes and sociopolitical reactions. Thus, the capacities of states to implement strategies and policies deserve close analysis in their own right'. By analysing the content of social programmes and the politics of implementing them, we may well be able to identify the relationship between intended and unintended consequences of state policies. In doing so, we shall question whether or not legally-mandated goals and objectives of the policy initiatives are put into place in the structure of social policy. We shall also question whether or not these goals and objectives are met at the level of implementation.

#### **1.5.4 Policy Outcomes and Policy Feedback**

In Figure 1.1, box 3 illustrates policy outcomes where the policy effects on citizens are subject to evaluation. Given this evaluation, the effects can become causes of policy change. In other words, policies, once enacted, restructure subsequent political process. Baldwin (1990:290) argues that 'once made, choices in social policy exerted a determining influence on the course of events later possible'. This importance of the policy feedback effects is made plain by Pierson, arguing that 'policies provide both incentives and resources that may facilitate or inhibit the formation or expansion of particular groups' (Pierson, 1993:599). Its significance is also clearly reflected by Skocpol (1992:58), arguing that 'we must make social policies the starting points as well as the end points of analysis: As politics creates policies, policies also remake politics'. She identifies that there are two major types of policy feedback. First, policies transform or expand the 'capacities of the state'. This is because the official efforts have made use of 'new or existing administrative arrangements' which in turn change 'administrative possibilities for official initiatives in the future and affect later prospects for policy



implementation'. Second, policies have feedback effects in that new policies affect the 'social identities, goals, and capabilities of groups' (Skocpol, 1992:58).

By examining the Swedish labour movement, Rothstein (1992) has also demonstrated that unions were given authority over unemployment funds by policy designs. These policy designs provided an important driving force to the development of powerful labour confederations. Policy feedbacks can be positive if a policy enhances 'the kinds of state capacities that can promote its future development, and especially if it stimulates groups and political alliances to defend the policy's continuation and expansion' (Skocpol, 1992:59). But at the same time, policy feedback effects can be negative. Skocpol (1992:59) cites the case of Civil War pensions in the United States:

'After initial legislative liberalizations...the Bureau of Pensions became one of the largest and most active agencies of the federal government... Yet at the same time, Civil War pensions set in motion reactions against future public social provision along similar lines. Because the very successes of Civil War pensions were so closely tied to the working of patronage democracy, these successes set the stage for negative feedbacks that profoundly affected the future direction of U.S. social provision. During the Progressive Era, the precedent of Civil War pensions was constantly invoked by many American elites as a reason for opposing or delaying any move toward more general old-age pensions.'

Through the analysis of policy feedback effects, we are able to analyse how policy outcomes at one time point make impacts on shaping the content and scope of consecutive reform efforts at another time point.

In sum, most variables discussed and developed in Figure 1.1 derive from the tradition of historical institutionalism. This is because these variables reflect the significance of historical-interpretative research on social policies. Through this model, it becomes possible to define and explore the policy process while becoming aware of the various interconnections between decision making points as authoritative rather than routine decisions by the political authorities; conditionality as conditions for action arising from both inside and outside the political system; contextuality as contexts in which both decisions and conditions operate; policy outputs as what the system does; and policy outcomes (or impacts) as consequences intended or unintended resulting from political action or inaction.



## 1.6 Conclusion

By underscoring the priority of contextual dimensions, the role of ideas in shaping social policy and the uncertainties that often condition choices for policy makers, this chapter seeks to ascertain the ‘possibility’ of social policy. The ‘possibility’ is that through the institutional process, images of welfare may become formed into a specific set of policy ideas. These ideas may in turn become aggregated, converted into proposals and put into effect. During this process, political values of social policy may or may not be brought out in the construction of the welfare state. The ‘possibility’ is also that welfare systems are the product of how political ideas have passed through the screen of political opportunity and political possibility at a given point in time. The translation of ideas in policy tends to have great influence on the contemporary formation of state welfare. Dynamics between early intentions of those promoting ideas of welfare and the actual behaviour are critical to understanding the development of social policy.

A great many schools of thought have provided answers to the questions of why welfare states emerge and develop yet historical institutionalism has developed particularly useful variables in the historical analysis of their development. By reviewing, modifying and rearranging these variables, we have developed a systematic model for the analysis of social policy process. We shall use this model as a framework for an analysis through the following four empirical chapters. In the next chapter, we shall examine how state policies for welfare were configured, modified and transformed during the pre-1987 period. By examining prevailing political legacies of the Korean nation-state formation, we shall identify why and how state welfare programmes were introduced and why some social issues failed to become the subject of policy initiatives.



## CHAPTER 2

### The Configuration of Social Policy: Motives, Intent, and Effect

#### 2.1 Introduction

In his analysis of the origins of welfare states, Ashford (1986a: 20) argues that ‘the early decisions became the precedents for solving later problems. Governmental capabilities, administrative organization and vested political interests were taking shape long before anyone imagined a welfare state’. Goldstein and Keohane (1993a: 21) further contend that ‘when ideas are powerfully institutionalized, we must both analyze the contemporary importance of old rules and socially embedded norms and undertake an archaeology of ideas in order to understand how one set of ideas rather than another came to be institutionalized’. In this chapter, we take these assertions seriously and address two overarching questions of why and how social policies were introduced and modified at a specific point in time rather than another, and of why some social issues failed to become the subject of policy initiatives while others did not. By providing answers to these questions, the aim of this chapter is to suggest that what conditions the initiation, innovation, development and reform of social policy initiatives is likely to be impinged upon what constitutes the political and historical constraints that may or may not allow Korea’s democratic formation to occur.

Given this, this chapter is organised into seven sections. The first three sections are formed on a chronological order, examining two subdivided periods that produced legacies prior to the nation state formation (1910–1947) and the foundation of the First to the Third Republic of Korea (1948–1961). In the next section, we examine three thematic issues that constituted the nature of authorities, followed by exploring the issue of how ideas were embedded in the strategy of welfare. By focussing on the role of epistemic communities, we then turn to conduct three case studies of the policy-making process from 1961 to 1979. In the final section, the point that Korean politics transformed is identified by focussing on the point of transition, crisis, and change in rules.



## **2.2 Modernisation or Exploitation?: The Legacy of Japanese Colonialism (1910-1945)**

In Korea, the system of state welfare has been levered into being by the values and ideologies of political philosophies. Under the feudal system of ancient societies founded either by the tradition of Buddhism or Confucian ideas, the principle of profit reciprocity, in which rich and poor benefit to varying degree, was one of the major goals of the agriculture-based economy of centralised feudalism<sup>1</sup>. Political ideology of Confucianism stressed the ruler's responsibility for the prosperity of society. Ideological beliefs underlying relief strategies lying behind Buddhist and Confucian traditions were humanitarianism, benevolence and mercy. If the Poor Law tradition of relief strategies in Western Europe was based on the principles of character deficiency, poverty under the Confucian tradition of feudal societies meant the failure of the sovereign. Therefore, relief-giving was to be via state welfare. To an extent, we are not comparing like for like in that the Poor Law tradition in industrial societies and Confucianism in pre-modern societies are contextually incompatible. Yet, the principled comparison is worthy of attention because a radical systematic change from Japanese colonialism has given rise to the ideological distortion of fundamental ideas of welfare in modern political philosophies. For this reason, it is fair to conclude that a distinctive difference of political philosophy between these two traditions is that a right to welfare

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Centralised feudalism refers to the absolute monarchy represented by the king without decentralisation of power. In simple understanding of the term feudalism, the definition inherited from Western experiences tends to pay attention to an often disputed relationship between a 'lord', paying allegiance to a 'king' in return for his granting of the former's status. Under the feudal system of the European context and even in Japan, it refers to a comprehensive social system which allows decentralisation of power including legislative and administrative capacity within a confined territory to landlords. By contrast, the pre-modern society of Korea constituted a dichotomous extremism between those who occupied the highest status positions and those in the lowest. The middle classes were of no significance or even of nonexistence. Both the highest and the lowest status positions were basically hereditary. On no account did local landowners have an exclusive degree of discretionary power. Although peasants were given the right to till the land, all property rights were eventually occupied by the supreme authority. Peasants cultivated the land simply to survive. Therefore cultivation was neither a way to accumulate their own properties nor a method to change their social status. The main difference between these two traditional political structures is articulated by Weber (1951) distinguishing two types of feudalism, one primarily based on fiefs, the other on prebends. Although Weber (1951:37) acknowledges that 'despite internal differences, there was a broad, external similarity between ancient Chinese and occidental feudalism', with Korea's cultural similarities with China, political feudalism was not primarily connected with landlordism in the occidental sense. Thus, there was no genuinely feudal period in Korean history contrasted to those cases in Europe in the Middle Ages and even Japan where political power was widely diffused among a class of nobles or warlords (see Fukuyama, 1996:132).



developed from the objection to the Poor Law principles by way of political conflict, whereas welfare rights under Confucianism were fundamentally based on the voluntary and humanitarian activities of rulers.

Comparatively and critically, a careful reconsideration is required for one of the generally received ideas that an absolute monarchy controlled the pre-modern society of Korea (The Chosun Kingdom, ruled by Yi Dynasty, 1392-1910). From the modern perspectives of state theory, the Korean state in the pre-modern society was less strong than it first appears. The state bureaucracy was in fact monopolised by a certain privileged class. On the one hand, loyal authorities and aristocrats were in conflict to win lands and peasants as fundamental resources of wealth. On the other hand, they were to achieve social prestige and dignity under the Confucian order of society. For those ruled, constraint and equilibrium between loyal authorities and aristocrats remained beneficial since they tended to construct the political coalition aiming at public well-being. Originally inaugurated by a military *coup d'état*, a loyal authority created a new style of non-military rule. From exogenous factors, the ideological and charismatic dignity of divine right had to a certain extent been confined even within the territory of Chosun for Chinese-centred East Asian imperialism. In short, we should remember that state compulsion in pre-modern societies was not as strong as was to be the case under the period of Japanese colonialism.

It was Japanese imperialism that eventually transformed the state into a powerful actor and established its systematic structure. At the end of the Chosun Kingdom (1392-1910), Korea failed to cope with exogenous pressures from world colonial development and was forcibly modernised by Japanese imperialism. As a late comer to modern imperialism, Japan was looking for places where its commercial and industrial profit could be secured. After the Sino-Japanese War of 1894-1895 and Russo-Japanese War of 1904-1905, Korea became a part of Japan's expanding market network in East Asia. At the outset, therefore, Korea was not the final destination for the expansion of Japanese colonialism. The colonial function of Korea was to provide resources for Japanese industry and to act as a strategic bridge for Japanese penetration into China. Consequently, the Japanese colonial state mobilised a highly oppressive state apparatus and at the same time created an administrative bureaucratic system which was integrated as an independent centralised machinery. Japanese colonial rule emphasised military and police forms of control and the exploitation of the peninsula



under strong state auspices. According to Cumings (1984b: 486), coercion is favoured when a political force lacks authority and legitimacy, and Japan was no different. The colonial governor-generals, posts only available to generals and admirals and personally appointed by the Japanese emperor, had absolute authority to control Korean military and civil affairs. The colonial governor-generals in Korea were granted extensive powers amongst other chief executive officials in the imperial domains of Japan. Hence, the bureaucratic structure in Korea was relatively independent of central Japan and was endowed with authoritarian wielding executive, legislative and judicial powers virtually without formal restraint (Kim, Han-Kyo, 1973:47).

Relief-giving strategies under Japanese imperialism provide a typical example of the idea that political purposes rather than ideological responses to welfare need can lie at the heart of the system in pursuit of loyalty by the use of state welfare. The basic structure of relief-giving under Japanese colonial rule was established as an expedient, short-sighted emergency treatment. The Japanese Poor Law established in 1929 was not introduced in Korea until 1944. The underlying rationale behind its introduction was rather strategic in the sense that there was an urgent necessity for conscription and labour requisition for military purposes. In short, as we shall see later in this chapter, policy developments embrace the legacy of Japanese colonialism.

Throughout the thirty-five years of Japanese colonial rule (1910 - 1945), Japanese imperialism had left two notable legacies of modernisation: (1) exploitation and (2) class stratification. These legacies are important because they became institutionalised into the Korean nation-state formation. To begin with, the usage of the term modernisation requires further elaboration. Although Japanese colonial rule had made some innovation in the field of transportation, banking and the rapid growth of heavy industry in northern Korea, industrialisation efforts were basically to enhance the Japanese domestic economy. The precise reason is that economic resources in Korea such as peasant lands and mineral resources were utilised by Japanese authorities in the form of systematic exploitation (Duss, 1984:163; Sohn, Hak-Kyu, 1989:11). On no account did the Japanese colonial state attempt to transform a Korean agriculture-based economy into an industry-based capitalist economy in a genuine sense. It was an act of exploitation.



Another legacy is class stratification. One of the first major Japanese projects in Korea was the land survey (1910-1919) (Kim, Han-Kyo, 1973:47). Also, it was a remarkable extension of the state's influence. As the most ambitious and important task, the Japanese colonial state undertook the land survey chiefly in order to extract revenues from agriculture. This was also to speed up the industrialisation of the domestic economy in Japan. The purpose of the survey was three-fold. First, it aimed to confirm and register titles. The second objective was to assess the value of land for tax purposes by nationalising land. This attempt eventually expanded the state assets to a large extent. And third, it aimed to prepare accurate topographical maps. In consequence, this step gave rise to a drastic change of class structure where vast lands had previously been attached to loyal authorities and aristocrats.

On the positive side, the land survey established the modern concept of land-ownership rights for the first time in Korea which had simply not developed previously. On the negative side, however, the survey deprived those who failed to claim their rights, thereby losing their economic foundation. This is partly because they were ignorant or suspicious of the new land law, and partly because they failed to produce relevant documentary evidence of their land ownership even though they had long tilled their land. Therefore, the land which the peasants failed to register became the domain of colonial government and was then purchased by Japanese public land companies such as the Oriental Development Company.

The growth of Japanese agricultural possession under colonial state protection promoted the economic foundation of Japanese immigrants and dismantled the traditional class structure in Korea. On the one hand, Korean peasants who had lost their traditional land rights were by and large forced to become the basis of a new industrial working class. On the other hand, aristocrats who remained in place where their land ownership had been intact and rather strengthened by law became the basis for a new capitalist class. This artificial breakage of societal structure had been undertaken in a short period of time which in turn resulted in a loss of the standing identity of long lasting cultural heritage. In short, the newly emerged working class in Korea was not a product of purely historical and cultural or even evolutionary influences, but one of Japanese legacies.

There were other distinctive characteristics of colonialism's legacy after Korea's industrial revolution began during the period 1935 to 1945. In addition to the emergence of a working



class, there were the uprooting of peasants from the land, widespread population mobility and urbanisation (Cumings, 1984b: 489). Most importantly, however, there is little doubt that liberation movements failed to generate a single indigenous leader or leadership legitimised by popular support. Further, an assortment of political aspirants existed. Their ideas, origins, and ambitions were so diverse that cooperation among them to establish a strong, unified, independent Korean state would never have been possible (Cumings, 1984b: 496). The liberation from the Japanese colonial rule had been in this sense brought about by the defeat of Japan in the Second World War. Subsequently, there was no indigenous organised authority to step into the breach when Japanese control was removed. The Korean peninsula again was occupied by the Soviet Union in the northern part and the United States in the southern part.

In sum, the thirty-five year occupation of Japanese colonial rule in Korea left distinctive legacies that became embedded in the contemporary institutional structure. The state became a powerful actor; modernisation was introduced but it created the concepts of exploitation and class stratification. How these legacies continued to be influential under the military government is the subject of the next section.

### **2.3 The American Military Government (1945-1948): Social Revolution Failed**

Skocpol (1979) argues that social revolutions have transformed state organisations, class structures and dominant ideologies. For example, those successful cases of French, Chinese, and Russian revolutions had turned states into centralised, bureaucratic and mass-incorporating nation-states with autonomous power. In Korea, however, failed social revolutions had also been accompanied by severe conflicts and revolts so that anti-revolutionary forces might succeed in reversing progressive tendencies. Social revolutionary movements after liberation required that the American military government should stabilise society. Inevitably, for this reason, there had to be the emergence of something more than turning back to the situation prior to the revolutionary period (1945-1948), a more strengthened state, an ideologically self-conceived form of regime against that of social revolution. As was the case of the systematic incorporation of those ruled such as urban labourers and peasants so as to consolidate the political order after social revolutions in France, China, and Russia, similar strategies had been adopted in the form of land reform, and the expansion of citizenship rights.



In the three years of an American military government, the formation of which was announced on 9 September 1945 and finished on 15 August 1948, social progress in Korea was by no means accomplished. Japanese colonial rule was superseded by the American military government. In comparison to the relatively fast and stable possession by the Soviet Union in the northern part of Korea, the strategic objective in the southern part of Korea was to provide the establishment of a non-socialist nation. Since the American military government had neither a long-term plan of projects nor military personnel well trained in civil administration, the existing bureaucracy and those who had worked for the Japanese colonial state were not replaced by a new system. The maintenance of the political machinery under Japanese colonial rule had been seriously challenged by Koreans and more importantly, the military government had a strong division between right- and left-wing. Throughout the period of Japanese imperialism in Korea, social revolution movements had been to a certain extent advanced and had been supported by a majority of the population. The left-wing political development during this period was also collectively responsible for civil society. On the other hand, a dominant class of those who had formerly been pro-Japanese politicians and landlords had nowhere to stand with the breakdown of the Japanese colonial state apparatus.

The modern form of the Korean state could have been completely different if there were no intervention of the American military occupation because the American military government explicitly supported the right-wing party (Korean Democratic Party, KDP). As we shall see in Chapter 3, Korean party politics has been dominated by this right-wing conservative tradition resulting from this early formation of a single-party system. Since majority members of the KDP were pro-Japanese landlords, the left-wing party had been supported by a majority of the population.

This state construction led by the military government created a certain type of political legacy. First, the form of the strong state was favoured by the American military government. Its structural orientation was obviously based on the properties of a military bureaucracy which were unilateral, bureaucratic and disciplinary (Huntington, 1957:64-65). The bureaucratic structure of the Japanese colonial state was modelled by the military government. Second, in order to pursue effective control over Korean society, a coercive state apparatus was reintroduced. The police force of Japanese imperialism was activated



and the Korean military authorities were created together with even greater centralisation. Third, more importantly, due partly to lack of planning, expert personnel, and administrative experience of the American military government, those Korean officials who had worked for the Japanese colonial state were appointed especially to senior posts. They could have been obliterated in the past, if the left-wing movement had taken political power. Under the new political environment, they created a typical pattern of politicised bureaucracy.

In the three years of the American military government, relief-giving was passive, and dependent upon national and international non-governmental organisations. Compared with the active support of the American military government in Japan, there was no sufficient relief-giving strategy based on a long-term plan in Korea. In fact, state welfare was virtually impossible due to lack of national resources, almost complete dependency on foreign aid, and excess expenditure on military. The relief-giving strategy<sup>2</sup> during this period of time rendered the social protection system largely reliant upon unstructured religion-based charity activities.

In sum, the foundation of the Republic of Korea on 15 August 1948 began on the basis of legacies of the American military government and even those of the Japanese colonial state. Just as liberation from Japanese colonial rule was not achieved by the independent power of Korea, so the Korean nation state was established through the leading role of the American military government.

#### **2.4 The Nation-State Formation to the Foundation of the Third Republic (1948-1961)**

By monopolising all coercive means, the First Republic of Korea (1948-1960) under the strong and autocratic rule of President Syngman Rhee, was regarded as a coalition of conservative elements grafted onto the bureaucratic and police apparatus of the Japanese

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Two administrative ministries (the Ministry of Health and Welfare, and the Ministry of Labour) under the American military government were amalgamated into the Ministry of Social Affairs in 1948. The health administration under the Ministry of Social Affairs was shared by the Ministry of Health, established in 1949. Both of which later on were incorporated into the Ministry of Health and Social Affairs (MoHSA) in 1955. The continuity of passive relief-giving strategies had, by and large, remained intact. Only specialised welfare benefits were introduced such as the Military Relief Act of 1950, the Police Relief Act of 1951, and the Civil Servant Pension Act of 1960 for those who were privileged in terms of close connection to the state such as military personnel, police and civil servants.



regime. This authoritarian nature of the new Republic of Korea had been determined by a number of characters: (1) a direct consequence of the American military government's concern to establish a new political order responsive to US regional interests; (2) the coalition effectively excluded any participation by the left; (3) the conditions created by the Rhee government (Sohn, Hak-Kyu, 1989:15).

Prior to the nation-state formation (1945-1948), there appeared states of political vacuum to which a situation of 'low accumulation' and 'low concentration of coercion' leads to (Tilly 1992:19). This political vacuum gave rise to coercive means being widely dispersed amongst various political groups. It is clearly evidenced by a number of political conflicts between the right and the left in order to formulate the nation state in their own monopolistic way. All the left-wing power was removed by the right under Syngman Rhee's leadership. This was possible because of an exogenous military and police force supported by the American military government, inheriting the bureaucratic machinery created by the Japanese. As the first president of the Republic of Korea, with the support of the American military government, Syngman Rhee was then able to exclude even those in the KDP. In other words, Syngman Rhee removed all the left and right-wing power. For him, party politics should be avoided and the state power should be centred upon the president. Tilly (1992:19) states that:

'coercion includes all concerted application, threatened or actual, of action that commonly causes loss or damage to the persons or possessions of individuals or groups who are aware of both the action and the potential damage'.

According to Tilly, states are produced when the accumulation and concentration of coercive means grow together. The state in this context means a distinct organisation that controls the chief concentrated means of coercion within well-defined territories, and exercises priority in some respects over all other organisations operating within those territories. Similarly, Skocpol and Amenta (1986:131) centrally locate the concept of 'coercion' within the definition of the state and argue that 'states are organizations that extract resources through taxation and attempt to extend coercive control and political authority over particular territories and the people residing within them'.

In ideological terms, Syngman Rhee was able to manipulate anti-Communist feelings that had evolved from the United States' anti-Communist policy on a Cold War footing as a tool



for securing his regime's legitimacy and for intimidating or eliminating his opponents. To this end, the National Security Act enacted in 1948 under the First Republic, was used as a major device for facilitating control of opposition groups. Under the rule of the American military government, this anti-Communism was firmly settled by the KDP-centred right-wing tradition against left-wing power. The fear of communist subversion provided Rhee's regime with an endless excuse to deploy coercive forces. The proclamation of martial law in 1952 was a typical case. With the 'hegemonic ideology' of being anti-Communist, Rhee's government not only conducted a brutal coercion and suppression policy against opponents but also extracted human and material resources from society without national consensus. This anti-Communism was a major hegemonic mechanism to suppress pro-democracy movements through the 1960s to 1970s (for 'hegemony', see Gramsci, 1971; Hall, 1984; Schmitter, 1988; Spicker, 1988).

Together with the creation of the strong state and leadership with the anti-communist hegemonic ideology, the First Republic also stimulated land reform in the early 1950s and expanded the citizen's rights incorporating those ruled into the political sphere<sup>3</sup>. The land reform had a significant impact on the class structure. The idea of land reform was originally based on the partial articulation under the American military government and on the political and constitutional promises in the process of the nation state formation. Before the General Election on 10 May 1948, the American military government was threatened by the possibility of socialist revolution. The probability of reunification had already faded away. Society was extremely unstable and mass famine was widespread. In this situation, populist support was desperately required by the American military government to operate the election itself and to assist the US supported political leadership to win. In 1948, in addition to the military government decree on 5 October 1945 which reduced the high rent charged for land, all land formerly held by the Oriental Development Company was forced to be redistributed to peasants who had rented it. The military government also created the modern concept of civil society by expanding political rights introducing adult universal suffrage in 1947.

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Regardless of the political intention and administered distortion, the First Republic initially espoused liberal democracy, provided political freedom to opposition parties and freedom of expression to the press.



In sum, the land reform of 1950 gave the government a strategic advantage to promote political legitimacy on the one hand and weaken the KDP, many of whose members were landlords, on the other. It eventually undermined the economic base of the ruling class and by redistributing resources to peasants, the revolutionary radicalism of peasants could be weakened. Obviously, the land reform was not favoured by the first National Assembly (NA) since again the vast majority of the members were landlords. The underlying principle behind it was 'confiscation with compensation, distribution with a price' which was put into effect on 10 March 1950. This principle was subsequently in operation even during the three year period of the Korean War (1950-1953). There were two reasons: first because of the urgent necessity for military supplies; and second because of the strong appeal of the principle of 'confiscation without compensation, distribution without a price' proposed by the North Korean government.

After the Korean War, anti-communism became a hegemonic ideology. By the late 1950s, the left-wing forces had entirely vanished, so did the partisan guerrillas and the Progressive Party. There had been no competitive political leadership against the Rhee government. Traditional ruling classes had already lost their economic base. A new capitalist class emerging from the land reform had relied heavily on state support. The working class and peasants had been turned into pro-government groups. Meanwhile, the military and the police became even stronger than ever before throughout the 1950s.

However, the coercive measures exercised by Rhee's government had resulted in a legitimization crisis. The coercive violence which culminated in the police firing on the students during the 'April 19 Student Revolution of 1960' in which almost 200 demonstrators were killed, led directly to the regime's collapse. Nonetheless, this revolutionary student movement merely terminated corrupted anti-democratic dictatorship, and failed to change the nature of the state. Since a set of land reforms had created a vacuum in the class structure and considerable state autonomy, students in high educational institutions, in increasing numbers, were the only groups with accumulated power in civil society (Oh, Byung-Hun, 1975). They were not exclusively connected with the working class and peasants. Further, just like the socialist movement after liberation from Japan had failed due to anti-socialist exogenous forces, so the April Revolution did not enjoy long lasting success because of a military *coup d'état* on 16 May 1961.



On the fall of Syngman Rhee, the Second Republic<sup>4</sup> was established on 12 August 1960 and experienced perhaps the only experiment with democratic life in Korean history at least before the establishment of the Sixth Republic (1988-1993). However, the experiment under the Democratic Party failed to achieve social stability and economic progress. It also failed to address the problems bequeathed by the old regime which was that a 'purge of bureaucrats and police [had] undercut the apparatus essential to the maintenance of social order in the face of the challenge from the left' (Sohn, Hak-Kyu, 1989:18).

On 16 May 1961, a military *coup d'état* under the guidance of Major General Park Chung-Hee illegally terminated the Second Republic merely nine months after its initiation. Huntington (1968:223) has termed this a 'veto coup' whereby a veto was exercised against rising leftist groups which the military thought threatened national security and its ideological basis, anti-communism. The military was able to exercise this veto for the Korean War had stimulated rapid military expansion and enhanced its self-perception as the sole agent capable of modernising Korean society (Sohn, Hak-Kyu, 1989:19). The first and the last parliamentary democracy therefore was replaced by an even stronger presidential system on the basis of a nationwide referendum on 19 December 1962 after a two-year control by military junta (see Appendix 2). The military government of Park Chung-Hee from 1961 to 1963 was then transformed into a semi-civilian regime in the period 1963 to 1979<sup>5</sup>.

Park Chung-Hee, a former Japanese army officer in Manchuria, was elected as the first President of the Third Republic in October 1963 and re-elected three more times in 1967, 1971 and 1972. His third term in office was allowed by a Constitutional amendment in 1971 while the indefinite tenure of an individual in the Presidential office was granted by the promulgation of extensive Constitutional changes in 1972. A state of martial law was

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The Second Republic was the government of Chang Myon, the Prime Minister (1960-1961). The President in this period was Yun Bo-son. A cabinet system was substituted for the previous presidential system which still remains the first and the last of its kind in the history of Korea.

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Cotton (1992:512) subdivides the entire period of 1961 to 1979 into three periods: (1) military regime of 1961 to 1963; (2) quasi-competitive political system of 1963 to 1972; and (3) dictatorial system of 1972 to 1979.



declared on 17 October 1972 which subsequently abolished the representative National Assembly for the time being. Wright (1975:50) nonetheless notes that:

‘[T]he nation has been politically regressive from a democratic political perspective, but has accomplished in a short time a solid material and economic base for national progress which likely could not have been done on strictly democratic terms’.

The foundation of the Third Republic of Korea (1961-1979) depended, under the Democratic Republican Party, upon the mechanisms put in place by the military government. The government under the control of the Park regime was often named as an even stronger state in that it conquered the assertive and resistant civilian society by the use of military power, and extracted societal resources with the absence of procedural formation of national agreement. The President could exercise extremely broad power. A state of emergency or martial law could be proclaimed. And all powers of government could be assumed by the President without significant restrictions from either the Prime Minister or the State Council and the Executive Ministries (Wright, 1975:51).

In sum, the failure of revolutionary movements in Korea has shown the similar outcomes of successive social revolutions in that the state-led economic growth strategy of the post-revolutionary period was based on the nature of an even more strengthened state. A new sociopolitical order formulated by the American military government required almost a decade to achieve political consolidation and ideological legitimation. The nature of the state largely determined by exogenous factors continued to remain and even grow from the 1960s under the military government. Again, the economic growth strategy outlined by the Third Republic was based on the idea that anti-constitutional seizure of political power could be legitimated by economic development. The comparative superiority of the capitalist economic system in South Korea was also required by the United States because of a clear tension between East and West. How did these previous legacies become institutionalised into practice? Instead of analysing this process on an exclusively chronological order, we shall look at three thematic issues: state autonomy; state capacity; and legitimacy deficit in order to answer this question.



## 2.5 The Nature of Authorities (1961-1971)

In Korea, state autonomy<sup>6</sup> and state capacity experienced a dramatic increase as the military force was manipulated as a major mechanism for the state to control society. Rueshemeyer and Evans (1985:44-47) argue that the growth of state autonomy and state capacity promotes the effectiveness of state intervention in economic growth. In consequence, the state is placed in an absolute and unbalanced position vis-à-vis society (Barkey and Parikh, 1991:525). However, neither state autonomy nor capacity could be achieved by a single military *coup d'état*. They had rather been accompanied by the legacies of the past.

Haggard and Moon (1990) argue that the relatively strong nature of the state without any persistent activity of the working class and peasants strengthened the degree of state autonomy in terms of available resources of social groups together with political structure. The underlying condition of this was that the proportion of the working class was very low, and peasants had become domiciled since the land reform. The rudimentary power of a new capitalist class allowed considerable state autonomy. As seen previously, the American military government and the right force after liberation from the Japanese colonial rule effectively removed the left and the nationalist party. In addition, the downfall of the land owning classes by the land reform gave rise to the removal of strong opposition power within society. The capitalist and the working classes failed to grow large enough to make an effort against state supremacy. This was mainly because of weak capitalist industrialisation, the absence of domestic capital, and almost total reliance on foreign aid for the purpose of relief and military assistance. Most of all, as a result of the Korean War, the ever stronger perceptions of communist threat were recognised as the ideology of 'national security'. This gave legitimised coercive power with almost unlimited resources to the state elite against any political opposition (Choi, Jang-Jip, 1989:199).

Whenever a *coup d'état* brings military officers to power, the existing constitution is typically scrapped and government based on the exercise of what Lasswell and Kaplan call

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State autonomy may have three types of meanings. First, it refers to 'situations in which state actors translate their preferences into authoritative action despite divergent societal preferences'. Second, it refers to 'situations in which state action changes divergent societal preference to convergent ones'. Third, it refers to 'situations in which there is non-divergence between the preferences of the state and the society' (Krasner, 1984:231; see also Nordlinger, 1981: Ch.3 - Ch.5). In this thesis, we adopt the combined use of the first and second type of state autonomy, unless indicated otherwise.



'naked power' ensues (cited in Riggs, 1993:199). The military *coup d'état* violated the democratic principles based on the legitimising formula of constitution. This democratic deficiency engenders a threat of political challenge, and therefore Park was desperate to legitimise his violation of the democratic principles. As Offe (1984:268) points out, 'the legitimacy of a regime or government depends upon the justifiability of its institutional arrangements and political outcomes'. For this reason, the Park government adopted a strategy of export-oriented industrialisation which would appropriately be able to harmonise state intervention and market mechanisms in order to solidify the political system and obtain political legitimacy. This strategy was inevitably shaped by labour-intensive industrialisation and export-oriented growth by assembly manufacture, both of which were heavily based on cheap labour because of lack of resources and capital (Deyo, 1987a, 1987b; Haggard and Cheng, 1987; Koo, 1987). To this end, the effective control of the working class as well as of political opposition forces was an essential precondition. By accomplishing successful industrialisation, the legitimacy deficit might be resolved.

A confronting military situation between South and North Korea was effectively manipulated to perform coercive state power as evidenced in a series of laws and amendments<sup>7</sup>. The exercise of this state power was subsequently justified by rapid industrialisation which marked average 10 per cent of economic growth from the Third through to the Fifth Republic (1963-1988) based on strong authoritarian regimes<sup>8</sup> (Appendix 2; EPB, 1990). This industrialisation within a short period of time has caused a new concept of class structure under capitalism. Unlike the case of a market-based economy, industrialisation in Korea has been exclusively based on the mechanisms of state intervention. In this sense, the state is required to legitimise its activities because state intervention has resulted in unequal distribution of wealth (Rueschemeyer and Evans, 1985:69). Where and when it fails, there is a possibility for those ruled to organise collective political actions. The supremacy of the dominant group might be achieved by force in some contexts but in others by its power to persuade the population of its legitimacy (Polanyi,

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For example, the Anti-Communist Law (1961), the Law concerning Assembly and Demonstration (1962, amended in 1972), and the Law of Special Measures for the Security of the Nation (1971).

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According to Lee (1990:5), however, 'neither an authoritarian basis nor a democratic basis has been firmly rooted in Korean society. It is somewhere in the twilight zone'.



1944). In the two years of military junta (1961-1963), Park Chung-Hee had set in force revolutionary goals of economic prosperity and those of national security from leftist elements. The modernised concept of a rank-based power hierarchy of officers first emerged under the military leadership in 1961 (Choi, Jang-Jip, 1987:313).

The expansion of state capacity in general and that of the president in particular was represented by the creation of two superpower agencies. The first was the Korean Central Intelligence Agency (KCIA) which aimed to eliminate leftist elements. The second agency was the Economic Planning Board (EPB) for the construction of a national economy. These two institutions were elaborate and powerful state machines. The KCIA was not accountable to the National Assembly for its activity but controlled only by the president (Kwon, Huck-Ju, 1999a: 38). The EPB was given full responsibility for planning and coordination of economic development as well as budgeting, coordination of foreign aid activities and attracting foreign investment. The head of the EPB was the third ranking official in the executive branch as vice-premier and his economic decision-making power lies right under the aegis of the president (Choi, Jang-Jip, 1987:319). As we shall see later in this chapter, as one of the influential social policy making institutions established in 1971, the Korean Development Institute (KDI), was basically designed to develop the national economic strategy (mainly the nation's Third, Fourth, and Fifth Five-Year Economic Development Plans) under the guidance of the EPB.

The military government of 1961 to 1963 had shifted towards greater emphasis on economic strength and expansion in the general goal orientations of the ruling elite. The rationale behind this shift was that economic advancement and development were seen by the ruling elite as the fundamental means of improving the polity. With the creation of a multiplicity of agencies and the launch of the First Five-Year Economic Development Plan (1962-1966), the major emphasis of the bureaucracy shifted from a control and coordination focus to a goal-attainment function (Hahn, Bae-Ho, 1975:309-311). The overarching decision-making structure of the military government was highly centralised, heavily concentrated in a relatively small and confined terrain. Consequently, the decision excluded the interests of the majority of the population both in the process of arriving at a major political decision and in implementation. The autonomy of the ruling elite was almost absolute in the decision-making realm and only the interests of the government were delivered by the KCIA



and EPB. The centralisation of power determines the operational mode of the state bureaucracy concerned with the effectiveness of delivery of the decisions made at the top. For this reason, social policy decision-making was exclusive and confined to top decision-makers' interests. As we shall see in the process of social programmes later in this chapter, they undermined the welfare-centred policy ideas and modernisation efforts in favour of their political purposes such as labour stabilisation and political legitimacy.

Before the military government transferred power to an elected government, there had been a set of policy initiatives that concerned whether the nature of the Supreme Council for National Reconstruction (SCNR)<sup>9</sup> would change. One of the many broken promises of the military government was to return to barracks when the 'Revolutionary Pledge' had been completed. Concerning this issue, there was a certain internal division between the ruling elite of the military government. This division had regard to whether to return to their original position or to participate in the political arena. This division might have originated from their lack of political legitimacy or from their relatively modernised or Westernised character largely obtained by the systematic continuity of military training since 1951 and the dispatch training of military personnel to the US. The first option was favoured generally by administrative military personnel and the second option was mainly supported by those in a line of military command (i.e. the chief members of the military revolution).

In October 1972, Park Chung-Hee proclaimed the 'Yushin' constitution. This revitalising reform of regime enabled the presidency of Park to continue for another decade. In fact, this constitutional amendment perpetuated by President Park himself gave him the privilege to stay in office for life by denying the possibility for the opposition to be in power. Park had already amended the constitution to stay in power for a third term in 1969. He increasingly favoured the depoliticised patterns of politics which eventually generated one-man despotism. He believed that democratic institutions such as political parties were by no means effective and efficient; and that they only endangered social and political order. Consequently he did not allow the then premier (Chong Il-Gwon, 1964-1970) to exercise any significant political role. He even excluded his own party (Democratic Republican Party,

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The SCNR was formed by Park Chung-Hee at the time of the military *coup d'état* for the purpose of providing supervision to the revolutionary work.



DRP) and one of the significant figures of the military *coup d'état* and the creation of the KCIA and the DRP (Kim, Chong-Pil).

The near defeat of the presidential election on 27 April 1971 had proved that dictatorial leadership excused by national security and economic development was not supported by the electorate. Rather the electorate advocated relatively progressive political programmes presented by the opposition candidate, Kim Dae-Jung under the New Democratic Party (NDP). His political programmes were derived from the welfare-oriented revised capitalism or mixed economy paying a great deal of attention to equality in distribution and high productivity (Sohn, Hak-Kyu, 1989:Ch.2). Nonetheless, partly because of Park's near defeat, in spite of the intervention of the police and the bureaucracy in the elections, and partly because there was no systematic opposition from the working class and socialists, the 'Yushin' constitution was engendered and formed as a semi-fascist regime.

In sum, during the 1960s there was marked expansion in state autonomy and state capacity. The rules of the game were set up by military power. By promoting rapid industrialisation, the principle of economic supremacy was settled during this period. A small number of political actors made highly strategic choices in order to justify their intrinsic legitimacy deficit. These overarching rules of the game were strengthened by the constitutional violation.

Under these institutional rules of the game, the political rhetoric given by the SCNR had shifted from resolution of mass poverty in 1961 towards the construction of social welfare and the promotion of the living standard based on assistance and insurance in 1962. The basic policy directions were furthered in 1963 to enhance the construction of social welfare by eliminating the elements of social instability such as poverty, illness, unemployment and overpopulation. Also, social justice became one of the policy directions. However, the state's commitment to welfare was politically strategic and remained rhetorical. According to Choi (1998:53), almost twenty welfare bills were enacted before Park became President in December 1963 compared to only four during the period of 1964 to 1971. Also, many of them failed to take effect due to the absence of either an Enforcement Ordinance or detailed enforcement regulations. For this reason, it seems fair to conclude that a set of welfare bills introduced in the early 1960s reflect the clear intention of the military government to stay in



power. In order to identify the social policy implications under these rules, the state's strategy of welfare towards the poor is the subject of the next section.

## **2.6 The Strategy of Welfare: Raising the Standard or Stigmatising the Vulnerable?**

On 23 December 1972, Park Chung-Hee was re-elected as the president by a new institution specified by the 'Yushin' constitution, the National Conference for Unification. The election was almost unanimous since Park had already been given even stronger monopolistic power to dissolve the National Assembly and empowered to appoint one third of the National Assembly members. As the military *coup d'état* of 1961 was justified by himself as an industrial revolution along with national security in Korea, the emergence of the Yushin system was justified as a necessary measure to deal with the state of national emergency.

Nonetheless, there was little doubt that the Park government suffered from a lack of political legitimacy. Social policies in this line of understanding are often viewed as the best mechanism to achieve the goals of legitimacy and to control society. However, the introduction of welfare programmes and the expansion of social policy require essential financial support from the state. The prevailing economic conditions did not allow those in power, particularly President Park, to take risks since their ultimate measure to overcome deficiency of democratic rule was heavily reliant upon economic development. At the outset, social policy would hamper economic policy and could endanger the role of family and self-help. Hence, although a set of social welfare programmes were introduced in the period, they were by no means systematic and comprehensive. As Titmuss (1987c: 204) argues, 'social policy has been seen as an *ad hoc* appendage to economic growth, the provision of benefits, not the formulation of rights'. Social policy, if necessary, had to be subordinate to economic policy and should enhance the economic performance of the state.

A clear example is the Public Livelihood Protection Act which was enacted for the deserving poor in 1961. In conceptualising the poor, the English Poor Law provides the first clue to understanding the disciplinary configuration of the programme. The English Poor Law of 1601 classified the poor into a tripartite division: the impotent poor such as the aged and the sick who were accommodated in 'poor-houses' or 'almshouses'; the able-bodied poor such as the unemployed in the modern terminology, who were to be provided with work in a



'workhouse'; and the persistent idlers who were to be punished in a 'house of correction' (Fraser, 1984:33; Pinker, 1971:Ch.2). The New Poor Law of 1834 in England implicitly drew a distinction between the deserving and the undeserving poor. The former is distinguished from the latter in that the former would work but could not, whereas the latter could work but would not. That is, the distinction is drawn between the genuinely unemployed and the idler (Fraser, 1984:32). The important point however is that the second category of the poor has always been considered as an undeserving poor. This close connection between the unemployed and the undeserving poor is a product of a dominant ideology which has been the individualistic explanation of the culture of 'blaming victims' (Ditch, 1991:38).

It is well known that the English Poor Laws were central weapons built up by the state to maintain the incentive to work which inevitably mould perceptions of poverty (Novak, 1988:31). The classification of the poor and the notion of 'less-eligibility' in the new Poor Law of 1834 provide the similar philosophy to the principle of poor-relief in Korea. Pierson (1991:104) argues that countries that have exclusively been guided by the strong government embrace the mercantilists' view of the state. This mercantilists' view see the state as to 'have an active role to play in the promotion of national prosperity and a responsibility for the labouring poor, as the principal source of this national wealth' (Pierson, 1991:104). Korea seems to be the case for this.

In a similar vein to public assistance, the Disaster Relief Act (1962) provided the legal basis of temporary aid for those damaged by various accidents. The Law of Temporary Measures for Self-Support Guidance Activity was enacted in 1968 in the light of supporting living costs for those unemployed and poor but able to work. The support was provided in the form of offering simple labour activities such as reclamation, embankment, irrigation and the readjustment of fields aiming at self-support of the poor. Given this, there is little doubt that the underlying theme of these two laws was to combine the concept of 'assistance' and 'labour' thereby promoting the 'commodification'<sup>10</sup> of labour'.

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Commodification can be understood by the definition of 'de-commodification'. Esping-Andersen (1990:37) defines it as 'the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation'. This de-commodification can also be understood in conformity with a concept of 'de-proletarianization'. The terms 'commodification' and



As a central principle or philosophy of Korean capitalist development, the commodification of labour was to ignore the rights of social citizenship and was even to strengthen the salience of class. This connection between 'labour' and 'relief' was particularly well presented in the 'keeping benefits low' principle, so that anyone who can work should work.

This could also be seen as a mode of social control. This social control mode of social policy is explored by many scholars<sup>11</sup> but particularly defined by Offe as 'the state's manner of effecting the lasting transformation of non-wage-labourers into wage-labourers'. This linkage also led the poor to 'active proletarianization' through wage-labour by preventing them from 'escape routes' such as organised forms of plunder and begging (Offe, 1984:92-93). In other words, the relief activity was not merely operated with a view to stabilisation of livelihood and social security for those who were poor. The authoritarian government pursued it towards export-led growth by linking these ideas. The primary objective was therefore to mitigate and prevent social instability, and to provide the minimum welfare benefit, on the context of state plan for economic growth.

The labouring poor were seen as the principal source of national wealth. This idea was organised by the state to control and repress them as clearly seen in the underlying theme of the English Poor Law. Given this, the Public Livelihood Protection Act was composed of three important elements to operate the market-based liberal capitalist mechanism. First, it focussed on the self-reliance of beneficiaries and constituted the principle of self-support. Second, it was based on selectivism. And third, it provided public assistance which required that the principle of 'less eligibility' be applied to those seeking relief: the support they were given should be less than that available through work. As the Poor Law performed to prevent the paupers from causing disturbance and to force them to labour in order to accelerate capitalist development (Fraser, 1984), on no account was the idea of relief derived from positive images of welfare. Esping-Andersen (1990:24) also argues that:

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'de-commodification' were first used by Polanyi (1944), and subsequently by Offe (1972, 1984) and Esping-Andersen (1990, 1999).

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For example, see Higgins (1978, 1980); Piven and Cloward (1971); Squires (1990); Taylor-Gooby and Dale (1981); Janowitz (1975, 1976).



‘[T]he poor-relief tradition, and its contemporary means-tested social-assistance offshoot, was conspicuously designed for purposes of stratification. By punishing and stigmatising recipients, it promotes social dualisms’.

In sum, the relief-giving strategy in Korea was viewed in many ways as an institutionalised apparatus to accelerate capitalist development by the ‘commodification of labour’ being provided by the cheap labour of the poor. In other words, the concern of this law was primarily with the maintenance of public order and the management of the labour market rather than the well-being of the poor (Ginsburg, 1979; Mandel, 1975).

Despite these criticisms, the coercive and disciplinary nature of poor-relief had to a certain extent strategic advantage because it created ideological stigma not to live on welfare. Poverty was largely understood in terms of individual rather than structural accounts. Since the overall economy was very poor, recording only 87 US dollars per capita GNP in current prices and a 2.2 per cent rate of real economic growth in 1962 (BoK, 2000; EPB, 1990: 5; see also Figure 4.2 in Chapter 4), the resources available to the Public Assistance Programme were extremely limited. Thus, the state accomplished only the minimum relief performance for those in dire need. This poor performance of state welfare continued from the Third through to the Fifth Republic. This continuity of poor performance of state welfare was possible since the living standard of the citizens was very low. In other words, poverty in absolute terms was widespread throughout the country.

Table 2.1 Incidence of Poverty

Incidence of Poverty (%)	<u>Absolute Poverty</u> <sup>1</sup>					<u>Relative Poverty</u> <sup>2</sup>				
	1965	1970	1976	1980	1988 <sup>3</sup>	1965	1970	1976	1980	1988 <sup>3</sup>
Urban Households	54.9	16.2	18.1	10.4	9.3	17.9	7.0	16.0	15.1	10.3
Rural Households	35.8	27.9	11.7	9.0	9.8	10.0	3.4	9.2	11.2	11.4
All Households	40.9	23.4	14.8	9.8	9.5	12.1	4.8	12.4	13.3	10.7

Notes: 1. Absolute poverty line defined as 121,000 won (1981 prices) a month for a five-person household; 2. Relative poverty line defined as one-third of average household income; 3. Absolute poverty line and relative poverty line defined as 290,000 won at current prices a month for a four-person household, and one-half of average household income, respectively.

Sources: Koh, Il-Dong (1990); Suh, Sang-Mok (1985).



As Table 2.1 clearly shows, nearly half of the population was in absolute poverty in 1965 (Table 2.1; Choo, Hakchung *et al.*, 1996:89; Suh, Sang-Mok, 1979; Suh, Sang-Mok and Yeon, Ha-Cheong, 1986). Under this condition, industrialisation efforts could provide the opportunity of employment without any form of welfare provisions. First, it was strongly believed that the only way to eliminate poverty was to improve the economic standard for all (i.e. the trickle-down effect, see Galbraith, 1992). Second, the authoritarian government could lead industrialisation guaranteed by an almost infinite supply of cheap labour. For instance, the population in the agricultural sector was 63 per cent of the whole population in 1963. Most agricultural workers in rural areas were small scale independent farmers resulting from the land reforms from the end of 1940s to 1950s. They were the main resources that were able to provide the cheap labour force. Without any effective mechanisms to relieve societal disorder, the nation experienced rapid economic growth as evidenced by the fact that the per capita GNP in 1953 was 67 US dollars but 2,041 US dollars by the year of 1983 (NSO, 1998b: 304). Therefore, the Third Republic had policies that were consistent with an anti-welfare strategy for the poor and the working class. These policies aimed to pursue effective industrialisation on the basis of a low wage economy. The government's anti-poverty measure was nothing more than an artificial measure which had failed to capture those in great need. In fact, though the poverty threshold had annually been readjusted by increasing the individual monthly income, neither benefit levels nor the total number of those receiving benefits had changed for the first 10 years since 1965 (Appendix 6; MoHSA, 1981:192).

In sum, the strategy of welfare was largely drawn from the principle of economic growth. But we should remember that this strategy was not simply deployed by political intentions alone. Socioeconomic conditions were also important factors that allowed decision-makers to move on to this end. In general, the strategy of welfare was not primarily concerned with raising the standard for all, but by stigmatising the vulnerable able to record rapid economic growth.

Prevailing legacies behind the formation of the nation state are influential in shaping social policy in modern state development. The strategy of welfare has been selected in examining political values of social policy. These analyses enabled us to explore the ways in which ideas have been embedded in the configuration of social policy. Nonetheless, the questions



addressed in the introduction of this chapter are yet to be satisfactorily answered. Why and how were social policy introduced and modified? And why did some social issues fail to become the subject of policy initiatives. In answer to these questions, it is necessary to conduct a more specific analysis of welfare programmes by identifying the origins of the ideas, the ways in which these ideas filtered through institutional structures, and the reasons why a particular set of ideas rather than others were institutionalised. Given this, the policies designed by policy experts during the period of 1961 to 1979 are the subject that we now turn to.

## **2.7 The Making of Social Policy (1961-1979): Who Decides What for Whom?**

Under the authoritarian rules of the game, the overarching strategy of social policy making relied heavily upon the interests of those in power. Consequently, the role of policy experts had been confined within a small circle of the political arena. Although what has appeared in practice was very different from what was initially proposed, it is still worthwhile paying critical attention to the original ideas and their policy initiatives. This is because comparing motives, intent and effect allows us to analyse why some issues have failed or have been successfully realised in political arena. This is also because examining ideas allows us to explain choices, especially those made under conditions of uncertainty and within margins set by material constraints (Hall, 1989a, 1989b, 1993; Jacobsen, 1995; Yee, 1996). These conditions of uncertainty are often resolved by the role of an epistemic community. And equally, the 'influence of an epistemic community "depends on the level of uncertainty" in a political realm' (Jacobsen, 1995:303). This idea-centric approach enables us to connect political elites, policy experts, institutions and the public realm.

Many studies have already confirmed that the role of policy experts has contributed to the formation or reform of social policy in different countries (e.g. Desai, 1994; Easterbrook, 1986; Skocpol, 1992). For Korea, Sohn (1981, 1983) and Kwon (1999a) share the view that the institutional configuration of a set of welfare programmes at the crossroads between political and economic interests had been possible largely because of the significant efforts made by policy expert groups with relatively advanced welfare minds (see also Adler and Haas, 1992; Le Grand, 1997; Haas, 1992; Jacobsen, 1995). There is little doubt that there was limited influence by policy experts in shaping social policy in Korea. Yet, this was not because their ideas and roles were insignificant but because these were confined to a given



institutional structure. The political infiltration of an epistemic community into governing institutions can be an influential force in forming social policy, thereby its contribution deserves critical attention. In the first two parts of this section, we shall examine the role of two of the most influential think tanks in ideational terms at the early stage of social policy making in Korea. Then, we shall analyse how the role of these think tanks become marginalised or enhanced through the interaction between ideas, prevailing conditions and final decisions in the case of national health insurance.

### **2.7.1 The Role of the Committee for Social Security: Idealistic Ideas in Framing Social Security**

The overarching structure of social security had initially been constructed by those in the Committee for Social Security (CSS). Originally initiated by the government of the Second Republic at the National Conference on the General Economic Plan in December 1960 (Choi, Chon-Song, 1991:13-14), the creation of the CSS could have contributed to the rather progressive, yet somewhat idealistic framework of social welfare programmes in Korea. The CSS, as a founding research committee of social welfare programmes, was initially a voluntary study group of eight participants, sharing common interests in the possibility of the health insurance system which, they believed, could later contribute to the future institutionalisation of social welfare programmes (Sohn, Chun-Kyu, 1981:19, 1983:62).

One of the study group members (Choi, Chon-Song) proposed the establishment of the CSS as a middle range research institute for the introduction of social security in 1960. The study group also manifested itself as a social security movement by way of lobbying in order to maintain finances. The initiation of the establishment of the CSS in 1960 was postponed however due to the military *coup d'état* of 1961. Nonetheless, there had been a certain degree of continuity towards the idea of establishing the CSS. The idea was reintroduced by the chairman of the Health and Social Affairs Committee in the Supreme Council for National Reconstruction. By Cabinet Decree 469, the CSS finally took its official shape under the Ministry of Health and Social Affairs (MoHSA) on 20 March 1962 (Choi, Chon-Song, 1991:19-25; Sohn, Chun-Kyu, 1981:34; see also footnote 2 in this chapter).

Until 28 July 1962 when the chairman of the SCNR, Park Chung-Hee, requested the cabinet to introduce the social security system, the CSS had remained an advisory committee for the



MoHSA. The members of the CSS were those who had initially been members of the voluntary study group for the introduction of a health insurance system, and those who were entrusted and appointed by the Minister of Health and Social Affairs. In short, the CSS was a small ideological expert group whose specialised knowledge on social welfare programmes had been acquired by their own voluntary commitment.

Prior to the 1963 presidential election, the CSS became an official government committee. The CSS was also asked to design the pilot welfare programmes most suitable to the case of Korea amongst many social insurance programmes that would benefit industrial workers and include the entire population (Choi, Chon-Song, 1991:36,42). The underlying principle behind its foremost initiation was to design social insurance programmes that should be relatively undemanding to implement and that should enhance the development of the national economy (Sohn, Chun-Kyu, 1981:36). Therefore, the four sections of the research division (social security, labour, health insurance, and public assistance and social welfare) within the CSS initiated three founding pieces of welfare legislation in 1963 in order to configure the overarching structure of social policy in Korea. Their progressive mind was evidenced by the fact that they had already recognised the necessity of the introduction of legal bases on the implementation of social security system even before they were asked to design social insurance programmes. These three pieces of legislation are the subject that we now turn to.

Enacted on 5 November 1963 (Law, no. 01437), the founding legal basis of the two tier structure of social security was initiated by the CSS. Social security was for the first time legally defined as 'a set of benefits from social insurance and non-contributory benefits from public assistance' (Article 2) which shares the characteristics of the Beveridgean paradigm of social security. Clause 1, Art. 3 of the Act clarified the government's responsibility for social security such that the government could allow local authorities and public corporations to implement the work in part. In which case, also, the expenses were to be defrayed by the National Treasury (Clause 4, Art.3). Though the CSS became the official government committee under the Minister of Health and Social Affairs by the Act (Clause 1, Art.4), its advisory role remained as it had been (Clause 2, Art.4). In other words, the CSS failed to become an executive committee (where authority is given to make a decision).



Compared to the final Act, the original draft proposed by those at the CSS constituted a somewhat progressive framework of social security. During the process of consultation at the 107<sup>th</sup> standing committee of the SCNR, the role of the CSS became reduced to be rather passive. For example, the 'minister of health and social affairs' rather than the 'government' should 'consult' with the CSS on the occasion that the social security planning was formulated rather than the CSS being allowed to 'investigate and deliberate' related matters (Clause 2, Art.4). The 'vice-minister' rather than the 'minister' became the head of the CSS (Clause 2, Art.5) and the members of the CSS were reduced from 'fifteen' to 'eleven' (Clause 1, Art.5). Further, the originally proposed eleven benefit categories failed to appear in the Act (SCNR, 1963; Sohn, Chun-Kyu, 1981:40-49, 1983:94). All of which clearly indicate that the CSS would remain as an advisory committee, not being allowed to be an influential committee at the point of decision making.

This overall backwardness had been to a great extent heavily influenced by the prevailing social and economic conditions that might have not given a wide range of choices to the SCNR. Once established, a set of welfare legislation may provide potential challenges to those in power. This may be in contradiction with the idea that the introduction of welfare legislation can be an attractive mechanism in legitimacy gaining. This is precisely why underlying ideas, motives, and intentions behind welfare legislation are greatly important and this is why principled ideas become metamorphosed through institutional structure. In short, the instruments of social policy originated not from those in power but from a small group of researchers failing to convey their intended motives. The continuity of limited availability of financial resources and greater policy priority to economic progress on the basis largely of nominal and pragmatic political reasons did not allow a more ideal shape of social security to emerge.

In contrast, the original draft of industrial accident insurance designed by the Labour Section of the CSS became the Industrial Accident Compensation Insurance Act with less severe amendments (MoL, 1997b: 17). Comparatively, industrial accident insurance or workmen's compensation insurance is often perceived to be the 'least radical break with liberalism' where the old idea of liability for individually caused damages lies amongst sickness, old age and unemployment. It however still functions as the 'principle of automatic compensation for the loss of earnings through work injuries' (Flora and Alber, 1981:51).



The Act introduced compulsory insurance against industrial accidents for workers with implementation due on 1 July 1964. Industrial accidents however had not previously been at the centre of public debates. During the period of the 'April 19 Student Revolution' of 1960 to the May 16 military *coup d'état* of 1961, the overarching agenda for approximately 1,840 street demonstrations involving the total number of 960,000 ordinary citizens was to resolve the problem of unemployment. This subsequently led the then ruling Liberal Party (Appendix 2) to make a commitment to implementing unemployment insurance, health insurance and other social security programmes as part of their election pledge for the general election in 1960 (MoL, 1997b: 14). In other words, while unemployment insurance had long been supported by the public, industrial accidents had not been subject to either a public or a political discussion (MoL, 1997b: 17-18).

Industrial accident insurance, having failed to become a social problem, had to a greater extent been a product of the state pre-emptive mechanisms underlying social welfare before 1963 (for social problems, see Manning, 1985a, 1985b). Prior to industrial accident insurance of 1964, the Decree of Chosun Mines (1915) had offered miners assistance for industrial accidents under the Japanese colonial rule. Industrial accidents compensation from 1948 to 1953 had been made payable in the form of earnings-related compensation to those incapacitated as a result of an injury sustained at particular types of work (MoL, 1997b: 13). Their legal bases were three rights of labour declared, yet to be legalised in a written form<sup>12</sup>, by the Constitution of 17 July 1948 (Art.17 and Art.18). Industrial accident compensations were subject to a collective agreement between employers and enterprise-specific trade unions. For this reason, industrial accident compensations had marginalised those in small and medium scale businesses (FKTU, 1979: 391-392; MoL, 1997b: 9). Further, the Labour Standard Act, enacted during the Korean War (1950-1953) on 8 May 1953 (Law no. 0280), had already established the principle of 'employer liability' whereby an individual employer is responsible for industrial accidents at work. However, the principle of employer liability was impractical in practice. This is because although small and medium scale businesses as well as large scale businesses were subject, 'employer liability' was conditional upon

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In other words, the Trade Union Act that allowed three rights of labour was enacted on 8 March 1953 as a law no.0280. Three rights of labour were unionisation, collective bargaining and collective action.



employers' discretionary power that would not compensate more than their financial capacity allowed (MoL, 1997b: 18; Sohn, Chun-Kyu, 1981:54, 1983:100).

Industrial accident insurance was therefore given a priority over unemployment insurance. This was not because there had been exclusive plans or increasing social demands (Sohn, Chun-Kyu, 1983:97). Nor was this because there had been considerations on priority setting and service delivery. But this was because the Labour Standard Act of 1953 had already provided an overarching framework that could relatively easily be rearranged by turning the underlying principle (i.e. employer liability) into compulsory insurance (Choi, Chun-Song, 1991:36-37). The First Five-Year Economic Development Plan (1962-1966) had also necessarily been taken into account as an overarching paradigm of economic policy. The reasons can be summarised in three ways. First, it was more likely to generate the major shift in industrial structure (see Table 3.4 in Chapter 3). Second, it would in turn increase the total number of industrial workers out of the entire economically active population. And third, the overall rate of industrial accidents might rise as a result (MoL, 1997b: 27; Sohn, Chun-Kyu, 1981:35-55). Therefore, both functions of social control and social integration of social policy had been embodied in industrial accident insurance. As a function of social control, it would be more practical in order to maintain the 'reserve army of labour'. As a function of social integration, those who would experience industrial accidents might need more financial and medical support than those able-bodied unemployed.

The original scope of the coverage designed by the Labour Section of the CSS had been slightly modified from workplaces with more than 100 employees to those with over 500 workers. Yet, the compulsory principle remained intact as it had initially been proposed. During the entire process of legislation, interest groups including trade unions and employers' organisations had made no significant interventions (Sohn, Chun-Kyu, 1983:107). The key actors that were able to get the Bill through the SCNR were not the political elites or academics but mainly those in the CSS, the then Minister of Health and Social Affairs, and a member at the Social Affairs Section of the SCNR. They were ideologically and philosophically bound up in social welfare (Sohn, Chun-Kyu, 1983:79,101). In other words, they were the figures to make an initial contribution to the making of social policy by persuading officials working within a highly rigid institutional



structure (i.e. SCNR) where all judicial and executive functions were carried out (Wright, 1975:53).

The only identifiable pressure group activity appeared when a private insurance company endorsed the idea that industrial accident insurance should be run by private insurance companies. The idea itself had been around within the MoHSA and other related ministries. It had then become one of the main questions raised by the discussion held at the SCNR (MoL, 1997b: 21; SCNR, 1963:108; Sohn, Chun-Kyu, 1983:103). Yet, two practical reasons had been called into question against the idea of the central fund operating body being a private insurance company. A government department (MoHSA) had been favoured over private organisations by those who designed the scheme. First, it would be the first social security programme ever and would require coordination with industrial accident safety measures, the legal basis of which had been given by the Disaster Relief Act of 1962. Second, the overall framework of the scheme had already been outlined with the idea of the MoHSA being a central operating body, in which the Ministry of Labour (MoL) has taken over the task since its establishment in 1981 (MoL, 1990a: 411; see also Chapter 4). Hence, the change of a central operating body at the last moment of legislation would lead to a prolonged delay of the scheme being given life (MoL, 1997b: 22). In principle terms, in addition, more fundamental problems might rise if the scheme was run by a private insurance company. The primary reason is that there would be the potential danger of occupational schemes' capital accumulation and the investment power wielded by private insurance companies (Titmuss, 1962:Ch.7, 1974:Ch.7, 1976:Ch.15, 1987b).

In sum, as the pre-Beveridgean paradigm of British social security had evolved in piecemeal fashion during the first four decades of the 20<sup>th</sup> century (Berthoud and Brown, 1981:134), so had the social security system in Korea during the early 1960s. By the introduction of industrial accident insurance, the impracticality of the existing paradigm became more realistic. The Act had brought about the imposition of insurance, the entire cost of which was to be financed solely by contributions from employers in conformity with the government subsidies on the administrative cost for the first two years of 1964 and 1965. Industrial accident compensations were therefore available as of right in return for contributions. In addition to the two pieces of welfare legislation, the CSS initiated the health insurance act to which we now turn to.



As we have seen, the CSS was asked to design social welfare programmes that would benefit industrial workers and the entire population. Industrial accident insurance has therefore come to life as a social insurance scheme that would benefit industrial workers, while health insurance had been considered to be another social insurance programme that would encompass the entire population (Choi, Chon-Song, 1991:36,42). In order for the Health Care Section of the CSS to design the draft bill for health insurance, the first health survey, with a sample of 500 households, was conducted in Seoul from October to November 1962. The research findings pinpointed the necessity of the universal health care programme. Those in greatest need of health care had failed to use hospitals due largely to the costs and had also required long-term care because of the nature of their sickness (Choi, Chon-Song, 1991:60-91; Sohn, Chun-Kyu, 1983:110-111; for the three ideal-type health programmes, see Immergut, 1992a, 1992b).

Unless being universal and compulsory at least in principle, social insurance can neither be redistributive nor risk-pooling (Baldwin, 1990: 47-54; Titmuss, 1976: Ch.15). Despite a certain distributional effect between different risk categories permeated within the principle of social insurance, there always exist excluded groups who are inclined to be trapped in a marginal area of poverty (Baldwin, 1990). This is particularly the case in so far as the scheme is contingent upon contributions determined by the level of income within the confined area of industrial sectors. The larger the group, the higher the chances to meet the needs required by the funds pooled. The financial viability becomes much higher when affiliation is compulsory. That is, voluntary affiliation leads to 'adverse selection' (Ron, Abel-Smith, and Tamburi, 1990:3-34).

The problem is that a universal provision also brings costs (Spicker, 1988:123). The concentration on the lower income groups had not even been brought up in the first draft proposal. Only workplaces with over 500 employees were embraced instead. More importantly, the original proposal was revised to delete the compulsory principle of participation during its reading in the SCNR. The Health Insurance Act, enacted on 16 December 1963 (Law no. 01623), had eventually therefore failed to apply to those in great need. And it had merely allowed the voluntary participation of employees' in workplaces with more than 300 employees (Clause 1, Art. 8; Choi, Chon-Song, 1991:112; SCNR, 1963; Sohn, Chun-Kyu, 1981:67, 1983:115).



A primary decision taken by those in the SCNR against a compulsory and universal approach was to a certain extent a logical conclusion. In order to set up the programme, compulsory health insurance was more likely to impose a financial burden on both businesses, responsible for the half of insurance contributions, and the government, liable for administrative costs. The CSS had been given very limited time to construct the bill before the military government became transformed to a semi-civilian government. Conditional possibilities had also been heavily underestimated. Hence, the Health Insurance Act had remained almost intact until compulsory elements became principal parts in August 1977. A member of the CSS who had been one of the key experts participating in the policy process recollected that:

‘...the legalisation process of health insurance had been one of recklessness...neither had socio-economic conditions been thoroughly taken on board, nor had there been any demands from social groups. There had also not been consideration for any highly strategic means to achieve social policy objectives’ (Choi, Chon-Song, 1991:109).

Health insurance had failed to come to life. Only minor enactments and amendments of the Enforcement Ordinance were made in 1964 and 1969, with health insurance under the voluntary principle being in operation in the experimental form for the time being (see also Chapter 4).

In sum, Kwon (1999a: 52-60) argues that those in the CSS were idealists. Their idealistic approach failed to attract those in the top decision-making echelons, especially, the president. Kwon’s explanation was that the argument of the CSS for social development was not attractive to those who ‘pursued the politics of legitimation through economic performance. In other words, the policy paradigms of the experts and the decision makers were different’ (Kwon, Huck-Ju, 1999a: 60). Notwithstanding, the prevailing ideas and policy initiatives throughout the 1960s should not simply be seen as a linear strategic manoeuvre against the legitimacy deficit. The initiation of a set of welfare programmes might have given it logical pertinence. Their metamorphosis and subsequent implementation failure might also have endorsed a quintessential idea that economic growth should not be impeded by social policy. Yet, the refusal of welfare policy initiatives did not arise from the changes to their underlying ideas but was derived from the rigidity of institutional structure that limited the flow of the ideas. In fact, the Minister of Health and Social Affairs as one of the key actors in the making of social policy in the 1960s remained in office longer than



anyone else since its establishment in 1948<sup>13</sup>. The motives and intent might have been predominantly engaged with legitimacy gaining but their effects failed to impart any logical validity. Positive welfare that could reflect images of an altruistic and egalitarian quality often seen in humanitarian collectivism had to linger around until the institutional rigidity became relaxed. In contrast to the CSS, we now move on to another think tank that has been pragmatic in the making of social policy in Korea.

### **2.7.2 The Role of the Korea Development Institute: Pragmatic Ideas in the Making of National Pensions**

In contrast to the emerging ideas of welfare in the 1960s, credit for which should be given to those in the CSS, the role of the CSS became increasingly marginalised within the even more rigid institutional structure of the 1970s. Historically, there have been nine constitutional amendments since 1948, seven of which, however, have been attained either under a state of constitutional discontinuance or by coercive measures<sup>14</sup>. Two of the well-known examples have been the constitutional violation of 1971, followed by the subsequent declaration of martial law on 17 October 1972 and that of 1980 under the Fifth Republic. On the one hand, the constitutional governance had been severely undermined; on the other hand, an economic supremacy doctrine had become more empowered by marked progress in the national economy. Since its first initiation of Five-Year Economic Development Plans in 1962, the average annual rate of economic growth until 1972 was 9.24 per cent. Per capita GNP rose from 87 US dollars in 1962 to 319 US dollars in 1972, representing a 366.67 per cent increase over the same ten-year period (EPB, 1990: 5). Those involved in economic policy had taken credit. The distance between what the state felt could be spent on welfare and what was economically feasible had grown. There had been no sign of interrelatedness between social policy and economic policy. Social policy had come second to economic policy by an even larger margin (see Boulding, 1973; Piachaud, 1989).

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The Minister, Chung, Hee-Sup, remained in office from 15 April 1966 to 21 October 1969 (42 months), while the average tenure of ministers from August 1948 to May 1999 was only about 15.25 months.

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Except for the one of 1960 that changed a presidential system to a cabinet system and the other of 1987 after the June democratic struggle (see Chapter 3).



However, the rate of economic growth in 1972 was the lowest (5.1 per cent) during the period of 1963 to 1979, while the average annual rate of economic growth was 9.28 per cent in the same period (EPB, 1990: 5). A grounding rationale behind a strategic shift from export-led industrialisation based on import-substitution to heavy and chemical industry in the 1970s had to a large extent ensued from this macro-economic indicator (see Chapter 5). Having been considered since the Second Five-Year Economic Development Plan (1967-1971), the Korea Development Institute (KDI) was established in March 1971 under this condition. By its establishment, social development, embarking on national investment in a social sector, exclusively became part of economic policy earmarked by a change of discourse where the existing framework of a Five-Year Economic Development Plan turned into a Five-Year *Socio-Economic* Development Plan from its fourth activation (1977-1981).

The political intentions underlying the introduction of welfare legislation during the 1970s (see Appendix 1) had been embodied by the KDI, the origin of which came from Park himself in order to enhance economic plans for industrialisation. As part of social development, the establishment of the KDI in 1971 and its involvement in social policy making from 1972 generated the idea that social policy could function not to hamper economic development but to reinforce the balanced development of society and economy. Contrary to those in the CSS, researchers in the KDI had a relatively pragmatic welfare mind designing and setting up social welfare programmes. Those in the KDI were however less concerned with the very idea of welfare. They were pragmatic in the sense that social policy could be compatible with economic policy by way of designing social welfare programmes within the given economic policy paradigm.

The KDI is a government subsidised think tank and might deserve to take credit as one of the most influential research institutes in framing social policy in Korea. The main reason was that the KDI managed to change the top decision makers' perception of social policy by bringing up the idea of its possible compatibility (Kwon, Huck-Ju, 1999a: 60). However, the central role of the KDI has largely remained concerned with economic policy, not social policy. The question could arise therefore when considering whether they made a contribution to the adequate and sustainable configuration of social policy. A former researcher of the KDI points out that:



'I do not think that the KDI have made a marked contribution to the field of social policy. At that time, the KDI carried out what they were asked as a proxy institute because there was no competent research institute for social policy. Their role has always been centred upon economic policy. Their temporary substitute role might have had a meaning to the extent that the government had them involved in designing social welfare programmes. To a certain extent, for example, it might be of help to design a rather generous scheme at an initial stage. Yet, it was obvious that financial instability could result from a generous earmarking higher benefit rates than their correspondent contribution rates, originally proposed by the KDI. On no account was the National Pension Programme designed appropriately' (Interview with Kwon, Soonwon, 31 July 2000, Seoul).

The principle of economic supremacy over social policy continued through and is particularly well illustrated by the process of national pensions making in which the KDI played a key role. In order to understand this process, two circumstantial possibilities of conspiracy should be taken on board within the underlying paradigm of motives and intent behind national pensions. First, the mobilisation of domestic capital became one of the significant tasks to resolve after the shift of grand economic growth strategy that required a substantial amount of national resources. Its genuine motives had therefore been called into question whether national pensions had been designed to be a means to an accumulation of domestic capital (DDN, 26 September 1973; HDN-a, 21 September 1973; NPC, 1998a: 77-88; Sohn, Chun-Kyu, 1983:134). Second, the result of the Seventh Presidential Election held on 27 April 1971 was not promising enough to give the President confidence for the coming ninth general election of 27 February 1973. There might be two sound reasons for this. To begin with, he had nearly been defeated by the opposition candidate, Kim Dae-Jung, at the Fifth Election of 15 October 1963 (NEC, 1996b: 10,11). Furthermore, his Democratic Republican Party (DRP) only gained 109.89 per cent votes of the leading opposition party at the Eighth General Election held on 25 May 1971. It was the narrowest margin since Park's first term in office for the DRP had obtained 166.38 and 154.60 per cent votes of the leading opposition party at the Sixth and Seventh General Election respectively (NEC, 1992:142). In addition, the Ninth General Election was to be the first political evaluation after the constitutional violation which had obviously sent Park on a search for a distinguished election strategy.

Both the CSS under the jurisdiction of the MoHSA and the KDI under the EPB had been involved in the design of national pensions. Yet, their official engagement with it began only when the joint-departmental working committee was appointed by the then Vice-Prime Minister on 31 January 1973. This appointment aimed to prepare a draft legislative package



that could become duly effective on 1 January 1974. However, the role of the CSS had already been marginalised. Instead, the KDI had been playing a leading role. Its entrance was formally requested by the President on 30 November 1972 when the President of the KDI, Kim Mahn-Je, met Park Chung-Hee to discuss the potential of national pensions (Park, Chong-Kee, 1975:56,104-105).

The President publicly proclaimed the possible enactment of a national pension programme at the New Year's conference on 12 January 1973 (Choi, Chun-Song, 1991:131; Lee, Hye-Kyung, 1999:27; Park, Chong-Kee, 1975:104). It became an Act on 24 December 1973 (Law no. 02655). The first two tentative drafts produced both by the MoHSA and the KDI had shared their contents in general items, yet had shown substantial differences in critical elements. First and foremost, the rate of fund accumulation for the first year estimated by the KDI was over six times higher than that estimated by the MoHSA. Second, in order for the KDI to fulfil the strategic purpose of national pensions, those in low income and in relatively unstable businesses failed to become included, whilst the draft proposed by the MoHSA comprised the entire population aged between 20 and 60. Third, in order to divert pension funds, the KDI proposed that the contribution should be levied by the National Tax Service (NTS, established in 1966). However, the Bureau of Welfare Pensions under the MoHSA should be established in order for the fund to be more responsive to welfare needs according to the draft made by the MoHSA (Chun, Nam-Jin, 1981:13-14; NPC, 1998a: 62-72).

On 7 December 1973, a finalised government bill appeared closer to that of the KDI both in the scope of coverage and in the fund operation. The bill had already gone through three critical stages of strictly hierarchical decision-making; first at the Economic Ministers' Conference (EMC) with all the economic ministers present (the deputy prime minister who was also the Minister of the EPB chaired this Conference); second at the Cabinet (State) Council with all ministers in attendance; and then third, at the president's desk for signature. Throughout this procedure, the president exercised the most significant power of ratification (Chung, Chung-Kil, 1989:269). The subsequent decision taken by the National Assembly on 1 December 1973 allowed it to go through with no critical correction added (NAO, 1973a, 1973b, 1973c, 1973d).



According to the National Welfare Pension Act (Law no. 02655), the national pension programme would be financed solely through the contributions of employers and employees, without subsidy from the general revenues of the government (Clause 7, Art.3; Clause 2, Art.7). The underlying rationale for this was to encourage cooperative responsibilities for both groups and to make clear that national pensions were not a state assistance programme. In addition, those covered were relatively better-off (Park, Chong-Kee, 1975:69-70). One of the founding members of the KDI who had been involved in the designing of the national pension programme demonstrates that:

‘In examining the role of national welfare pension program in income redistribution, we have to keep in mind that the redistribution of income between different income groups is not the only or even the primary objective of the NWP [National Welfare Pension] program’ (Park, Chong-Kee, 1975:90).

‘...the NWP system builds up and maintains reserves and is thus a source of savings. The accumulation of substantial reserve funds in excess of current requirements for benefit payments would enable Korea to use its NWP system as a means of increasing savings in the economy’ (Park, Chong-Kee, 1975:80).

In sum, the role of the CSS had begun to be marginalised through the process of national pensions making. Yet, its existence had remained until its research functions were transferred to the Korea Institute for Population and Health (KIPH)<sup>15</sup>. All in all, the presidential decision-making power had once again been substantially superior to research experts or government ministries throughout the policy-making process. Though the executive power, dominated by career bureaucrats, was highly influential in designing state-centred policies, the decisionary power had been exclusively concentrated on the president (Chung, Chung-Kil, 1989). In fact, the national pension programme failed to be carried into effect. On 22 December 1973, only two days before its implementation, President Park suddenly made a decision to postpone it. This was largely because the oil crisis of 1973 could have devalued potential accumulated funds. Again, the very idea of welfare being beneficial to all failed to come to life. The key point to be remembered here is that Presidential power was supreme but even this Presidential power was also conditioned by an economic crisis. How did the role of these think tanks change? And what underpinning

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The KIPH was established on 1 July 1981 (Law no.03417) and renamed as the Korea Institute for Health and Social Affairs (KIHSA) on 30 December 1989 (Law no. 04181).



conditions emerged in the process of compulsory health insurance making? These are the questions that we now turn to answer.

### **2.7.3 Making Health Insurance Compulsory: Ideas, Conditions, and Final Decisions**

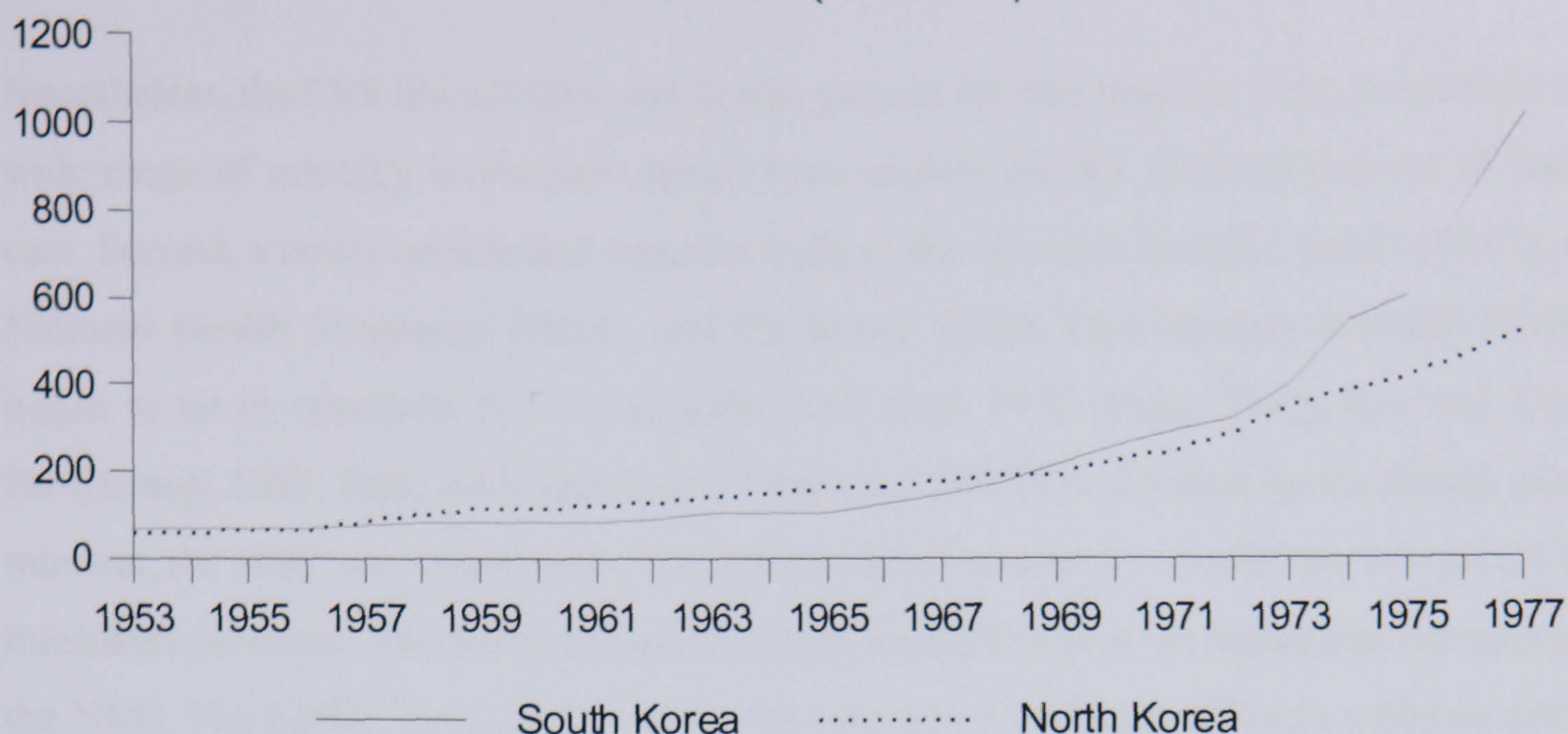
Since 1963, those in the CSS had made a great effort to put the principle of compulsory health insurance into effect within a series of experimental projects (see Chapter 4). However, its first amendment on 7 August 1970 (Law no.02228) did not come to life due to the absence of a presidential decree, a legal requirement for any law to be put into effect (Sohn, Chun-Kyu, 1983:137). Lack of financial resources was one of the major reasons that had caused its failure, and even the previous failure in 1963. It was the field of national defence that most of the national budget was allocated to. Despite the unusual rate of economic growth, a bilateral defence burden-sharing agreement with the United States took up 6 per cent of GNP which resulted in over 30 per cent of the national budget being spent on national defence (Son, Annette Hye Kyung, 1998:20).

There had been a number of conditions that might have enabled compulsory health insurance to be introduced. First, the financial rigidity had eased off as a five-year health sector loan agreement was signed between the government of Korea and the United States Agency for International Development in September 1975 (Ron, Abel-Smith, and Tamburi, 1990:145). Second, the post-period of the Joint Communiqué of 4 July 1972 between South and North Korea enabled both to start off the South-North dialogue that had eventually led to a comparison between their living conditions. In fact, a universal coverage of health care service had already been in operation in North Korea since 1972 and this had been taken full advantage of as a political propaganda by the North (Joo, Jaehyun, 1999a: 397). Further, as Figure 2.1 clearly shows, per capita gross national product in North Korea had been slightly higher than that of South Korea during the period of 1955 to 1968. For instance, it recorded the maximum difference of 57 US dollars in 1965 (see also Figure 4.2 in Chapter 4). Third, a substantially higher rate of medical practitioners per person in North Korea legitimised the criticism that the accessibility to health services in South Korea was very limited as a result of capitalist development (NSO, 1998b: 340).



Figure 2.1 Per Capita GNP 1953-1977 (Unit: US dollars)

Source : NSO (1998b:304)



In South Korea, although the incidence of labour disputes had remained modest, there had been a continuity of sporadic opposition movements (MoL, 1981:370). In this sense, compulsory health insurance could generate the idea of solidarity wherein social integration could be achieved by 'cross-subsidisation from individuals with higher resources to those who can contribute less and from those with a lower incidence of illness to those who require care more frequently' (Ron, Abel-Smith, and Tamburi, 1990:3). Further, those of the CSS had argued that the idea of social welfare would be able to substantiate the social basis behind the concept of 'national security' against communism (Sohn, Chun-Kyu, 1983:142; for a hegemonic function of the intellectuals, see Desai, 1994; Gramsci, 1971).

At the New Year's Press Conference on 15 January 1976, the President made official the possibility of health insurance being duly implemented as a core part of social development within the Fourth Five-Year Socio-Economic Development Plan (1977-1981) (HDN-a, 16 January 1976). The then chief presidential secretary said that President Park had already determined to implement a health insurance programme and then appointed an economist, Shin Hyun-Hwak, to be a Minister of Health and Social Affairs as a germane (pertinent) figure to the task (Kim, Joung-Ryum, 1990:308-309). Shin Hyun-Hwak has in fact been not only the most powerful minister of health and welfare but also the person having been in office for the second longest tenure (9 December 1975 - 22 December 1978). The original source of the idea evolved from those in the CSS while the overarching policy-making



process had been carried out by the executives. By the Minister of Health and Social Affairs being entrusted by the President, the MoHSA had been able to take a leading role.

Nonetheless, the CSS did not take part in this process for two reasons. First, executives at a wide range of ministry levels had already been responsible for different aspects of health care. Second, a newly established tripartite body of the National Health Council (NHC), the National Health Secretariat (NHS), and the Korea Health Development Institute (KHDI) began to be in operation at a community level from 1976 (Park, Chong-Kee and Yeon, Ha-Cheong, 1981; Ron, Abel-Smith, and Tamburi, 1990:147). Chaired by the deputy prime minister, the NHC was established at the cabinet level in order to co-ordinate the roles of the ministries involved. The NHS was set up within the KDI to provide inputs and resources to the NHC. The KHDI<sup>16</sup> was also created to develop low-cost health delivery schemes and to evaluate the project by the NHS (Law no. 02857; Park, Chong-Kee and Yeon, Ha-Cheong 1981:157; Ron, Abel-Smith, and Tamburi, 1990:147).

Despite this tripartite structure, the Bureau of Welfare Pensions (BoWP)<sup>17</sup> was given the responsibility for the preparation of the reform bill (MoHW, 1998b: 527-528). The draft bill designed by the BoWP was challenged by the EPB and the Professional Evaluation Unit (PEU). These challenges could not be ignored because the EPB was the most powerful ministry in the government and the PEU was a group of scholars who had carried out evaluations of five-year economic development plans from the mid-1960s to the 1980s (Chung, Chung-Kil, 1989:277; see also Chapter 3). The then Minister of Health and Social Affairs said that:

‘At that time, I thought that it would be really difficult for the [MoHSA] to pass the proposal of the mandatory [health] insurance scheme through a Cabinet Council, for no ministry supported the [MoHSA] ... I had no option but to ask the President to call a meeting of the departments concerned. So a meeting presided over by the President was held at the Presidential Mansion. Every Minister except me opposed it ... Despite these negative responses from other departments, President Park finally decided to do it. The [health] insurance would not have been achieved without the President's determination and

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Merging with Korea Institute for Family Planning (KIFP) which was established on 1 July 1971 (Law no. 02270), the KHDI became the KIPH on 1 July 1981 (Law no. 03471).

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The BoWP was established on 4 January 1974 (Presidential Decree no.7015) and later became the Bureau of Social Insurance (BoSI) on 12 March 1977 in the MoHSA (Presidential Decree no. 8486; MoHW, 1998b: 527-528).



commitment to it' (Shin, Hyun-Hwak, requoted from Joo, Jaehyun, (1999a: 392) with modifications of terminologies in square brackets).

Because of this Presidential power, the draft bill designed by the BoWP had gone through the ministerial conflicts with no serious challenges involved. However, it had not developed far beyond its original proposal drafted by the CSS in 1963. First, welfare programmes in the 1960s and the 1970s were in general modelled on those of other industrialised countries, particularly Japan for example (see Choi, Chon-Song, 1991; Joo, Jaehyun, 1999a: 393; Sohn, Chun-Kyu, 1983). Second, prevailing political considerations behind its initiation had not allowed it to take the time required for development. The empirical lessons largely learned from the experience of a series of experimental projects (1965-1977) had by and large been ignored in guiding the directions of health insurance (Choi, Chon-Song, 1991:114-129).

In making health insurance compulsory, interest group politics had first appeared to be influential. For example, the Korean Medical Association (KMA), a doctors' association, had their voice heard during its process (Sohn, Chun-Kyu 1981:86-98, 1983:128-150; see also Ham, 1992). Yet, unlike the cases of France, Sweden, and Switzerland<sup>18</sup>, institutional rules did not allow any organised interests or the National Assembly to exercise veto points, thereby bypassing most the potential resistance. The President's determination and his subsequent actions were the key determinant within a distinct logic of decision making that set up the agenda and made health insurance compulsory (see also Chapter 3 and Chapter 4).

In sum, throughout this section have we examined the micro-politics of individual pieces of legislation in the making of social policy under the authoritarian rules of the game. This has endorsed the argument that institutional rules, predominantly determined by the rules of politics, had presided over incentives, opportunities and constraints. Given this institutional paradigm, neither the intellectuals or think-tanks, nor the executives, the legislature, or organised interests played a significant role in decision making. As a result of this institutional rigidity, what determines the choices available is not the rightness or wrongness

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Immergut (1992a, 1992b) argues that the parliamentary arena in France, a pattern of executive dominance in Sweden and the referendum in Switzerland are either a significant veto point or a critical decision point in the politics of health.



of the ideas but the politics of the rules (institutions) that condition the utility of power. However, as we shall see in the next section, political democratisation emerging in the late 1980s has changed the prevailing rules of the game and thereby subsequently relaxed institutional rigidity. The conditions that allow the ideas to be disseminated made it possible to articulate social demands. The topicality of the public concerns becomes an increasingly important variable.

## **2.8 Moving Towards Democracy? : Transition, Crisis, and the Rules of the Game**

Institutional dynamism had only been allowed to be operationalised within the confined extent to which the interest of top decision makers and policy agendas were considered to coincide. The democratic rules of decision making had consistently been undermined in parallel with constitutional violations. Legitimacy deficit of the polity continued through the Fifth Republic (1981-1987) largely due to its military nature. The sovereignty of Park Chung-Hee, terminated by his assassination on 26 October 1979, was taken over by that of Chun Doo-Hwan, another military General who gained power by the second military *coup d'état* of 12 December 1979 in the modern history of Korea. The eight-month presidency of Choi Kyu-Ha<sup>19</sup> was replaced by President Chun, elected on 27 August 1980 as the eleventh President under the 'Yushin' constitution and on 25 February 1981 as the twelfth under the new Constitution of the Fifth Republic (1981-1988).

Internationally somewhat less well known than the democratisation movement on Tiananmen Square in China on 4 June 1989, the 'Kwangju uprising', a harbinger of democratic class struggle in the late 1980s, began from 18 May 1980 for approximately ten days in a southern part of Korea. As a response from the state, though declared by President Choi, the expansion of martial law to a nationwide level was a decision of the military authorities who had in fact exercised superior power to the President. Militarists' despotism not only blocked the role of the National Assembly but also subdued the 'Kwangju uprising' by force (Kim, Chong-Lim, 1988). Evolving from this, the nature of the Fifth Republic (1981-1988) was also military driven authoritarian despotism in the guise of liberal democracy. For example, the Twelfth Presidential Election was held at the electoral

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He was the tenth President from 6 December 1979 to 16 August 1980. He was previously a Prime Minister who became the President according to the 'Yushin' constitution.

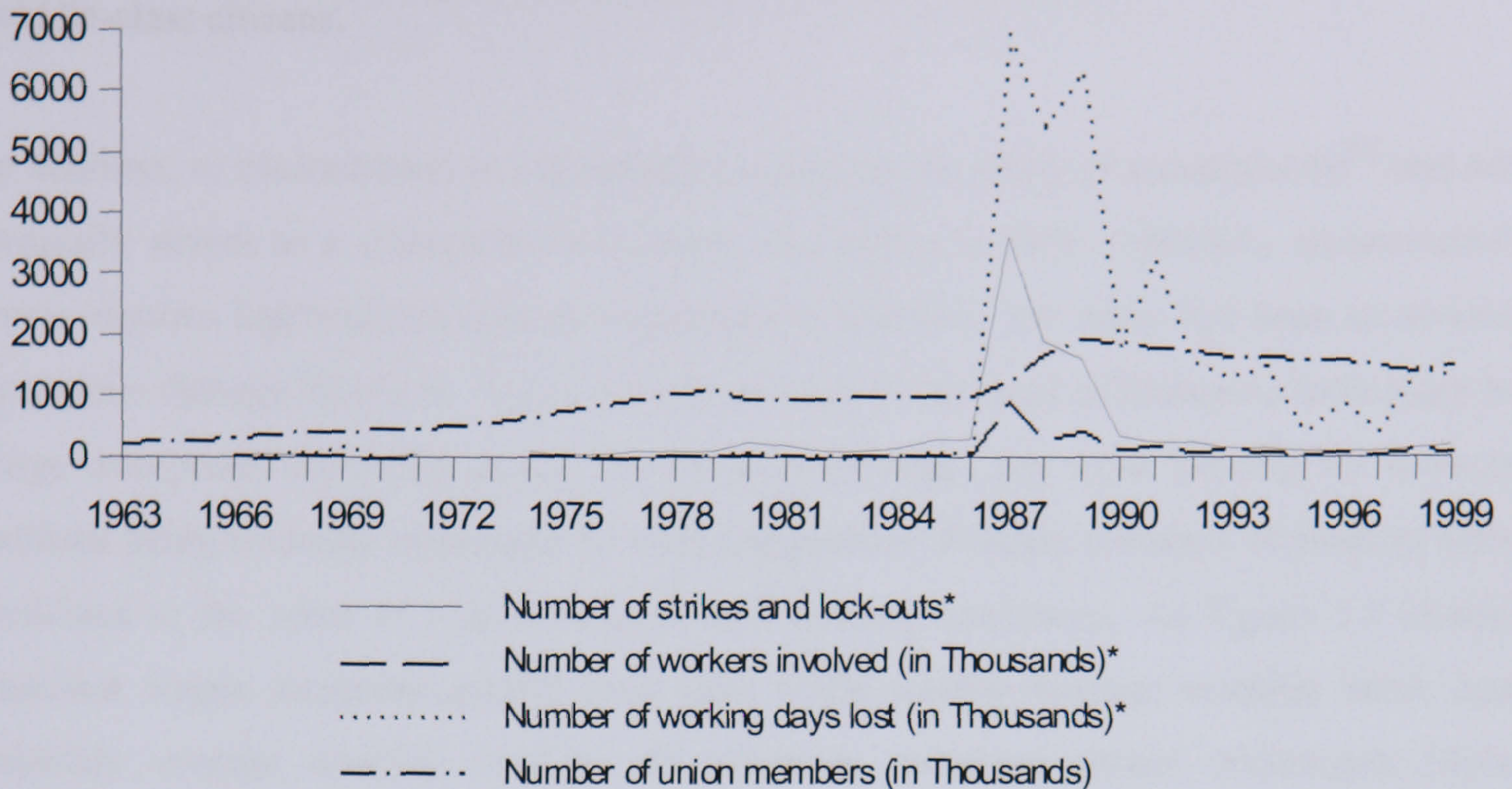


conference of the electoral college. However, it was somewhat different from the previous method exercised since the Eighth Presidential Election on 23 December 1972 (NEC, 1996b: 14). Whereas members of a delegation at the National Conference for Unification were not allowed to be assigned to any political parties, those at the electoral college were. Yet, in practice, the ruling Democratic Justice Party (DJP) constituted almost 70 per cent of those in the electoral college that obviously led to Chun's landslide victory, gaining 90.23 per cent of votes cast (NEC, 1996b: 11).

This anti-democratic rule of the game had been maintained by Chun's declaration on 13 April 1987 of his decision to suspend debate on constitutional reform and to attempt to pass it on to the next presidential candidate of the DJP, Rho Tae-Woo, on 10 June 1987 (Han, Sung-Joo, 1988:53-54). The democratisation movement had already been betokened by the Twelfth National Assembly Election in February 1985. At this election, the one-month old New Korean Democratic Party (NKDP) not only gained nearly 83 per cent votes of the DJP but also obtained 40.2 per cent votes cast in five major cities, while the DJP managed to gain only 28.4 per cent in the same areas (NEC, 1992:142; Seong, Kyung-Ryung 1996:240; see also Appendix 2). Both opposition parties and ordinary demonstrators including university students, religious figures, journalists and intellectuals, formed a National Coalition for Democratic Constitution (NCDC) on 27 May 1987. This formation aimed to spearhead demonstrations for constitutional reform (Lee, Manwoo, 1990:37). A previously latent and controlled labour movement also became salient as Figure 2.2 clearly illustrates, measured not just by the level of unionisation (see Korpi, 1983:39), but better by the number of strikes, the number of working days lost, or even by the number of those involved in strikes (see also Appendix 3).



Figure 2.2 Labour Disputes (1963-1999)



Notes: \* data from 1963 to 1965 and from 1972 to 1973 are not available; the number of strikes and lock-outs refers to strikes that involve tactics.

Sources: KLI (2000); MoL (various years from 1973 to 2000).

Working class mobilisation has strategic advantages compared to collective actions led by other social groups in that measures such as strikes and lock-outs, demonstrations and boycott can paralyse capitalist development. Valenzuela (1989:447) clearly argues that:

‘The labour movement generally has a greater capacity for extensive and effective mobilisation at critical moments than other social groups...the labour movement can disrupt the economy directly through work stoppages. Its wage demands are also an important element in the longer-term macroeconomic context, and it can seek to redefine the conditions of employment and the character of labor-management relations. Labor’s demands cannot be lightly ignored.’

Nonetheless, emerging working class movements did not place on the political agenda a great many social policy issues. Trade unions failed to take the leading part in pro-democracy movements. This was partly because they had failed to be an innermost part of the NCDC and partly because their class mobilisation in the early 1980s had already been subject to even harsher control than in the previous decade (MoL, 1987:398, 1991:428). There had also been friction between those well-organised and those not that caused divisions inside the working class (see Esping-Andersen, 1990:24). For example, the rate of unionisation, measured by union membership divided by total number of employees, was only 19.20 per cent from 1979 to 1989 (EPB, 1990: 26). In essence, pro-democracy movements in the 1980s



were not led by the working class but by thousands of students and urban white collar middle-class citizens.

In addition, in contradiction to Valenzuela's assertion, the crisis of accumulation<sup>20</sup> was not critically severe in a macroeconomic sense. According to Offe (1984:83), accumulation crisis requires legitimatised political regulation to function. Yet, there had been no serious economic damage involved. This was because most of the large disturbances took place in large enterprises that could manage the increase of wages and other benefits for workers without being critically challenged by their competitors. Primary concerns of workers were confined to the areas of wages, benefits and working conditions. As Figure 2.3 shows, nominal wages increased greatly over time while weekly average working hours and monthly average working days in all industries remained almost unchanged. More importantly, no particular sign of broader political activities was evidenced. Han (1990:10-11) argues that this absence of political activity made them lose the connection with other social groups. Consequently, an eight-point proposal, where a constitutional reform that allowed direct presidential elections was promised and declared by Rho Tae-Woo on 29 June 1987, effectively ended the 'spring of discontent' with no remarks on any labour or social policy related issues (Han, Sung-Joo, 1988:54; Seong, Kyung-Ryung, 1996:245).

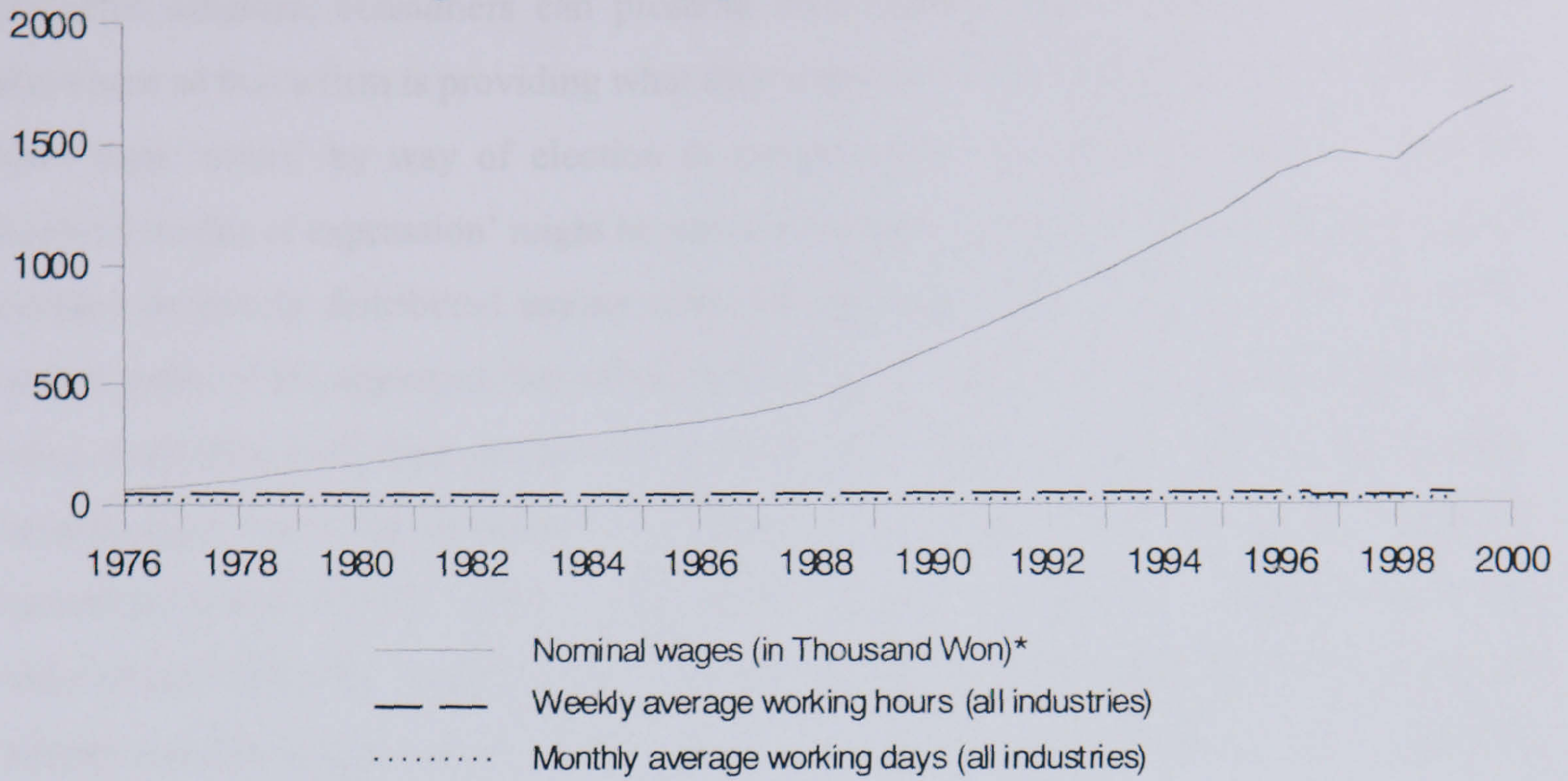
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The crisis of accumulation is one of the four crises identified by O'Donnell in his case study of the bureaucratic-authoritarian state of Argentina from 1966 to 1973. The other three are the crisis of government, the crisis of regime, and the crisis of social domination (O'Donnell, 1988:24-27).



Figure 2.3 Working Conditions (1976-2000)



Notes: \* data from 1976 to 1979 include all industries, the rest includes only non-agricultural industries.  
 Sources: KLI (1999); NSO (1998a: 189, 190, 192, 1999c, 2000c: 204, 206, 2001).

Ginsburg (1979:14) argues that the British welfare state is a response to the presence of the working class but the working class has exerted very little control over the shape of welfare and administration. Similarly, the working class power in Korea did not make a considerable contribution to a government's capitulation. However, their presence itself was meaningful and influential because it eventually led to the opening and diversification of policy making channels (see Chapter 3 especially for the making of employment insurance). Also, in historical terms, the working class finally regained their power<sup>21</sup>. The continuity of labour disputes after Rho's declaration also changed the perceptions of the working class. The working class had previously been considered as nothing more than a manipulative means of industrialisation. By bringing together the middle class, the public outrage of the time enabled workers to unionise and to be more militant.

Further valuable insights can be achieved by Hirschman's (1970) famous triad of exit, voice and loyalty in the analysis of a theory of reaction in systems which individuals belong to or depend on. In the system of markets, he argues, there are two kinds of power or sanction that

<sup>21</sup> The historical continuity was lost by the de-legalisation of branches under the National Council of Korean Labour Unions (NCKLU), while the General League of Korean Trade Unions (GLKTU) was generated by the American military government in 1947 (FKTU, 1979:266; see also Chapter 3).



consumers have over organisations to make them respond to what they want. As the most powerful sanction, consumers can promote their capacity by taking their consumption elsewhere so that a firm is providing what they want more efficiently. The other is that users have their 'voice' by way of election or campaigning though this 'shorthand term for political modes of expression' might be conditional upon influence and bargaining power or perhaps be poorly distributed among users (Bulmer and Rees, 1996:271). Therefore, the central point of his argument lies where consumers or users in public services utilise their voice more effectively through democratic institutions. In so doing, it is critical to introduce an element of 'exit', 'the ultimate form of rejection' (Ringgen, 1987a: 51). The working class movement continued after Rho's declaration. This enabled workers to employ their voice and exit options by the use of their mobilised and militant capacity that had previously been subject to extreme suppression. Military governments forced coercive measures in order for workers to remain silent and loyal.

Since June 1987, therefore, a gradual shift has occurred from authoritarian military rules to pluralistic diversification of liberalism (Ahn, Byung-joon, 1990:15). A distinction can be made between these two. The former confines popular citizens' participation and competition in the policy-making process, whereas the latter allows them on the basis of the consent of citizens through a certain constitutional process, to achieve civil, political and social rights (Marshall, 1950,1963). Democratisation is located somewhere in between although a borderline cannot clearly be drawn. When societies are reaching some form of turning point with profound implications for future developments, the concept of crisis appears critical (Talyor-Gooby and Dale, 1981:241). Habermas (1976:2) introduces a social-scientific concept of crisis that can be differentiated from a systems-theoretic concept of crisis. The latter types of crises are seen as 'persistent disturbance of *system integration*' (italics in original). While his objection against this concept resulting from its scientific usefulness lies in the form that 'crises in social systems are not produced through accidental changes in the environment but through structurally inherent system-imperatives that are incompatible and cannot be hierarchically integrated'. His classification of four possible crisis tendencies is based on economic, political, and socio-cultural systems. Each crisis can arise at different points when the existing political system is delegitimised (Habermas, 1976: 45). First, an economic crisis emerges if the output of the economic system is inadequate. Second, a rationality crisis takes place if the political system fails to adhere to political and



administrative decisions. Third, when the political changes need to be legitimated but a method of persuasion is inappropriate, a legitimation crisis occurs. Finally, a motivation crisis appears if the relatively coherent progress between traditional value and belief system appears to be retarded.

The third crisis has been utilised as a central variable in a political legitimation thesis whereby a set of welfare programmes were introduced to obtain political legitimacy (see Kwon, Huck-Ju, 1999a). From the neo-Marxist perspectives, welfare states develop in order to incorporate the working class into the existing political system (Habermas, 1976). They originate from the need to compensate for the contradictory function that results from the continuous capital accumulation (O'Connor, 1973; Offe, 1984). Thus, working class power can be effectively rooted out. An archetypal case can be found in Bismarck's social insurance legislation in the 1880s (see Rimlinger, 1971: 111). Yet, there are two identifiable differences in the Korean case. First, neither the working class were threatening nor was there socialist or left-wing movement in Korea. Second, whereas Bismarck's political strategy was a pre-emptive strike against the working class and the socialists, in Korea there had been no imminent political challenge until 1987. In short, the strategy of welfare was geared to politically expedient requirements. In other words, political actors acted from expediency not from principle. The ideas underpinning welfare for all became metamorphosed to a politically useful and economically profitable direction.

## **2.9 Conclusion**

A vast array of policy transfer literature confirms that political actors are likely to search for policies they can borrow, if they are uncertain about the cause of problems, the effects of previous decisions or the future. These conditions of uncertainty often lead them to seek for advice from networks of knowledge-based experts (i.e. epistemic communities). By reducing uncertainty, the direction of policy is thereby influenced by a network of ideas.

In Korea, these epistemic communities were created by key political actors. By providing information and (new) ideas or proposing specific policies, their role became influential in the political process. However, the political process was largely determined by political rigidity and the state-oriented type of social provision towards economic-growth supremacy. Motivated by vested political interests, systems of welfare were configured, yet with little



articulation of the idea that requires the state's response to those in great need in society. In consequence, the ideas behind welfare provisions were inevitably constrained within the confined circle of economic capacity and political expediency. Given this formation, original ideas shaped by those in an epistemic community could only be institutionalised when vested political interests and these ideas coincided. In other words, those searching for advice preferred to turn to those whose overall political values were consistent with their own. Epistemic communities in Korea lacked the political authority to impose binding decisions.

All that has been said through a set of case studies relates to this limitation that epistemic communities were exposed to. Confined by power politics that was supreme in shaping social policy, original ideas were metamorphosed to the ways in which they were to maintain the prerequisite conditions for economic growth under Park's government. In order to utilise these conditions, civil order was to be maintained and marginal labour was to be regulated. For this reason, political intentions and motives to introduce social programmes were not in favour of risk-pooling effects of social insurance but of political instrumentality of social policy. This overall process of the configuration of social policy in Korea, we argue, was greatly influenced by political and historical constraints inherited from the past which in turn condition the initiation, innovation, development and reform of social policy initiatives. How this process changed during the period of democratisation is the subject of the next chapter.



## CHAPTER 3

### The Politics of Possibility in Transitional Politics

#### 3.1 Introduction

Democracy, Lipset (1983:28) argues, may be defined as a 'political system which supplies regular constitutional opportunities for changing the governing officials, and a social mechanism which permits the largest possible part of the population to influence major decisions by choosing among contenders for political office'. For any given democracy to be stable, he argues further (1983:65), it is necessary to maintain not only economic development but also the effectiveness and the legitimacy of its political system. Policies, within this context, may serve symbolic purposes. Edelman (1971), for example, draws attention to the way in which policies may fulfil more of an effective function in giving the impression that government is taking action than in tackling social problems, therefore in maintaining political support. Building on this argument, Hill (1997:22) argues that 'policies may be intended to improve social conditions, but examining whether this is the case should be part of the object of enquiry rather than an assumption of research'. Given this, this chapter suggests that an exploration of the dynamics of policy development and the conditions under which policy change occurs is a prerequisite to explanation of political intentions that underpin social policy development.

This chapter can be read separately but more desirably in comparison to Chapter 2 in which we explored the distinctive political and historical constraints that framed the conditions that influenced the configuration of social policy in Korea before 1987. This chapter is organised into four sections. The first section examines the nature of political parties in Korea and their influence on shaping social policy. The second section explores a growing interest articulated by different types of interest groups and their influence on making social problems a transformed political agenda. In the third section, the ways in which these political parties and interest groups made an impact on shaping social policy are investigated through four case studies. As a comprehensive research strategy, the case study method is helpful when contextual conditions are required to be covered (Yin, 1994:13). In the final section, the lessons from the case studies are drawn together to develop the argument of this chapter.



### 3.2 The Role of Political Parties in Social Policy

Political parties are institutions and their major function is to provide a 'platform for the expression not only of group or class economic and social interests but of group values and prejudices' (Lipset, 1969:305). In other words, political parties tend to represent group values and even prejudices which function to build images and characters of parties. The relationship between party politics and social policy in the development of Western welfare states has been a perennially topical issue in both political and academic debate. For example, in shaping social policy, there has been a wide variation to explain political activities of the religious political party such as the Christian Democrats of various European nations (Lipset, 1969; van Kersbergen, 1995). Equally, many efforts have been made to generalise about the relationship of given statuses and roles of behaviour to political demeanour between the historic left and right categories. Hibbs' (1977) comparative study of twelve European and two North American nations proclaims that political party constellation influences macro-economic outcomes. Also, Wilensky (1981) focussed on the relationship between left and Catholic party dominance<sup>1</sup> and their influence on social policy development in a corporatist political economy.

Despite the huge literature available in Western academia on the subject, little attempt has been made to place party politics at the centre of analysis in explaining the development of social policy in Korea. This ignorance may result from the fact that Korean party politics was almost entirely confined within a small circle of conservative terrain. On the one hand, the authoritarian structure of the polity had created constant political illegitimacy of the ruling party. On the other hand, there had virtually been no possibility for the opposition party to take power. The emergence of progressive parties or revolutionary parties was initially constrained by an anti-communist ideology following the Korean War. Furthermore, almost all efforts to create the two-party system had been subject to harsh control as clearly seen in the case of political violence and a rigged election in 1958 and Yushin declaration in 1971. A relatively predominant one-party monopoly had therefore generated an unbalanced structure of society between regions, classes, and different sectors of industries which basically opened up the question of distributional issues as political contention. However,

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<sup>1</sup> Party dominance is defined as a 'large amount of party power continuously exercised over a substantial period of time' (Wilensky, 1981:351).



the social construction of social problems tends to be given life by interest aggregation through political parties. When political parties fail to play their key roles, publicly acknowledged interests or problems look to another way to receive political attention. As we shall see in the next section, this incapability that Korean political parties have long suffered in part resulted in the emergence of citizens' movements in the early 1990s. For this reason, it is important to examine why Korean political parties have failed to play a key role in shaping social policy and how these reasons have become relieved in the later formation of social policy.

According to Huntington (1965), the strength of political organisations and procedures are contingent upon their scope of support and their level of institutionalisation. By defining 'institutionalisation' as the 'process by which organizations and procedures acquire value and stability' (Huntington, 1965:394), he argues that political development is determined by the level of institutionalisation. Political development, in other words, can be defined and measured by four criteria: (1) adaptability; (2) complexity; (3) autonomy; and (4) coherence of its organisations and procedures. From these criteria, Huntington (1965) made it clear that the more adaptable, more complicated, more autonomous and integrative, and the more unified and coherent an organisation or procedure is, the more highly institutionalised it is.

Given this, on no account did political parties in Korea experience a high level of development. Korean political parties have been relatively short-lived, perhaps because of their high rigidity to the environmental challenge and maybe because of their relatively heavy dependence upon political power or the political age of political leaders. Consequently, a significant characteristic of political parties was a lack of multifunctional subunits and almost no articulation of autonomy under a highly systematised authoritarian regime. Factional conflicts within opposition parties have also been one of the well-known properties which obviously attenuated the coherence of political parties. A low level of political development, at least in the functions of political parties, has therefore represented the obvious consequences of a low level of trust towards party politics.



To be more specific, party failure<sup>2</sup> could be explained by a combined failure of the four categories defined by Huntington (1965). In other words, the less adaptable, more rigid, and less complicated the organisation or procedure is, the lower its level of institutionalisation. In less developed political systems, political organisations are highly vulnerable to outside influences. The greater the disunity of the organisation, the less its institutionalisation. Huntington (1965:401) clearly points out that a 'political party, for instance, which expresses the interests of only one group in society - whether labor, business, or farmers - is less autonomous than one which articulates and aggregates the interests of several social groups'. Above all, however, the importance in association with social policy making is that the failure of the institutional party system has influenced the failure of the legitimate consolidation of welfare ideology.

To an extent, until 1998 the Korean party system was dominated by the one-party system for two reasons. First, even if there had been several opposition parties in existence, constant continuity for the rules of the game on the basis of the anti-democratic strategy effectively paralysed the capacity of the opposition parties. Second, it was not until 1998 that the political complexion of the governing party changed for the first time since the establishment of the national constitution in 1948. During the interim period (1979-1981), having prohibited the political activities of a number of politicians, the new military authorities created the ruling party (DJP) and two other opposition parties (DKP and KNP). This look-alike multiparty system was however nothing more than political ostentation and this one party system had continued even after the democratisation movement in the late 1980s.

In 1987, the 13<sup>th</sup> presidential election was the first in thirty years that successfully followed the democratic principles of constitutional procedure. This could have been the first democratic turnover of political power if two major opposition candidates, Kim Young-Sam and Kim Dae-Jung, had agreed to put forward a single united-candidate. The following general election in April 1988 launched the new paradigm of a four-party system. That is, although the governing party still remained the biggest party, it failed to occupy the majority of seats in the National Assembly. However, after two years, an amalgamation of the

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Party failure can be conceptualised as the failure of political activity where political parties in the role of political actors of political society are supposed to intermediate the state and civil society (see Lawson and Merkl, 1988).



Democratic Justice Party (DJP), the Party for Reunification and Democracy (PRD) and the New Democratic Republican Party (NDRP) created the gigantic governing party, the Democratic Liberal Party (DLP). As a result, this amalgamation brought about the conventional composition of party systems.

By repeating this one party tradition, at least in the sense of a narrow continuum of ideological spectrum condensed into a conservative right wing tradition advocating liberal democracy and capitalism, political parties in Korea failed to generate ideologically bound, competent ideas and policies. This tradition might have originated from the constant continuity of conservative legacies of both ruling parties and opposition parties<sup>3</sup>. The conservative tradition of opposition parties even became one of the political legacies of current opposition parties. Ideological rigidity and lack of substance embodied in political parties have failed to show a distinctiveness of their policy propositions in response to socioeconomic interests. Consequently, the political conflict between the governing party and the opposition party has been less likely to be occupied in the area of social welfare, and rather more likely to be on the issues of regime support (Lijphart, 1984:137-138).

In short, Korean political parties have suffered from a deficiency of ideologies and policies. Then, what are the key factors that have determined the properties of Korean political parties? There are three significant factors that have affected the degree of ideological intensity, and the extent to which the democratic rules of the game are accepted by all important actors in the polity. First, democratic rights for all were not institutionalised by political actors. Consequently, prior to the emergence of a mass working class, opposition politics were less legitimate, but ironically more moderate (perhaps because of illegitimacy of opposition politics themselves). Radical industrialisation left the potential for class conflicts, but there was no development of relevant parties that could have made these potential class conflicts reflective. In other words, Korean political parties have been marginalised in the sense that they failed to consist of more than a single, narrow interest in society and so to some extent to aggregate interests. Since authoritarian regimes only

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Ruling parties from the Liberal Democratic Party (1951) through the Democratic Republican Party (1963) to the Democratic Justice Party (1981). Opposition parties from the Korean Democratic Party (1949) through the Democratic Party (1955), the New Democratic Party (1967) to the New Korean Democratic Party (1985) and the Party for Reunification and Democracy (1985) (see Appendix 2).



permitted the working class to be in existence as a source of economic mobilisation, their strong prohibition policy against workers' political mobilisation eventually weakened the overall class capacity of the potential revolutionary class. As seen in Chapter 2, democratic social movements in the late 1980s were centrally mobilised by both the middle classes and university students, not by the working class.

Second, lines of party support have been contingent upon regional variations and personal charismatic leadership rather than reflecting aspects of stratification or those of cultural difference. In other words, on no account did Korean political parties organise on class or religious lines. Table 3.1 compares four consecutive general elections from 1988 to 2000. It clearly illustrates that there has been no particular sign of progress to have mitigated the regional segregation in political terms. For example, on the 16<sup>th</sup> National Assembly Election, the Millennium Democratic Party (MDP) gained 91.64 per cent of the votes available in Jeolla-do where the party leader and President, Kim Dae-Jung's home town is located (Gwangju, where the 'Kwangju' uprising took place). By contrast, the Grand National Party (GNP) which obtained even more votes than the ruling party gained only 5.15 per cent in the same region. In addition to the historical hostility between these two parties where one is based on Jeolla-do and the other on Gyoungsang-do, regional strongholds have remained intact. In short, this may suggest that localism has a greater impact on elections than political party manifestos in Korea.



Table 3.1 Regional Strongholds and Proportion of the Vote (as %) obtained by each party in the National Assembly of 1988 (13<sup>th</sup>), 1992 (14<sup>th</sup>), 1996 (15<sup>th</sup>), and 2000 (16<sup>th</sup>)

	Regional Strongholds							National Level (% of seats)
	Gyonggi <sup>1</sup>	Chungch. <sup>2</sup>	Jeolla <sup>3</sup>	S.G <sup>4</sup>	N.G <sup>5</sup>	Gangwon	Jeju-do	
<u>The 13<sup>th</sup> National Assembly Election of 1988</u>								
DJP	30.35	34.65	22.81	36.13	49.90	43.63	36.02	33.96(41.81)
RDP	23.66	15.33	0.92	45.69	26.02	21.61	27.09	23.83(19.73)
PPD	22.32	3.02	69.07	1.49	0.81	3.99	5.96	19.26(23.41)
ND <sup>6</sup>	16.68	42.06	1.61	8.56	14.88	20.21	3.39	15.59(11.70)
<u>The 14<sup>th</sup> National Assembly Election of 1992</u>								
DLP	35.50	40.11	24.42	48.62	48.20	38.83	34.10	38.49(49.83)
DP	34.81	22.58	62.07	13.85	8.75	11.71	19.89	29.17(32.44)
RNP	19.38	19.06	4.73	15.49	22.01	31.90	0.0	17.37(10.37)
<u>The 15<sup>th</sup> National Assembly Election of 1996</u>								
NKP	35.44	27.84	17.61	51.01	30.48	36.14	37.26	34.52(46.49)
NC <sup>7</sup>	31.68	8.39	71.58	5.26	1.48	6.68	29.44	25.30(26.42)
ULD	14.39	47.01	0.68	5.08	27.05	23.63	1.16	16.17(16.72)
<u>The 16<sup>th</sup> National Assembly Election of 2000</u>								
GNP	42.70	24.92	5.15	65.43	62.31	41.97	46.69	38.96(48.72)
MD <sup>8</sup>	44.23	32.25	91.64	15.43	14.34	39.67	52.17	35.87(42.12)
ULD	8.87	37.36	2.71	2.92	13.62	11.08	0.68	9.84( 6.23)

Notes: Calculation formula: the number of votes obtained by each party in a region ÷ the entire number of votes cast by those eligible to vote in the same region (excluding invalid votes but including blank ballots) × 100.

1. Gyonggi includes Seoul and Incheon; 2. Chungcheong includes Daejeon (South Chungcheong); 3. Jeolla includes Gwangju (Kwangju) (South Cholla); 4. South Gyoungsang region includes Busan; 5. North Gyoungsang region includes Daegu; 6. NDRP; 7. NCNP; 8. MDP; the total sum of each region does not add up to 100 per cent because not all the political parties are taken on board in this table.

The 13<sup>th</sup> National Assembly Election of 26 April 1988 - DJP: Democratic Justice Party, Party Leader (PL): Rho Tae Woo from Daegu, North Gyoungsang; RDP: Reunification and Democratic Party, PL: Kim Young Sam from Busan, South Gyoungsang; PPD: Party for Peace and Democracy, PL: Kim Dae Jung from Gwangju, (South) Jeolla; NDRP: New Democratic Republican Party, PL: Kim Jong Pil from Chungchong.

The 14<sup>th</sup> National Assembly Election of 24 March 1992 - DLP: Democratic Liberal Party, PL: Kim Young Sam; DP: Democratic Party, PL: Kim Dae Jung; RNP: Reunification National Party.

The 15<sup>th</sup> National Assembly Election of 11 April 1996 - NKP: New Korean Party, PL: Kim Young Sam; NCNP: National Congress for New Politics, PL: Kim Dae Jung; ULD: United Liberal Democrats, PL: Kim Chong Pil.

The 16<sup>th</sup> National Assembly Election of 13 April 2000 - GNP: Grand National Party, PL: Lee Hoi-Chang; MDP: Millennium Democratic Party, PL: Kim Dae Jung; ULD: United Liberal Democrats, PL: Kim Chong Pil.

% of seats in the National Assembly is calculated as: total number of seats in National Assembly (299) ÷ number of seats obtained by each party; in the case of the 16<sup>th</sup> election, total number of seats in National Assembly was 273; sources: Reconstructed Table, data adopted from NEC (1988:92-94, 1992:110-111, 138-139,143, 1996a:140-141,163-165, 2000:270-271,301).



Third, the role of executive bodies, especially that of the governments, had taken precedence over the National Assembly until at least the late 1980s. This was a major reason why there had been a lack of policy propositions and policy experts in political parties. Figure 3.1 gives an overall picture of the role of the National Assembly as a legislative body. Its capacity has been relatively weak compared to the government in part through the properties of long-lasting authoritarian regimes (see also Kim, Chong-Lim, 1988). The National Assembly played a relatively strong role before the authoritarian rules were clearly envisaged. Yet, the National Assembly remained titular when the authoritarian regime was further strengthened by constitutional violation during the 1970s. The executive power, for example, reached its apex at the 10<sup>th</sup> National Assembly (1979-1980; see Appendix 5). In addition, as Table 3.2 clearly shows, the law-making process undergone by the executive is much more complex than that of the National Assembly due to its despotic potential. Nonetheless, as Figure 3.1 has shown, the number of legislative bills initiated by the executive has been substantially higher than those by the National Assembly (Figure 3.1; Table 3.2; Appendix 5). From the period of the mid-1980s to the early 1990s, however, the National Assembly returned to play a central role especially at the time that the opposition parties managed to occupy more seats than the ruling party for the first time. Given this, one might conclude that the role of the National Assembly was more activated as the political regime changed. Yet, after the gigantic governing party was formed in 1990, the executive power again superseded the National Assembly under the first civilian government at the 14<sup>th</sup> National Assembly (1992-1996).



Table 3.2 The Process of Law Making

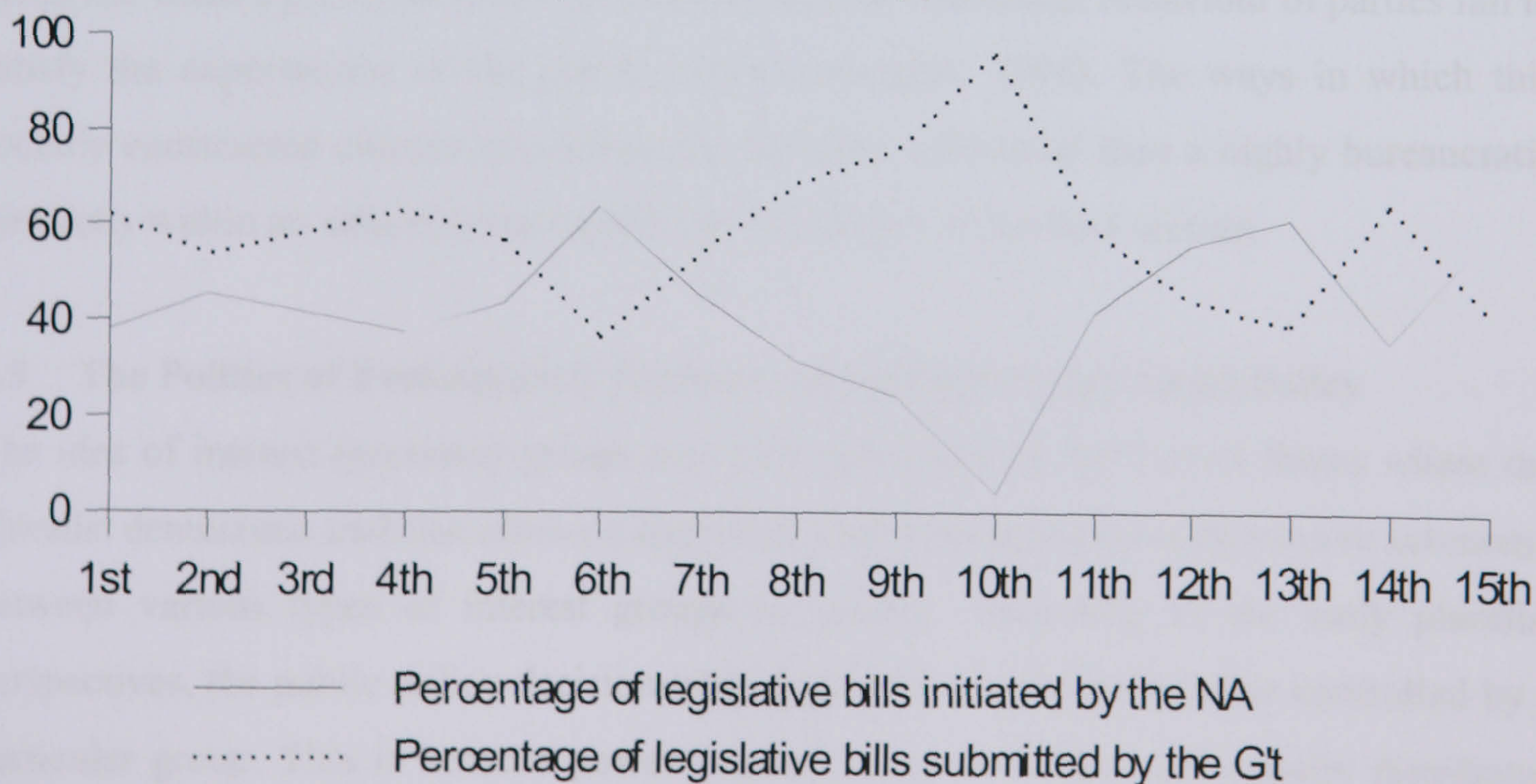
Bills submitted by the Government*	Bills submitted by the National Assembly
1. Drafting of a legislative bill by the competent ministry	1. Initiatives by members of the National Assembly
2. Consultation with other ministries concerned and public notice concerning legislation for 20 days	2. Deliberation by the National Assembly Standing Committee
3. Review by the MoLeg	3. The Legislation and Judiciary Committee
4. Deliberation by the State Council <sup>A</sup>	4. A Plenary Session of the National Assembly (Decision made)
5. Approval by the President	5. Transfer to the MoLeg
6. Submission to the National Assembly <sup>B</sup>	6. Approval by the President
7. Decision by the National Assembly	7. Promulgation by the President
8. Transfer to the Government (MoLeg)	
9. Promulgation	

Notes: \* Presidential Decrees do not undergo stages 6 through 8; Ordinances of the Prime Minister/Ministerial Ordinances do not undergo stages 4 through 8; A. by vice-ministers; B. through the Health and Welfare Committee, the Legislation and Judiciary Committee, A Plenary Session of the National Assembly.

Sources: MoLeg (2000); Noh, Yun-Hong (An Assistant Secretary to the President for Health and Welfare in the Office of the President, interviewed on 10 August 2000, Seoul).

Figure 3.1 Results of Legislative Bills in the NA of 1948 - 2000

Unit: per cent; Source: Appendix 5





It was the period of democratisation that enhanced the roles of the National Assembly, political parties and interest groups. As the state became more democratised, the entire procedure of policy initiative formation to decision making became longer, more complex and more dynamic. Policy initiatives concerning social welfare also became located at the centre of contention. One empirical study comparing the legislative procedure between the Fifth, Sixth and Seventh Republics concludes that the more democratised the state becomes, the longer the period between policy initiative suggestion and presidential declaration (Huh, Man-Hyung, 1995). Democratisation also strengthens the activities of participants and brings about the functional strength of the National Assembly. For example, Lee (1995) and Song (1992) argue that the National Assembly in the late 1980s played an active role in raising the welfare budget. Their activity regarding social security began to be more critical than the government's. The government was more concerned with regulatory policy areas at a national level such as health and sanitation, and medical treatment between hospitals and pharmacies. The National Assembly paid a great deal of attention to the area of social welfare services for those suffering social exclusion such as the elderly, disabled and women.

In sum, as long as party politics is concerned, political values of social policy is culturally bound because culture constitutes people's behaviour in everyday life which engenders the structural context for political culture. Political culture therefore tends to pattern political behaviour based on norms and values inherent in a given society. In a similar vein, political or social movements in the context of norms and values that shape political life tend to be given life when a prevalent power in a society and the coalitional behaviour of parties fail to satisfy the expectations of the public (van Kersbergen, 1995). The ways in which this socially constructed citizens movement can be more influential than a highly bureaucratic hierarchy within an authoritarian regime are the subject of the next section.

### **3.3 The Politics of Participation: Interest Group Politics and Social Policy**

The idea of interest (pressure) groups was first developed in the United States where the pluralist democratic tradition allows competitive interest articulation with relative autonomy between various types of interest groups in society. According to the early pluralist perspectives, the public policy decision-making process cannot be ruled or controlled by a particular group. This is because power is assumed to be widely and equally distributed



among competing groups. For them, the role of the state is limited to the scope that mediates the interest conflicts. Consequently, the state should stand neutral, and function as a passive rather than active mediator (Dahl, 1956, 1961). By emphasising liberal market principles of interest articulation, these early pluralists developed optimistic explanations of interest group politics and argued that the United States provides the best case scenario (Dahl, 1982). In practice, however, there are three colossal possibilities at present. First, power discrepancy between gigantic and small interest groups makes equally competitive interest articulation impossible. Second, a certain group can monopolise the interest representation or hold power of a decision-making process through interest alliance with the government and the political lobbies. Third, the over-competitive interest articulation and interest conflicts may make societal complications worse and may engender political ungovernability as a result of political and economic instability (Pross, 1986:132-134; Schmitter, 1981:285-324).

In short, interest groups are different from political parties. While political parties are exclusively concerned with the acquisition and exercise of power, interest groups tend to remain distant from the issues of political power. In other words, interest groups seek to influence those who wield power since they are not directly involved in political games. However, there remains the possibility that the activities of interest groups may become subject to political harness. Duverger (1972:101-104) points out that the discussion of interest group activities can be restricted to organisations that engage exclusively or primarily in the exercise of political pressure. Given this, interest group activities can have a major impact on the politics of social policy. Huntington (1965:388), for example, argues that 'modernization means mass mobilization; mass mobilization means increased political participation; and increased participation is the key element of political development. Participation distinguishes modern politics from traditional politics'. By examining the development of trade unionism followed by an analysis of citizens' participation in transitional politics, these two political aspects of political participation is the subject that we now turn to.

### **3.3.1 The Development of Trade Unionism**

Labourist theory, power resources theory or the social interpretation of the welfare state explain that the level of welfare state development is to be measured by the strength of



corporatist arrangements of welfare. The corporatist arrangement of welfare can be achieved either by political parties, especially by social democratic parties, or the working class movement (Korpi, 1983; see Baldwin, 1989:471). Compared to pluralist accounts of interest group politics, the corporatist account of interest representation places the state at the centre as an independent variable which contains an active function in the policy decision-making process. Yet, the structural characteristics of state-associational relations take one form or the other depending largely upon whether the institutional framework is evolved from below and by associations themselves (societal or liberal corporatism) or imposed from above and by the state (state corporatism). In addition to this, Schmitter (1974) finds that there is a clear difference between these two types of corporatism. The tripartite arrangements in societal corporatism tend to remain horizontally coordinated, allow autonomy of interest groups, provide possible bottom-up interest penetration and appear in the post-liberal advanced capitalist organised democratic welfare state. By contrast, state corporatism tends to emphasise subordination of territorial subunits to central bureaucratic power, a weak single party monopolisation, and appears to be in the authoritarian, delayed capitalist societies.

Interest group activity in Korea has been subject to harsh control while it has been virtually impossible for interest penetration through a bottom-up mechanism to take place. For this reason, the applicability of state corporatism in comparison with pluralism is of higher validity. However, there are significant drawbacks for three reasons. First, there has been no significant evidence that organised labour interests have been incorporated into the state policy decision-making process through strategically systematised mechanisms. Lee (1988) argues that it is more reasonable to say that interest aggregation took the shape of extremely incremental fashion.

Second, one of the important assertions that Korean interest group politics can be explained by state corporatism is to the effect that corporatism considers the state to take control over trade unions. Nonetheless, the rate of unionisation under the umbrella of the Federation of Korean Trade Unions (FKTU) has continuously been no higher than twenty per cent (see Appendix 3). This means that even if the FKTU has been politically manipulated by the state, a majority of workers were beyond control. Further, the legitimacy of leaders in the FKTU was challenged, as evidenced by the constant expansion of democratic trade union movements against both the coercive structure of the state and official structure of trade unions.



Third, state corporatism fails to account for the latest development of trade unionism partly because democratisation movements of 1987 have attenuated the disciplinary control of the state over trade unions. To an extent, one might argue that the establishment of the Tripartite Commission on 15 January 1998 was an attempt to broker the societal corporatist approach. Originally proposed by President Kim Dae-Jung, it was initially designed to encourage a tripartite consultation mechanism to overcome the economic crisis. However, a criticism against this assertion can be raised because the underlying rationale for its establishment was aiming for situational confrontation measurements against the economic crisis. For this reason, the Tripartite Commission cannot purely be understood as the strategic changes towards societal corporatist arrangements between interest groups. As there has been an absence of political representative parties in favour of the working classes in Korea, trade unions like many other interest groups were subject to governmentalisation.

According to Choi (1989:28-29), the labour movement in Korea had progressed through three main phases prior to 1961. First, under Japanese rule, the labour movement developed as an integral part of the anti-colonial independence movement. Second, after liberation, a militant, left-wing union leadership emerged and took over the whole union movement. Third, this left-wing leadership was completely eliminated by the state authorities under the American military government. The radical unionism articulated by the National Council of Korean Labour Unions (NCKLU) was demolished by the American military government from 1946 to 1947. Consequently, unions became aligned with the ruling political party in the Syngman Rhee regime. In short, labour unions in the 1950s were an 'auxiliary organization of the ruling party, used in its pure form as a political instrument to buttress Rhee's rule, and totally lacking any meaningful rank and file organizational base' (Choi, Jang-Jip, 1989:29).

The official union structure, the General League of Korean Trade Unions, under the Syngman Rhee's regime, was challenged by a dissident minority groups, the National Council of Trade Unions (NCTU) for three reasons. First, the GLKTU had its pro-government attitudes evidenced by their activities for Syngman Rhee's re-run for the presidential election. Second, the GLKTU was initially designed to demobilise the activity of radical, left-wing trade unions. Third, the internal structure of the GLKTU was highly factious, right-wing oriented, subordinate to those in the governing party (FKTU,

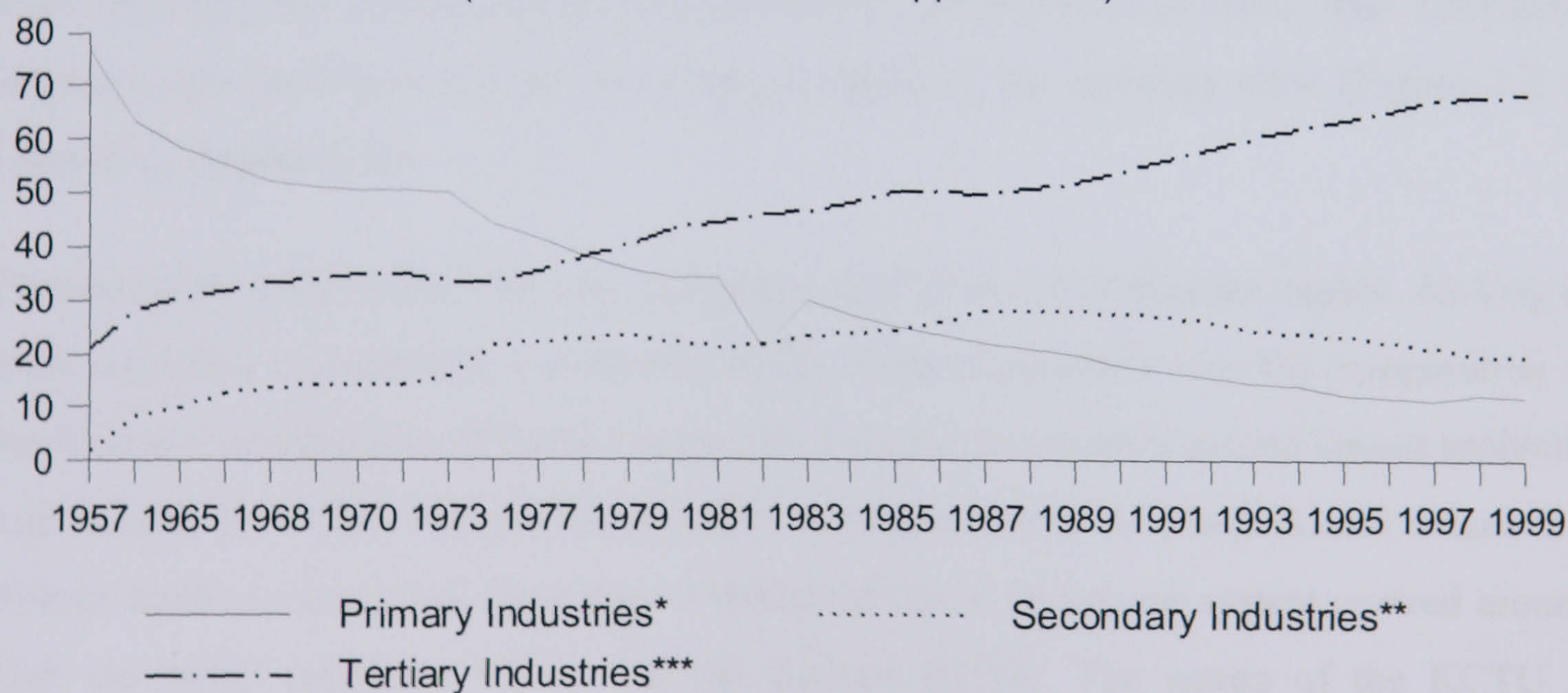


1979:265-266). The properties of the NCTU were inherited from the NCKLU. Supported by the constitutional change for a parliamentary cabinet system in 1960, the power of the NCTU was even strengthened in association with the then most well-organised, radical and politically oriented union, the Teachers' League. However, the institutional framework for labour unions was eventually shaped by the executive bodies of the military government. On 30 August 1961, the military government established the FKTU while those previously in the NCTU failed to become part of it. This exclusionary attempt remained powerful in controlling labour unions until the nation's second largest umbrella trade union was established in 1995.

This early exclusionary attempt gives us a first clue why Korean labour unions fail to exert their power in shaping social policy. As we have seen, working class power in the 1960s was weakened by the government by establishing the FKTU. Yet there are many other indications to show why labour unions in Korea have been modest. Structurally, the relatively small proportion of industrial workers in general and the small number of unionised workers in particular (see Appendix 12) were not only vulnerable to political manipulation but also too weak to aggregate their own interests as Figure 3.2 shows.

Figure 3.2 The Change of Industrial Structure (1957-1999)

( Unit: Per cent; Source: Appendix 12)



On 27 December 1971, President Park Chung-Hee promulgated the Special Decree for National Security based on the Law concerning Special Measures for Safeguarding National Security. This Decree constrained the rights of collective bargaining and collective action which had been bestowed by the constitution. The Decree also allowed President Park to



mobilise the entire populace for the purpose of national security and to control wages and prices for economic needs. This excessive power over society actually made the status of the working class worse than during the 1960s. In fact, industrial relations in the 1960s had not been significantly controlled by the state apparatus such as the KCIA partly because of the genuinely underdeveloped structure of the labour market (Figure 3.2).

During the period of 1980 to 1986, the strength of the working class was not remarkably different evidenced in part by the fact that the driving force of the democratic protest in June 1987 was neither organised by the FKTU nor opposition political parties. In fact, no single candidate in favour of the working class or union movement had been elected at a national level even after democratic union movements and a series of political events<sup>4</sup>. For example, the result of the 14<sup>th</sup> National Assembly election shows that the Democratic People's Party, established by the force of people's movement, achieved only 1.5 per cent of total votes (NEC, 1992:111).

During the period of 1989 to 1994, the number of union members had decreased to 265,000 and so had the number of trade unions to 836. The rate of unionisation also had decreased from the top rate, 19.8 in 1989, through 16.4 in 1992 to 14.5 per cent in 1994. In other words, the renaissance of unionism came late but its stagnation came early. Further, the economic crisis from the late 1990s entangled with sporadic and incremental rather than systematic unionism has weakened already immature strength of the working class (Figure 2.2 in Chapter 2; Appendix 3).

Democratisation influenced the overall strategic shift of the authoritarian regime. As long as trade unionism is concerned, a creditable result of democratisation was the inauguration of the Korean Confederation of Trade Unions (KCTU). As the nation's second largest umbrella trade union, the KCTU was established on 11 November 1995. Its establishment means that Korean trade unionism has since been constructed into a two-tiered system centred around both the rather moderate FKTU and the militant KCTU. The nature of the KCTU is somewhat different from that of the FKTU. Whereas the FKTU originated from the political necessities of the government which obviously reduced the union's legitimacy, the origins of

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For example, the presidential election in 1987, the National Assembly election in 1988, two local elections in March and June 1991, and the 14<sup>th</sup> National Assembly election on 24 March 1992.



the KCTU did not suffer in this way. However, the then Trade Union Act (Clause 5, Art. 3) did not allow the KCTU to be legalised despite their continuous applications; this was mainly because of the election of dismissed workers as union officials. In 1995, the KCTU adopted a social reform programme to argue that labour standard rights had to be achieved by revising labour law and that social security systems had to be expanded. Again, however, its activity remained illegal until the KCTU finally gained legal status on 23 November 1999. Their entire activities for four years had been outlawed, thereby being subject to a coercive measure. Nonetheless, two conditions made its legalisation possible. First, the subsidiary also became legal in July 1999. Second, there had been international pressures to recognise the KCTU as a legal organisation, especially from the International Labour Organisation (Korea Herald, 24 November 1999). In short, legacies created by the establishment of the FKTU are finally broken down by the legalisation of the KCTU.

All in all, the historical expansion of trade unionism in Korea has been almost exclusively oriented towards pro-democracy, anti-authoritarian movements. Their influence on social policy has been moderate largely because the introduction of social policy was perceived from a Bonapartist perspective. Instead of making a direct impact on shaping social policy, trade unions have influenced the growth of the average wage for workers and reduced the wage gap and wage inequality between industries. By testing either union relative wage effect or wage rate standardisation, many empirical studies have shown that Korean trade unions have not only made little impact on widening the wage gap between unionised and non-unionised workers, but also had a relatively sound and responsible effect on the national economy<sup>5</sup>. It is yet to be known whether union wage equalisation effect resulted from an unusually high rate of labour movements in the late 1980s or from Korean trade unions' unique function of equal wage distribution. But the view that Korean trade unions led a wage increase, thereby worsened the international competitiveness requires re-thinking.

Despite the trade unions' contribution, it is important to acknowledge that the working class' power is only one of a broader logic of social interest behind the welfare state and its development. Baldwin (1989:477), for example, argues that 'workers were often that group

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For example, see Kim, Hwang-Joe and Sung, Baik-Nam (1990); Kim, Jang-Ho (1991); Lee, Joung-Woo and Nam, Sang-Sup (1994); Song, Ho-Keun (1989); Uh, Soo-Bong and Lee, Tae-Hun (1992).



most concerned with social policy, but they have not been the only one. Nor, in a broader comparative analysis, have their interests been more than a single, however important, among many competing factors. Workers' concerns have been determined and consequently altered by historical circumstances. In the evolution of the welfare state there has been no one uniform and consistent objectively solidaristic class.' In this critical juncture where dramatic changes in Korean politics occurred, there remains other organisations' efforts on the development of social policy. This is the subject that we now turn to.

### **3.3.2 The Development of Social Movement: Egalitarian Struggle?**

As many scholars have identified, the most essential characteristics that differentiate democracy from other forms of government are public competition and participation in the political process (Dahl, 1971; Lijphart, 1984; Lipset, 1983). Dahl (1971:129) also made clear that the greater the public desire for democracy, the greater the chances for establishing and maintaining a democracy. Shin and McDonough (1999:12-13) find that support for democratisation in Korea increased as the regime or government changed. For example, public responses to a strong desire for democratic change increased from 43 per cent under the authoritarian Chun regime (1980-1988) through 54 per cent under the first democratic government of Rho (1988-1993) to 81 per cent under the second democratic and first civilian government of Kim (1993-1998). This increasing public support for democratic change was initiated by democratisation protests in June 1987 which should be seen as a landmark not only because they made it possible to develop public participation in the political process but also because they provided a promising start for further democratisation.

Democratisation protests in June 1987 resulted in two contradictory outcomes of pro-democracy movements. On the one hand, it was successful because Rho's declaration on 29 June 1987 was perceived to be the government's concession forced by the public, constituting a somewhat autonomous, institutional, and political foundation of the social movement. On the other hand, it failed because it did not achieve a critical turnover of government but only generated a change of governmental strategy declared by Rho Tae-Woo. In this sense, social movements, particularly citizens' movements deployed and developed following popular movements in the late 1980s, were not deemed to be an expansion of the notions of previous movements. The citizens' movement has been manifest within the anti- or non- popular movement manifesto.



Citizens' movements can be differentiated from popular movements. The popular movement attempts to have its own leaders placed in power. But the citizens' movement argues that radical, revolutionary and militant class struggle as well as ideological extremism have engendered the isolation of social movements. Instead, it claims to develop the activities without setting up an antagonistic attitude towards those in power which consequently enables them to be relatively free from coercive and disciplinary control by the state apparatus. Of course, it was the previous militant class struggle that allowed the latest social movements to put themselves in a non-antagonistic orientation of social movements. A strategic shift of expression from ideologically rigid anti-authoritarian pro-democracy movements to the ideologically diversified reform-based approach has strengthened the citizens' voice in the making of social policy. The idea of welfare that had remained only at a rudimentary level began to be critical as a means of linking strategy between democratic society and social justice.

New social movements developed in Korea are somewhat different from those in Western societies. Offe (1985) argues that new social movements in western societies emerged on the basis of advancing new forms of social relations and cultural meanings and identities deemed absent from the welfare state's agenda. These movements originated from conventional methods of political organisation and expression, and experimentation, thereby attempting to institutionalise untransformed diverse issues into class-based popular movements, especially labour movements. By contrast, social movements in Korea tend to focus on previously ignored problems based on multi- and entire-class based issues resulting largely from a previous situational exigency. In addition, while many individual social movement organisations may operate in a relatively independent way, sometimes causing confusion and conflict within the movement itself, social movements in Korea have shared many social issues as clearly seen in the formation of a gigantic organisation including over sixty civil groups in order to reform public assistance in the late 1990s. In short, while those in western societies aim to build up a new radical structure, new social movements in Korea try to change it within the existing social paradigm.

Compared to a political rhetoric appearing in a set of presidential speeches<sup>6</sup> socially

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For example, 'the embodiment of welfare-culture society' (Park, Chung-Hee, 1971); 'expansion of social security systems' and 'welfare system to promote interests and welfare for workers' (Park,



constructed ideas of welfare started to emerge with the support of a set of new social movements. There are two important Non-Governmental Organisations (NGOs) in terms of their objectives towards social reform. The first organisation is the Citizens Coalition for Economic Justice (CCEJ) established in July 1989. It aims to 'contribute to the making of social foundation in order to build a democratic welfare state by way of peaceful citizens' movements to construct economic justice in our society' (CCEJ regulation Article 2). The second organisation is the People's Solidarity for Participatory Democracy (PSPD) established in September 1994. It aims at 'constructing a participatory democratic society which truly secures freedom and justice, as well as human rights and welfare by way of monitoring authority power, proposing detailed policies and counter-proposals, and practical activities volunteered by the citizens' (General Rules, Article 2). These two organisations were initially established by intellectuals including university teachers, lawyers, previous popular movement activists, and religious figures. These intellectuals were looking for alternative methods that could allow them to stand outside both class-based rigidity and ideological extremism but also to incorporate comprehensive class identities shared by a necessity of social reform through moderate rationing. The point is made clear by a chairman of the Joint Policy Board for the National Basic Livelihood Security Act within the PSPD who has been actively involved in the process of the public assistance reform bill. He said that:

'In fact, many of those who had been involved in the pro-democracy movement in the 1970s and the 1980s are those who have been playing a leading role in the citizens' movement in Korea. The core intention remains the same. Yet, during the process of completing institutional and procedural democracy since the Kim Young-Sam government, there has been a division between those who became involved in citizens' movements and those who remained in popular (labour) movements. Those in the former group are somewhat different from those in existing pro-democracy movements in the sense that gradual changes on the basis of rationalising and democratising an every day life of individual citizens are more favoured than the across-the-board and fundamentally class-oriented social reform that had often been accompanied by illegal methods of struggles. For example, the involvement of citizens groups in a small sum shareholder movement, the National Basic Livelihood Security Scheme, health insurance and the separation of medical and pharmaceutical practices do not constitute any class-based attributes. All the pressure group activities are attempted through a legal way of achieving a goal as a basic means to an end...however, all of this has been possible under the institution of democracy. It could have not been possible under the authoritarian regime of the past' (Interview with Moon, Jin-Young, 11 July 2000, Seoul).

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Chung-Hee, 1972); 'time to accomplish welfare society' (Park, Chung-Hee, 1978); 'constructing a (democratic) Welfare State', 'building a welfare society', 'establishing a social justice society', 'promoting working conditions, reducing wage gaps' (Chun, Doo-Hwan, 1980) and 'elimination of poverty' (Chun, Doo-Hwan, 1981).



In a negative sense, new social movements to have emerged in Korea tend to underestimate the nature of capitalist society in that the fundamental foundation of these have been constructed in class-based society. Yet, their non-class based identities have been able to put the middle class at the centre of organisational activities and bring the abstract, but rather modernistic idea of the citizen into their systematic activities. Through these systematic activities, citizens' organisations began to participate in the political process which has addressed the possible emergence of social solidarity. Social welfare in this sense has been believed to be the key means to an end. Trade unions and citizens' organisations have been solidified in the areas of economy, politics and social welfare (Moon, Jin-Young, 2002). The CCEJ and the FKTU worked together to achieve a fair election in 1991 and to pursue the making of social justice and economic reforms in 1993. The CCEJ also supported the consortium to resolve labour disputes of the Seoul Underground Corporation, one of the biggest trade unions in 1992. The introduction of unemployment insurance and national health insurance reform were argued for by both the CCEJ and the FKTU in 1993. From the late 1990s, most issues concerning state welfare policies such as the national pension reform, unification of national health insurance, and the reform of social welfare related legislation have been closely monitored by the public.

Conceptualised as citizens' movements in the field of social welfare attempting to reform state welfare policies, social welfare movements have been led by social welfare experts and university students majoring in social welfare or social work. However, these social welfare movements had previously made no serious challenges to the assumptions of the prevailing political paradigm. To an extent, the 'social welfare budget securing movement' in 1992 was considered to be a turning point for welfare workers to promote their political manoeuvre because it had drawn government compromise to a certain degree. Nonetheless, there have been problems of continuity for them in seeking to effectively solidify their interests with other groups, and even to aggregate their internal cohesive power. In this sense, the PSPD has sought to expand the social welfare movement to overcome its structural problems. As a citizens' organisation, the PSPD has been deeply involved with welfare issues. This has been the case especially from 5 December 1994 when the Social Welfare Committee under the PSPD started to get involved with the 'national minimum securing movement'. This movement has subsequently been able to draw attention from both the general public and those in power.



As part of the 'national minimum securing movement', the Social Welfare Committee under the PSPD initiated a judicial lawsuit against the Minister of Health and Social Affairs for the abuse of his authority. This also concerned the loss of the national pension fund as well as the regulation which allowed the accumulation fund of health insurance to be lent by the then Ministry of Health and Social Affairs. By pursuing this 'national minimum securing movement', the PSPD aimed to assure the government's responsibility for the national minimum, to require its legislative necessity, to achieve its comprehensiveness and universality, and to proclaim the importance of public and democratic participation to the political process. In the absence of any significant independent involvement of professional groups including the Korean Medical Association (KMA), the intellectual involvement in the political process occurred within citizens' movements.

There is little doubt that previous democratic labour movements have enabled this public participation to grow. However, the essence that citizens organisations have been more actively and effectively involved in the political process is their unique format distinct from most other organisations. The key organisation that may be a case in point is the PSPD. Critical actors working in the PSPD are divided into three major groups. First, human rights' activists including human rights' solicitors and critical jurists have made an effort to transform the victim-centred human rights movement to the more comprehensive social reform movement. Second, radical social scientists have played an intellectual role in guiding the overall orientation of the PSPD towards progressive rather than conservative citizens' movements by producing policy alternatives. The idea of participatory democracy evolves from this group of social science experts. They argue for the importance of progressive practice in the field of citizens' movements and the revolutionary approach to reformative issues. Third, previously working as student movement activists involved with labour movements, social movement activists realise that as labour movements have become independent, they need to be incorporated with other social reform movements. They believe that this may help to expand the overall scope of social movements. These three groups have worked together as founders of the PSPD which eventually unites each groups' interests together and makes their activities more productive. These three groups also represent the organisation's initial identity that enables them to be legally-bound by using laws as a legislative means of their activities; to be policy-based by proposing alternative and feasible counter-policies; and to be progressive by being aware of the fact that early citizens'



movements were distant from pro-labour movements.

In short, the citizens' movement in the 1990s has enabled social problems to be taken more comprehensively by legally granted methods of procedure. It incorporated previously marginalised issues of welfare into social movements and resulted in solidarity between several organisations. Compared to the political process that had largely been determined by power politics during the initial stages of social policy initiatives from the 1960s to the early 1980s, the political process became more reflective to the parliamentary electoral system and to citizens' organisations. Geared by democratisation protests in 1987, policy decision-making became the subject of a form of collective resolution on society's behalf. Thereby the welfare state develops reflecting its unique characters of institutional universalism. This epochal change made it possible for social issues to transform from the questions of whether we can achieve the distribution of political power to the questions of whether we can accomplish changes of attitudes, information and interpretations of social reality (see Banting, 1979; Hecllo, 1974).

In sum, the period that democratisation protests occurred was a critical juncture. Social protests changed the view that predominant authoritarian decision rules were essential to achieve societal stability and to maintain economic growth. The strength of participatory democracy can be an influential force in shaping social policy. Labour movements in the late 1980s produced distinct legacies not in their own right but by enabling subsequent social movements to emerge. Also, the legacies produced by these social protests are not likely to crystallise 'immediately after the critical juncture, but rather is shaped through a series of intervening steps' (Collier and Collier, 1991:31). There is little doubt that it was a path dependent pattern of change in that outcomes during an important transition establish distinct trajectories within which one thing follows another. This path dependent pattern is often constructed by initial conditions. For this reason, it still remains critical to see the ways in which the effect of the critical junctures is intertwined with other processes of change.

### **3.4 The Making of Social Policy in Transitional Politics (1980-1995): Decision-Making Points, Conditions, and Contexts**

While welfare instrumentality under authoritarian hegemony was not only apolitical in appearance but also anti-democratic in essence, welfare issues became subject to a wide



range of political and public debate at the time of democratic social protests. As social changes have progressed, public participation to the political process grew to be crucial in differentiating issues of social problems as a sociologically simplified and dichotomous analysis shows. In defining social problems, as Haines (1979) and Manning (1985b) argue, it is important to distinguish whether social problems involve a diversity of interest groups and perspectives or whether they consist of what seems to be a basic consensus<sup>7</sup>. That is, social problems cannot be constructed by objective conditions alone. They require value judgements as a necessary component. Thus, the social construction of social problems should be seen by analysing the idea's implications which have been extended to their fullest. Given this, the question is whether these conceptual activities take place when political debate surrounding certain issues of social problems has been publicly open, allowing for the existence of ongoing public controversy, or closed where only a superficial level of public access is available. How these contradictory meanings of social problems were entailed in the political process is the subject of this section. By examining four cases of the social policy legislation in the late 1980s, we expect to provide answers to how and why social policy institutions changed in transitional politics, and how and why ideas underpinning these institutions were modified during this process.

### **3.4.1 The National Pension Act: Institutional Persistence and Minor Changes**

As we have seen in Chapter 2, President Park postponed the introduction of the National Welfare Pension Programme in the early 1970s. On 31 December 1986, the National Pension Act was suddenly introduced and implemented from 1 January 1988. For over a decade in between, however, there had been no serious social demand to establish a national pension programme. The demographic structure of society had still not been severe enough to claim national pensions. Instead, major social issues had concentrated on constitutional reform, democratisation and reforms of labour relations. Given this, the National Pension Act of 1986 was criticised as a political instrument to achieve vote-gaining purposes prior to the presidential election in 1987 and the general election in 1988 and to mobilise domestic capital that had been required due to the international pressures to open the national economy.

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For example, the controversy of abortion seems to belong to the first category because the issues always involve competing groups of claimants. But the problem of child-abuse does not seem to allow too much controversy because this condition is likely to be characterised as a social problem (see Haines, 1979).



To be more precise, it was President Chun who initiated the idea and its timing. The responsible ministry (MoHSA) had not even been prepared for the detailed proposals for national pensions at the time that he announced their launch. Not surprisingly, the activities of the EPB took the higher stance over the MoHSA. Perhaps having learned from past experiences, where there were controversies surrounding the EPB, by the time that the KDI proposed the National Welfare Pension Act inter-ministerial policy coordination took place this time. Yet, the final Bill of new national pensions was almost identical to the EPB's proposal. Put differently, compared to the contrary views on social policy between the CSS and the KDI in the 1970s, the EPB's superiority over the MoHSA remained unchanged in the 1980s. The EPB's superiority over the MoHSA in this political process meant not only that economic supremacy took priority over social protection but also that the economic perspectives could divert the function of national pensions away from welfare perspectives. This welfare state developmentalism remained a crucial part of authoritarian legacies in Korea.

Further evidence that shows this developmental state paradigm can be found from conflicts between these two competing ministries (Kim, Sang-Kyun, 1987; Oh, Chung-Soo, 1987). The first conflict concerned who should be the chairman of the National Pension Fund Operation Committee. While the Prime Minister was favoured by the MoHSA, the EPB argued for its Minister. In principle, the National Pension Council Committee and a Council for the National Pension Corporation were responsible for a set of administrative activities (i.e. operating the national pension programme including decision-making on contribution and benefit levels) and it was the MoHSA that monitored these institutions. However, in practice, the way in which the national pension fund was operated was decided by the National Pension Fund Operation Committee. For this reason, the final decision that appointed the Minister of the EPB to be a chairman of this Committee was an essential part of state developmentalism.

The second conflict emerged concerning the use of the National Pension Fund which should be either reserved through real capital investment<sup>8</sup> (MoHSA) or diverted through financial

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As the first meaning of investment, real capital investment is generally taken to mean in economic theory the actual production of real capital goods such as the construction of a new motorway or the erection of new factory buildings.



investment such as the purchase of stock exchange securities (EPB). The EPB's proposal was finally adopted but in practice both tactics were used by the government. Through the first tactic, the government borrowed capital from the Fund with 3 or 4 per cent lower interest rates than those in the financial market to invest it in government projects such as constructing high-speed railways and airports. By 1996, the government had borrowed more than half of the Fund, which could have obtained a higher investment return if it was invested in the money market. In fact, through the second tactic, the government invested the Fund directly in the money market. For example, however, 16.5 per cent of the Fund invested in the stock market had recorded 47.88 per cent losses by September 1997 (Kwon, Huck-Ju, 1999b: 27-28). Kwon (1999b: 32) argues that this financial crisis of national pensions occurred mainly due to inadequate policy design, for all that its financial management has been inefficient. This inadequacy in policy design, he argues further, originated from the legacy of 'developmentalism embedded in the Korean welfare state'.

The third conflict evolved around more fundamental issues about national pensions' redistributive functions. The MoSHA proposed that the mean wage of all participants in the National Pension Programme over their working life should be determined by the last three years of their income. But the EPB argued that it should be calculated by the entire period of contribution. This basically resulted in the reduction of the final monthly pension level because workers' working life-cycle tends to show that the wage level increases as they reach their retirement age. For example, Jacobs (1998:126) clearly points out that the last wage prior to retirement is typically higher than average lifetime earnings which basically yields a lower replacement rate. Furthermore, as Table 3.3 clearly illustrates, 'A' tended to influence the overall impact on income redistribution because the variable 'A' was a built-in mechanism of vertical redistribution. Yet, the replacement rate was about 40 per cent which was much less than 60 per cent of the minimum recommended level by the ILO. In other words, the pensions from the National Pension Programme were less than half of their wages during the last month at work. In short, even if the National Pension Programme might look redistributive on the surface, in practice, the majority of those on low wages were unlikely to benefit from it.



Table 3.3 The National Pension Programme's Pension Formula

$$\text{Basic pension} = 2.4 \times (A+B) \times (1+0.05 \times N)$$

- A: mean wage of all participants in the programme a year before their pensions start.
- B: average wage over individual workers' working life in the programme.
- N: number of years of contribution - 20
- 2.4: when mean wage of participants reaches middle value (median) on the basis of the minimum period of participation in the programme (20 years = 240 months), 40 per cent of monthly wage is earned. In other words, when  $A = B$ , a participant who has been in the programme for 20 years will earn about 40 per cent of his final income as a basic pension.
- 0.05: when the number of year of contribution exceeds 20 years, annual 5 per cent increase is added.

Notes: final monthly pension however is calculated as accumulation of basic pension and supplementary pension which includes spouse (6,000 won per annum); maximum 2 children aged under 18 or disabled above 2<sup>nd</sup> category (36,000 won per person); and parents including partners' aged over 60 or disabled above 2<sup>nd</sup> category (36,000 won per person).

In addition to these three sets of conflicts between the two competing ministries, there also were conflicting activities between two pressure groups during the legislation process. The issue was concerning whether retirement grants (pensions) should remain intact. Retirement grants had been solely paid by employers. On the one hand, the retirement grants were understood by the Federation of Korean Trade Unions (FKTU) to be in part a terminal bonus and in part deferred pay, with little relevance to age or to the circumstances in which the employment ends. Therefore, the FKTU argued that retirement grants and national pensions should be separately recognised. On the other hand, the Korea Employers' Federation (KEF) considered retirement grants as in part social security provision and in part a reward for meritorious services. Their opposing positions failed to come to terms and almost all decisions were made by the government. In consequence, the legally defined rate of retirement grants was to be transferred to national pensions contributions from 1993. This decision was to avoid potential overburden imposed on employers and at the same time to expect the system of retirement grants to be developed into the form of an occupational pension (NPC, 1998a: 128).

Despite all these conflicts, the National Pension Act of 1986 was almost identical to its predecessor with only two minor changes. The first change was to establish the National Pension Corporation with a special status on 18 September 1987 under the jurisdiction of the



MoHSA. The second change was to reinforce a compulsory principle covering workplaces with over 10 workers rather than 30. However, in practice, this principle of compulsory participation was undermined by the maintenance of the lump-sum payment because if one failed to return it after being given, the compulsory principle would no longer be valid. This subsequently indicated the loss of entitlement that required a minimum 20-year period of contribution. The lump-sum payment was furthermore paid not on the basis of earnings-related formula, but of equalised rate of interest added to contribution rates paid by employers and employees, thereby nullifying the function of redistribution. Despite this, the rationale behind its maintenance was a high turnover rate in the labour market and the scope of the scheme that only covered those in the workplaces (NPC, 1998a: 127-128).

In sum, the National Pension Act of 1986 did not progress much further from its predecessor, the National Welfare Pension Act of 1973. In fact, there is little doubt that the two pension programmes are almost identical except for the two minor changes identified. The economic ministry had still taken a superior role over the competent ministry in framing national pensions. Given the supreme role played by the EBP, there had been no substantial contribution made by the National Assembly or political parties in making national pensions, thereby causing little controversy around the basic framework concerning benefit level and contributory rate.

### **3.4.2 The Minimum Wage Act: Responding to Social Demands or Pursuing Political Interests?**

In 1986, on the same day that national pensions were materialised into legislation, the minimum wage became an Act. In comparison to a set of ministerial conflicts found in the process of national pensions, however, the policy process leading to the introduction of minimum wage was more dynamic and more sensitive to contemporary social conditions. There is little doubt that the growth of the national economy in the 1970s was outstanding, recording 9.36 average GDP growth rate, which was higher than any other decadal period (NSO, 2000e; see Figure 5.2 in Chapter 5). However, as income disparities presented in Table 3.4 show, the income distribution ratio between the top 20 per cent and the bottom 40 per cent decile groups had not made significant progress. Social inequality and relative deprivation became increasingly significant social problems as a result (Table 3.4; see also Table 4.1 in Chapter 4).



Table 3.4 The Trend of Income Distribution

	1965	1970	1976	1978	1980	1982	1985	1986	1988	1990
(1)	41.8	41.6	45.3	46.7	45.4	43.8	42.7	41.3	42.2	40.4
(2)	19.3	19.6	19.9	15.5	16.1	18.8	18.9	19.7	19.7	20.5
(3)	0.34	0.33	0.39	0.4	0.39	0.36	0.35	0.34	0.34	0.323
(4)	0.46	0.47	0.44	0.33	0.35	0.43	0.44	0.48	0.47	0.507

Notes: (1) The percentage of income by the top 20% income decile; (2) The percentage of income by the bottom 40% income decile; (3) Gini Coefficient; (4) Deciles Distribution Ratio = (2) ÷ (1).

Source: EPB (1990: 56).

Given these social conditions, trade unions such as the FKTU had been lobbying for the resolution of income disparity problems from the 1970s. Yet, employers' organisations, including the KEF, argued that it was too soon to introduce a minimum wage because wage increases must principally be based on the scope of productivity. Despite these socioeconomic conditions, therefore, no proposals concerning minimum wages were made in the Fourth (1977-1981) and Fifth Five-Year (1982-1986) Economic Development Plans. Oh (1987:99) identified reasons for this, arguing that the then Prime Minister and the Minister of the EPB had blocked them, thereby preventing popular debate (Oh, Eul-Im, 1987). In fact, the then Prime Minister, Shin, Hyun-Hwak, said that it was 'too early to introduce minimum wage in Korea' (HDN-a, 19 June 1980). In short, not until structural problems became seriously challenged, largely through increasing pressures from both indigenous and exogenous factors, were minimum wages subject to a political and public debate. Indigenously, there were increasing rates of labour disputes and the growing realisation of the press. Exogenously, the ILO requested to publicise whether the minimum wage system existed at all. The United States also questioned the structure of the low-wage labour market in Korea leading to trade issue policies (MoL, 1986:120).

Given this context, as one of the employers' organisations, the Korea Chamber of Commerce and Industry (KCCI), and the Ministry of Labour (MoL), surveyed industries' attitudes towards minimum wages in 1982 and 1983. They subsequently concluded that most industries had replied positively to their introduction (KCCI, 1983:98). Encouraged by this result, the MoL argued for their introduction and assumed that minimum wages could help the national economy to grow steadily by preventing an increase in labour disputes (see Chapter 2). The MoL asked the affiliated Economic Institute of Seoul National University to



conduct research which could be referenced in order to create the new scheme. However, responses from power elites had not been very positive and this included the response of the president himself. The MoL's attempt to materialise a minimum wage in legislation was partially based on President Chun's Inaugural Address where he confirmed the 'Construction of a Welfare State' (Chun, Doo-Hwan, 1980). Yet, it was not until 1986 that the prospects for a national minimum wage finally began to be considered positively by political elites. The reason for this change is not entirely clear but perhaps this had resulted from aforementioned international pressures, domestic structural and electoral necessities. In fact, for example, the number of strikes and lock-outs increased dramatically during this particular period of time (see Figure 2.2. in Chapter 2; Appendix 3).

In 1986, the government formed a mediation committee for the Sixth Five-Year Socio-Economic Development Plan (1987-1991). The creation of this committee was a landmark that involved officials from both the MoL and the EPB, representatives from trade unions and employers' organisations and academic intellectuals to discuss the adoption plan for minimum wages on 28 January 1986 (Chung, Byoung-Suk and Kim, Hun-Soo, 1988:109-110; Joo, Jaehyun, 1999a: 400). Subsequently, in August 1986, the Fifth Republic's welfare policies were summarised and published by the EPB, MoHSA, and MoL (1986). This report included a plan for the implementation of national pensions, universal expansion of health insurance, and the introduction of a minimum wage. This was also remarkable in that the economic ministries at last became a supporter of the minimum wage programme.

President Chun finally announced the adoption of minimum wages in August 1986 (Presidential Secretariat, 1987:164 requoted from Joo, Jaehyun, 1999a: 400). The President's declaration enabled executives to precipitate their activities. On 3 September 1986, the MoL proposed its own draft and passed it on to the ruling party, the Democratic Justice Party (DJP). Political parties also began to participate more actively in this political process. Since one of the opposition parties, the Korean National Party (KNP) initiated a minimum wage bill on 11 March 1986, the main opposition party, the New Democratic Party (NDP), also submitted its own scheme on 23 October 1986, followed by the ruling party on 20 November 1986 (NAO, 1986b: 20). The FKTU was not an exception in this process by presenting a petition proposal to the National Assembly. Of which, Oh (1987:100) points out that the KNP's bill was originally modelled on the Japanese system. The DJP's bill was



passed on by the MoL and included many parts of the KNP's. The FKTU's petition proposal was excluded in the process of deliberation on the grounds that its content was already reflected by political parties' bills. At the National Assembly Standing Committee for Health and Social Affairs, each bill submitted was discussed and then unified from three political party bills into a single bill (NAO, 1986a: 13). During its legislation process, the NDP took part neither in the deliberation process nor in the General Meeting of the National Assembly. Instead, the NDP focussed on the constitutional issues and vetoed the National Assembly activity. Consequently, the minimum wage bill became an Act in the absence of the main opposition party with no critical discussion (NAO, 1986b: 20-21).

In sum, compared to the process of national pensions legislation, minimum wages were introduced as part of a response to sociopolitical unrest and social demands (see Figure 2.2; Figure 2.3 in Chapter 2). In its legalisation process, although the MoL designed the draft, the ruling party took all the credit by taking it as the form of an assemblymen-initiative bill. For the ruling party, minimum wages were politically important for the thirteenth National Assembly election in 1988. In forming a draft bill for minimum wages there was strategic cooperation the MoL and the DJP. This strategic cooperation was possible because the MoL had long been trying to win the economic ministries over to its side while the ruling party had to deal with the upcoming election. In short, their strategic concerns coincided. Nonetheless, this does not mean that the state elites' perceptions on worker-friendly policy initiatives changed dramatically. Nor did workers' perceptions on the nature of regime because of the absence of a progressive revision of labour laws that could have developed the workers' bargaining power. Joo (1999a: 402) interprets this process as the state elites' political interests taking over the importance of their policy ideas. Socioeconomic conditions, political illegitimacy, and the state elites' political responses were the context within which the minimum wage bill finally materialised into legislation. Leaving aside its effectiveness, its legislation was possible because policy ideas and political interests coincided at a historically significant juncture.



### **3.4.3 The Financial Integration of National Health Insurance<sup>9</sup>: Presidential Veto Power**

Since its universalisation, the National Health Insurance Programme in Korea has been subject to constant controversy surrounding the issue of administrative management which cannot be separated from issues of cost containment and financial stabilisation. The programme had been managed by the health insurance societies, which were non-profit quasi-governmental organisations established in either the workplace for wage earners or residence area for the self-employed. In 1997, on the one hand, the National Federation of Health Insurance Societies managed 92 health insurance societies in rural areas and 135 health insurance societies in urban areas. On the other hand, the Health Insurance Corporation administered a health insurance corporation for the government employees and private school teachers throughout the country, and 150 employees' health societies for industrial employees (MoHW, 1998b: 407). In 1999, the health insurance programme was being enforced by 142 insurance associations serving company employees and 161 branch offices of the National Health Insurance Corporation for other citizens<sup>10</sup>.

This two-tiered financing and administrative structure has since July 2000 been unified into the National Health Insurance Corporation (Korea Herald, 20 April 2000; MoHW, 2000b: 62). Its controversial debate however dates back to 1989 after the first controversy of 1983 failed to pave the way for integration. On 9 March 1989, the National Assembly passed the

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The National Health Insurance Act in Korea has been amended about seventeen times between the amendment in December 1999 and its first enactment on 16 December 1963. Before its actual implementation from 1 July 1977, the second Amendment on 22 December 1976 enabled it to be compulsory, covering workplaces with 500 workers or more. The coverage had been extended to workplaces with 16 or more by 1982 and to workplaces with 5 or more by 1988. Following the inclusion of Oriental medicine into the system from February 1987, the seventh Amendment Act on 4 December 1987 expanded its coverage by including siblings aged under 20 and daughters and sons-in-laws of the insured's (Son, Annette Hye Kyung, 1998:23). From 1 January 1988, the government introduced a regional health care system for the self-employed in rural areas. From 1 July 1989, as the health care system started to cover the self-employed in urban areas, the National Health Insurance Programme (NHIP) has begun to cover virtually the entire population in association with the Health Assistance Programme established in 1977.

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As one of President Kim Dae-Jung's policy reform projects, the National Health Insurance Corporation (NHIC) was established on 1 October 1998. The NHIC incorporates 227 regional insurance societies for general citizens including the self-employed with the now-defunct Health Insurance Corporation, which had worked for government officials and private school employees (Korea Herald, 5 August 1999).



national health insurance bill that integrated the two-tiered structure of the health system. This bill was considered under the unique situation where opposition parties managed to occupy more seats than the ruling party for the first time in Korean political history. For example, at the thirteenth National Assembly election on 26 April 1988, the ruling DJP gained 125 out of total 299 seats, while the Party for Peace and Democracy (PPD), the Reunification and Democracy Party (RDP), and the New Democratic Republican Party (NDRP) gained 70, 59, and 35 seats, respectively (Kim, Hong-Nack, 1989:487).

Under this political situation, there were two contradictory schools of thought in conflict concerning the overarching structure of national health insurance. On the one hand, academics specialised in social security argued that the integrated system could work better at promoting equality of access to health care in four ways: (1) contributing social equality of insurance contribution; (2) reducing the poverty gap and contributing national solidarity; (3) stabilising health finance and protecting reverse distribution; and (4) promoting effective management of the system. On the other hand, those who argued for the two-tiered system maintained the idea that health insurance was aiming at health security rather than income redistribution. Also, as many scholars have argued (e.g. Corden, 1999b; Williams, 1999), it was hardly feasible to measure the actual income and assets of the self-employed. This difficulty, they argued, might generate the possibility of reverse distribution. According to them, the two-tiered system would work better with liberal-democracy, local government and the capitalist economy.

In fact, the essential part of the discussion determining the merger of health insurance was to raise the question of how to maintain its financial stabilisation after the full coverage of the entire population. This was because although government subsidy made up to 36 per cent of insurance funds to alleviate the burden imposed on the self-employed in rural and urban areas, the major source of finance was contributions paid by the insured. For industrial workers, contributions were paid equally by employers and employees. The government paid a half of the contributions for its own employees and 20 per cent for private school teachers. The government also subsidised self-employed health insurance societies for the society's administrative cost from general revenue. In addition, there was a third party payment system in operation. Health services for the beneficiaries were provided by the medical practitioner or medical facilities not owned by the insurer and those health service providers were reimbursed by the insurer on the basis of fee-for-service (Lee, Du-Ho *et al.*, 1992:317-359).



Under this financial complexity, the existing two-tiered system could not solve five practical problems. First, structural unbalance between different health societies inevitably caused financial difficulties because the contribution level was determined by health societies to which the insured belong according to their region of work. This subsequently engendered a financial gap between financially stable and unstable societies. Second, financially unstable societies faced difficulties expanding insurance benefits and medical services. In general, health societies for industrial employees or government employees were financially more stable than those who belonged to regional health societies because the former's contributions could be directly deducted from their salaries. For this reason, the benefit level for those who belonged to regional health societies tended to be downwards equalised. Third, the two-tiered system differentiated by employment status raised the problem of fairness. Son (1998:23-24) points out that this was because the monthly insurance contribution for members of the employee group to the health insurance societies was determined by their monthly wage depending on the decisions made by the health societies they belong to. By contrast, the monthly insurance contribution rate for the self-employed, farmers or employed in the informal sectors was determined by the regional grading system based on their income level, property and family size. Fourth, there were also losses of 'economies of scale' in both administration and finance. On no account were financially unstable small size health societies effective in their spending on management and operation. Finally, the two-tiered system was unlikely to manage and operate national health insurance efficiently. For example, if the insured moved from one health society to another, it was possible that the management of qualification could overlap. This may result largely from lack of a joined-up approach including information of contribution and deferred payment records.

All these practical problems provided a rationale for the idea that all health insurance funds should be integrated. Thus, the idea was supported by a majority including the ruling party, major opposition parties, regional interest groups, and the Korean Medical Association (KMA). Only the MoHSA and the NDRP did not support the argument (NAO, 1989b, 1989c, 1989d). During the process of its legislation, the government played no significant role. Even the ruling party participated in the main stream along the line of opposition parties. How this exceptional political process was possible remains arguable. For some, this exceptional process was possible because many of those who supported the merger were members of the Health and Social Affairs Committee in the National Assembly, or even in



the ruling DJP. For others, this was possible because National Assemblymen had to listen to local voices. In other words, there was a certain amount of restriction for National Assemblymen having to listen to their regional supporters because the 13<sup>th</sup> National Assembly Election was based on the 'small-constituency' system (a small-member constituency system). However, a more reasonable account may be that leaders of the ruling party had anticipated a presidential veto. In fact, the DJP, the government and a Cabinet council suggested that the president should exercise it, while three opposition parties suggested not to. On 24 March 1989, fifteen days later the National Assembly passed the bill, President Rho actually exercised his veto on it. The reason for his final decision was officially known as there being illegal components, difficulties with enforcing the bill in practice and possible imposition of an increasing burden on salaried employees (Lee, Kyeong-Kee, 1991:199). As seen in Table 3.2, all the Bills submitted by the National Assembly require approval by the President. With the President's veto power exercised at the last moment, the Bill for national health insurance integration failed to become an Act.

In sum, as Lee (1991:199-200) argues, the policy outcome of this political process can be read as a strategic means to maintaining political power, minimising the government's financial imposition and to protecting those with vested-interests. To integrate the financial system for national health insurance might discern the problems of the existing taxation system that levied contributions based on incomes and assets, thereby causing public tax resistance. To make a one-tier financial system would undoubtedly produce the across-the-board state intervention to overall health issues, thereby resulting in more financial imposition. To integrate existing health societies might also result in the loss of existing bureaucratic patterns that had substantiated political power. For maintaining political and economic interests, it could be argued, a presidential veto was exercised. In short, prevailing policy ideas failed to materialise into policy initiatives for another decade.

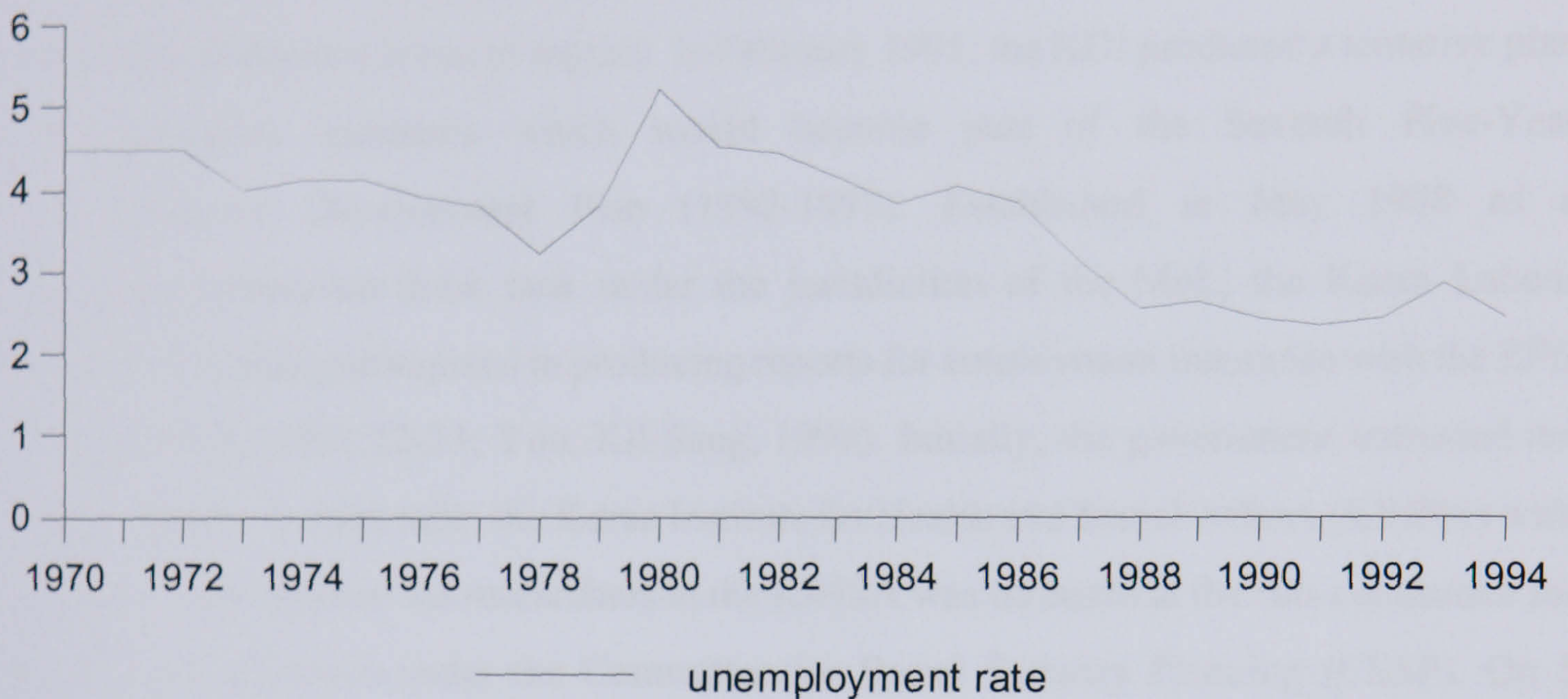
#### **3.4.4 The Employment Insurance Act: State Protection for Contingencies or Structural Adjustment as Necessity?**

Enacted on 27 December 1993, the Employment Insurance Act provided a legal basis for the Employment Insurance Programme that was launched on 1 July 1995. Its introduction was already suggested from the Second Five-Year Economic Development Plan in the 1960s, yet failed to be given life mainly due to the principal economic orientation known as 'economic



growth first, distribution later' (see Chapter 2). However, prior to the Fourteenth General and Presidential Election in which both ruling and opposition parties promised its introduction as one of their election pledges, unemployment had not returned to the subject of much political or public debate. Not even in the late 1970s was it the case, as Figure 3.3 clearly illustrates, for its introduction could impose too much burden on companies, and the overall structure of industry was yet to be mature (MoL, 2000a: 16).

Figure 3.3 Unemployment Rate 1970 -1994 (Labour Force Sample Survey, %)  
Sources: EPB (1990a:17); NSO (1998a:128)



This prolonged ignorance might have originated from the fact that the system of retirement grants had played a role as an unemployment benefit. As seen in the policy-making process of national pensions, this system of retirement grants was and still is one of the unique systems found in Korea. However, most accumulated funds drawn from retirement grants have been operated within individual firms, thereby being relatively unsafe against financial impact such as bankruptcy. For individual firms, retirement grants were considered as overburdened personnel expenses (MoL, 1993:145). Furthermore, according to the Labour White Paper (MoL, 1993:145), almost 80 per cent of those who were unemployed relied on informal support such as their family rather than their own savings. Therefore, there had been an increasing demand for the state's commitment to the minimum livelihood security against lay-off and downsizing. Given this, various interest groups<sup>11</sup> had demanded and showed

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For example, Federation of Korean Trade Unions (FKTU), The Korean Traders Association (KTA), the Korean Chamber of Commerce and Industry (KCCI), the Korea International Trade Association (KITA) and even the Korea Employers' Federation (KEF).



expressions of interest in its introduction especially from 1989. In April 1991, for example, the KCCI and the KITA proposed that employment insurance provide support for industrial restructuring. In April 1993, representatives of the FKTU and the KEF came to terms with an item that proposed the earlier implementation of employment insurance to the government. For employees, this was a compensatory measure in return for a stoppage of strikes. Labour disputes for wage increase would occur otherwise as a self-support measure against employment instability (MoL, 1995:173, 2000a: 19).

At a similar time or even before increasing social demands were visualised, a number of think tanks produced a series of reports. In February 1991, the KDI produced a tentative plan for employment insurance which would become part of the Seventh Five-Year Socio-Economic Development Plan (1992-1997). Established in May 1988 as a government-sponsored think tank under the jurisdiction of the MoL, the Korea Labour Institute (KLI) also participated in producing reports for employment insurance with the EPB (EPB and MoL, 1991:22-23; Yoo, Kil-Sang, 1999). Initially, the government entrusted the welfare ministry's think tank, the Korea Institute for Health and Social Affairs (KIHSA) with the project. Yet, none of the researchers in the KIHSA was on board at the sub-committee for employment insurance under the Committee for Social Security Planning (CSSP). On 5 February 1991, those in the CSSP suggested that the KLI should take over the project. On the following day, the KLI became the research institute responsible for designing employment insurance (MoL, 2000a: 17-18). On 27 March, researchers in the KLI won the policy-practitioners for the Seventh Five-Year Socio-Economic Development Plan over to its introduction by arguing that unlike *unemployment* insurance, *employment* insurance should be able to promote an active labour market policy. This was a landmark moment that made economic policy practitioners change their views on employment insurance from social development to human development. As a result, the decision to introduce employment insurance was finally taken at the Economic Ministers' Conference on 23 August 1991. This was officially the final decision that enabled employment insurance to become part of the Seventh Five-Year Socio-Economic Development Plan (MoL, 2000a: 19).

On 18 May 1992 the employment insurance research team was established within the KLI in order to conduct systematic research. On 30 July 1992, the MoL announced the possibility of employment insurance being legislated upon and a set of hearings took place. Related



interest groups and Executive bodies made efforts to coordinate the Bill. In general, the FKTU and the MoL made similar proposals and so did the KCCI, the KEF, and the EPB. The most sensitive areas such as the administrative structure and the scope of coverage were however entrusted to Presidential decree in the final government Bill. Also, the level of contribution was decided on the side of the Economic ministries even if the MoL was responsible for it. Thus, the overall influence of the Economic ministries was stronger than that of the Labour ministries. Yet, the FKTU made their voice heard at least in part in the final Bill since the final Bill did not allow a certain amount of retirement grants (pensions) to be diverted to insurance contributions (Park, Dong-Meong, 1994).

On 28 October 1993, however, only the government Bill was sent to the National Assembly, while political parties were deeply engaged with issues concerning constitutional reform. For this reason, the Bill did not progress much further from the MoL's bill throughout the deliberation process. The government and the ruling party made a great attempt to simply pass the Bill through persuading those in opposition parties who did not actively participate in revising the Bill. The role of the state in financing the programme remained passive, and most regulations concerning administration, contribution, and coverage were determined by those proposed by the Economic ministries.

Policy ideas for employment insurance had been raised by various channels from the beginning. Yet, there is little doubt that the critical concern for its introduction was not to establish the welfare programme that could enhance the living standard of workers but to stabilise the national economy. In December 1993, for example, the MoL announced a 'new human-power policy' which was modelled on the Japanese type of organisation development<sup>12</sup> (Uh, Soo-Bong, 1993:43-44). To structure a competitive labour market, employment insurance was part of overall structural adjustment policy in industry rather than part of social security policy. Its principal objective was therefore to resolve the difficulties underlying dramatic changes of overall economy. According to a series of the Labour White

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Japan has developed the labour market condition in response to the prevailing drawbacks that resulted largely from the repeated process of simple labour as a mass-production mechanism. These weaknesses were disincentives for workers, a high rate of inferior goods and an inflexibility of changing demands. As a post-Fordist arrangement, the new method developed in Japan aimed to strengthen the functional flexibility of labour, flexibility of wages, and flexibility of labour supply. As a result, a competitive internal labour market structure could be achieved.



Papers (MoL, 1993:145, 1994:179, 1995:172, 1996:245), it becomes clear that employment insurance aimed to be preventive rather than curative, requiring active support for the labour market beyond the activity of providing unemployment benefits, thereby what was conventionally known as *unemployment* insurance was being replaced by *employment* insurance (see also Chapter 2). What was important was not to decide what the programme ought to be, but to ensure that it should be in operation in response to an election pledge. As we shall see in Chapter 4, the Employment Insurance Programme was not adequately designed to achieve a preventative objective.

In sum, it was the government that initiated employment insurance in order to adjust the industrial structure and promote the supply and demand of labour. The underlying rationale of the legislation also originated from the urgent necessity of structural adjustment of industry in order to strengthen national competitiveness. This adjustment however consequently required active state intervention especially in its finances which largely remained unresolved. All that has been discussed through the four pieces of welfare legislation reflects the 'politics of possibility' in the period of democratic transformation to which now we turn.

### **3.5 The Politics of Possibility: The Overall Lessons from the Case Studies**

For most advanced capitalist states, it was the period from the mid-1930s to the late 1940s that the principles of sound finances transformed to those of the Keynesian welfare state. In part, the period of the 1980s has also been one of the policy transformations in which most Western democratic nations experienced some degree of challenge to the policy orthodoxies elaborated during the Keynesian welfare consensus. Castles (1990:491) argues that:

'[T]he most massive policy transformations occur when existing long-term policy strategies become the subject of political challenge with a view to new fundamental decision premises replacing the old. It is under these circumstance that we may meaningfully discern a watershed in public policy development, with established policy orthodoxy under attack and alternative policy agendas vying to take its place.'

In Korea, it was the period from the late 1980s to the mid-1990s that transformed the policy orthodoxies elaborated during the military authoritarian rules to more dynamic directions. However, we argue that it was not democratisation *per se* that became a determining factor in shaping social policy but its implication that required political actors to follow principles



institutionalised in the form of rules and norms. Under these conditions in which principled reasons are required for proposed courses of action, ideas become important. From the case studies, it was clear that social policies were unlikely to take their institutional shape unless social demands became the point at issue in a political spectrum. In other words, not until these social challenges became actualised as a transformed policy agenda were social policies formed into institutional shape. For this reason, social policies better reflect social demands under the democratic rules than under the authoritarian rules where social policies are likely to be introduced for politically purposive reasons. That social policies can be an effective means of obtaining political support leads to an idea that political actors are likely to consider their political effects, thereby social policies are introduced prior to upcoming elections. This can often be the case under the authoritarian and democratic rules alike, yet more so under the democratic rules because vote-gaining at the election appears more important in obtaining power.

Having passed at the 131<sup>st</sup> General Meeting of the National Assembly on 17 December 1986, both national pensions and minimum wages were materialised into legislation on 31 December 1986. Prior to the presidential and general election of 1987 and 1988 respectively, these two pieces of legislation shared the timing that fulfilled the objective of vote-gaining. For the government, however, it was capital mobilisation that underpinned the introduction of national pensions whereas it was economic necessity that required an active response to emerging social demands of minimum wages. To be more specific, it was the President who took the policy initiative in introducing national pensions while it was party dynamics that made the first move towards minimum wages. In a strict sense, not until the President announced their initiation was their enactment within the bounds of possibility. Yet, President Chun did not direct minimum wages whereas national pensions were under his instructions. A further difference was that it took only 55 minutes within 7 days of deliberation for a standing committee to pass national pensions. A standing committee spent only 127 minutes to pass minimum wages, yet the entire deliberation process lasted 173 days (NAO, 1986a, 1986b, 1986c, 1986d). During this process, a national pension bill passed as drafted, but a minimum wage bill passed as redrafted by a standing committee. In short, these detailed differences show that national pensions reproduced an authoritarian political process while minimum wages were an example of social challenge becoming a transformed agenda during the period of regime complications. In other words, social policies even under



the same context (i.e. time-frame) can differ to the change of conditions that influence the political process.

Conditions under which the financial integration of national health insurance of 1989 took place were favourable in economic and political terms for democratic consolidation. The national economy, for example, underwent average 11.5 per cent GDP growth rate for the past three years (BoK, 2000). In comparison to the conventional format of party politics where the authoritarian regime 'actively and carefully cultivate limited oppositions behind the scene, in order to maximize the legitimating rule of the legislature' (Kim, Chong-Lim, 1988:9), the opposition parties took more seats than the ruling party for the first time in the history of Korean legislature. In societal terms, not until as late as 1988 were social demands made for social insurance, while they had dominantly evolved around issues on labour welfare. In other words, it was from early 1988 to mid-1989 that social demands underwent a dramatic change from labour-related issues to more general welfare issues for the entire population. This dynamic of social change was further evidenced by the fact that it took 646 minutes within almost three months for a standing committee to pass the bill as redrafted by the committee (NAO, 1988, 1989a, 1989b, 1989c, 1989d). Despite these favourable conditions for a democratic political process, the exercise of presidential veto power eventually sent the bill back to the National Assembly. Not only did this decision lead the opposition parties and other social organisations to demand that President Rho should withdraw his veto but also it pushed him and his DJP to an impasse. Meanwhile, the event that the priest and a university student from a progressive camp visited North Korea gave political leaders an opportunity to manufacture political demands for national security, thereby creating conditions for their own action. By the creating of this temporary crisis, they imposed their own definitions of problems and diverted the public's attention from national health insurance. Further to this reproduced conservative recurrence, it was the creation of the gigantic governing party on 22 January 1990 that finally set President Rho free from the pressure. In short, by presidential veto power emergent democratic elements returned to a conventional format of the old style rule.

In fact, this return of conventional rule may explain why the National Assembly played a relatively small role compared to the government at the 14<sup>th</sup> National Assembly from 1992 to 1996 (see Figure 3.1; Appendix 5). In contrast to the favourable conditions for the financial



integration of national health insurance in the late 1980s, GDP growth rate fell down from 9.1 per cent in 1991 to 5.1 per cent in 1992 (BoK, 2000) and unemployment rate increased from 2.4 per cent in 1992 to 2.8 per cent in 1993 (NSO, 1998a: 128; see also Figure 3.3). Given this, as part of structural necessity, employment insurance reflected a 'new human-power policy' which was announced by the MoL in December 1993 (Uh, Soo-Bong, 1993:43-44). Modelled on the Japanese type of organisation development, this new policy challenged weaknesses that largely resulted from the repeated process of simple labour as a mass-production mechanism. By strengthening flexibility of wages and labour supply, a new human-power policy shared the idea with a post-Fordist arrangement in order to suggest solutions to disincentives of workers, a high rate of inferior goods and an inflexibility of changing demands. In other words, employment insurance was part of overall structural adjustment policy in industry rather than part of social security policy itself. It was introduced not to enhance the redistribution of welfare but to resolve the difficulties underlying dramatic changes of overall economy such as the emergence of a dual-economy and instability between labour demand and supply.

Nonetheless, it should not be underestimated that not all emergent democratic elements returned back to the old style rule. On 18 December 1992, the 14<sup>th</sup> Presidential Election made it possible for the first civilian government in thirty-two years to be in office. Under the authoritarian rule, interest groups were only able to expose their interests only after certain issues were transformed as a policy agenda. For employment insurance, interest-articulation was made even before the government framed the policy agenda. The role of President Kim remained indirect and passive, though economic ministries still played a superior role over the responsible ministry. In short, the return of the old style rules was a partial step-back, not a complete retreat. They were not allowed to be back in shape by ignoring what had been undergone during the period of democratisation.

In sum, the greater the institutional changes attempted, the greater are their unintended and largely unexpected repercussions, forcing upon those in power the expedient of piecemeal improvisation. A democratic transformation from the mid-1980s to the early 1990s made it possible for the existing authoritarian regime to change. This possibility of changeability in a critical juncture became substantially meaningful. For some, the arrival of democracy signalled that systems could be reformed. For others, the old style rules of the game were no longer allowed to return. Policy change at a one time point influences what comes next.



Change occurred because the essential components that maintained the old rules had already been rearranged by different sets of challenge. For this reason, the 'politics of possibility' is a mirror image of the possibility of changeability.

### **3.6 Conclusion**

Judged by the similar criteria that were originally set out by Dahl in his seminal work *Polyarchy* (1971) and then simplified by the Freedom House Survey Team, it is since 1988 that Korea has been judged to be democratic (Lijphart, 1999:54). In a broader time span, it was from the late 1980s to the mid-1990s that the existing 'rules of the game' were transformed to a new order. Policy change during this period, we have argued, was largely seen as a reaction to changes in demand mobilisation, interest articulation and political perceptions to them. Far from being fixed and stable, these changes were frequently sporadic in appearance, fluctuating in intensity, ambivalent in composition, and therefore logically inconsistent in pattern and structure. This inconsistency however was mediated by ideas about what was good for society. The important role played by such ideas has also been argued by a number of scholars in the context of the United States (e.g. Heymann, 1988; Kelman, 1988; Moore, 1988; Orren, 1988). Reich (1988:124), for example, summarises the core argument developed by these scholars that 'citizens are motivated to act according to ideas about what is good for society; that such ideas determine how public problems are defined and understood; that government depends on such ideas for mobilizing public action'.

Under the authoritarian rule in Korea, such ideas were aggregated by networks of knowledge-based community, yet their roles were equally confined within a small terrain which constrained their diffusion and transformation to be a policy agenda. Under the period of political transition, by contrast, epistemic communities played a less important role. Rather, it was previously inactive social movements that shaped such ideas and propelled them forward. Through this new source of participation in the political process, the prevailing view that social policies require conditions of economic growth was revised by the view that conditions of economic growth are not always in parallel with each other. For social policy development, in other words, economic growth is certainly a prerequisite but not necessarily a fulfilling condition. Social policies require conditions of economic growth but without the stability of any given political democracy, social policies are likely to remain a secondary policy task.



Much that has been said seems to acknowledge that policies may serve purposes other than those to improve social conditions. Further to this, all that has been said so far relates to one of the key processes of political systems (i.e. inputs) and to the diffusion process of policy ideas (Box 1 in Figure 1.1 in Chapter 1). A more direct focus on the policy context (content) rather than the process would provide a richer empirical insight into the ways in which policies are structured in society and the ways in which underlying goals and objectives of those policies are institutionalised. By taking a case study approach, social programmes that constitute major pillars of social protection in Korea will be analysed in the next chapter.



# CHAPTER 4

## The Politics of Implementation

### 4.1 Introduction

In a closed society policy makers can control almost all that happens in the policy environment. As the society becomes free and open, however, changes in the policy environment are no longer subject only to what happens inside government. The interaction between what happens inside government and what happens in the external environment may force changes in a programme that in turn condition further choice. Not only because this interaction is often unknown but also because the future is greatly influenced by the past, persisting with what was good enough before may become a cause of dissatisfaction. This dissatisfaction is often the result of a disequilibrium between political goals set out for a certain set of programmes at one point in time and their subsequent achievements at another point in time. The assumption that present obstacles remain in place is thereby misleading. For this reason, the ways in which political goals are implemented in the structure of social policy are an important empirical enquiry. Given this, the purpose of this chapter is to suggest that the politics of implementing social programmes in general and social policy reforms in particular is greatly influenced by what happened in the settlement of social problems in the past.

This chapter is organised into four sections. The first section examines the political process that reformed public assistance. The second section analyses the structure of old public assistance which was replaced by a new system through reform. These two sections on restructuring public assistance as part of a social safety net identify a number of decaying elements and demonstrate the ways in which they were transformed to a new order. By focussing on the structural problems that four major social insurance programme have encountered and the ways in which those problems have been approached, the third section explores the principled ideas and political underpinnings behind the structure of social policy. The concluding section of this chapter analyses the political discourse that underpins social policy reforms in response to the economic crisis and presents the overall lessons that can be drawn from the third section.

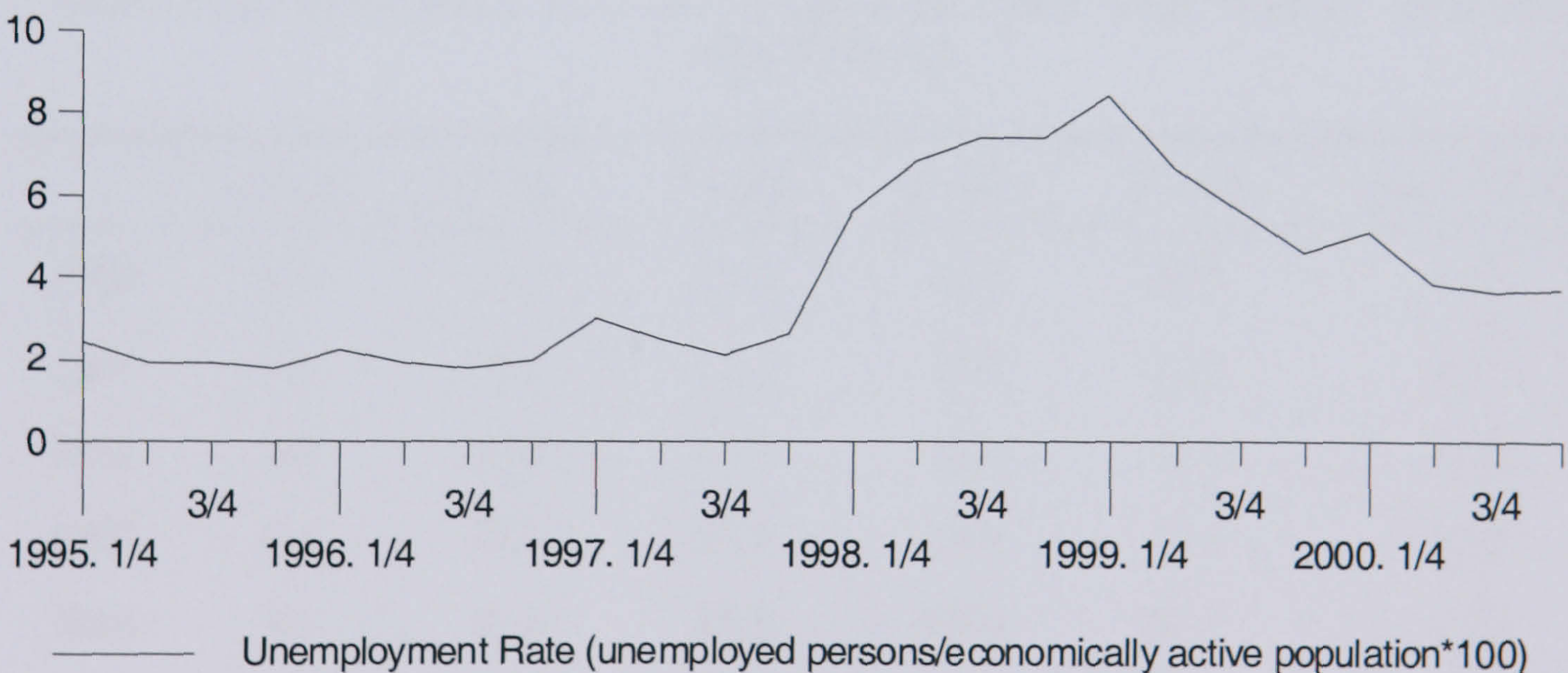


## 4.2 The Social Safety Net: The Reform of Public (Social) Assistance

For the most industrialised economies, whether to provide a sufficient social safety net under the conditions of economic retardation has always been highly contentious. This contention, Atkinson (1991) argues, evolves from the nature of the social safety net that owes its creation to the notion of a national minimum but conflicts with aggregate economic objectives. For this reason, it is logically expected that countries with high priority to economic policy over other policy areas are less likely to develop a social safety net. Confined to the design standards that each country achieved, the social security system in Korea was ranked as 130<sup>th</sup> out of 172 countries in 1995 (Dixon, 2000). Given the immaturity of this social safety net, the financial crisis in the economy since November 1997 widened a gap between what was socially desirable and what was economically feasible. As Figure 4.1 shows, for example, the unemployment rate in the first quarter of 1999 reached almost 9 per cent. Further, it was only from 1995 to 1996 that per capita GNP grew beyond the point of 10,000 US dollars until 1999. Per capital GNP fell from 10,543 US dollars in 1996 to 6,823 US dollars in 1998 (BoK, 2000).

Figure 4.1 Unemployment Rate (ILO standard) (%)

Source: NSO (2000b:222)



Despite this financial crisis in the Korean economy, this period is often seen as an important turning point that influenced the reform of the social safety net. As part of the International Monetary Fund's request and increasing demand from civic groups to set up an adequate social safety net, the National Basic Livelihood Security Act (NBLSA) was enacted on 12 August 1999 and began to be implemented from 1 October 2000. Since March 1998, the People's Solidarity for Participatory Democracy (PSPD) had played an active role in



reforming the existing Public Livelihood Protection Act. Subsequently, for the first time in Korean social welfare academia, 209 academics in the field of social welfare made a joint statement on 'building up the social safety net' on 12 May 1998. Almost 45 civic groups including the PSPD, CCEJ, KCTU and FKTU were involved in petitioning this enactment. The joint cooperative body of both civic and labour groups claimed that:

'The government's welfare programmes have proven ineffective in protecting the unemployed, handicapped and elderly...an increasing number of underprivileged citizens are not benefiting from such programmes following the nation's economic crisis' (Korea Herald, 5 March 1999).

The possibility of strong anti-government protest remained likely unless the government accepted these demands. To an extent, national consensus was possible because the economic crisis exacerbated not only the major economic indicators but also class disparities. Table 4.1 shows income disparities between different income decile groups in urban wage workers' households from 1990 to 1999. The last two rows show that the lowest income decile group had taken a smaller proportion of income compared than the top income decile group, thereby the ratio between them became much higher than that before the pre-economic crisis period.

Table 4.1 Income Distribution by Income Decile for Urban Wage Workers' Households, 1990-1999 (%)

	1 <sup>st</sup> (I)	2 <sup>nd</sup> (II)	3 <sup>rd</sup> (III)	4 <sup>th</sup> (IV)	5 <sup>th</sup> (V)	Ratio (V÷I)
1990	8.3	13.3	17.1	22.5	38.8	4.67
1991	8.5	13.5	17.3	22.7	38.0	4.47
1992	8.5	13.6	17.5	22.8	37.6	4.42
1993	8.6	13.6	17.5	22.9	37.4	4.35
1994	8.5	13.4	17.5	22.9	37.7	4.44
1995	8.5	13.5	17.5	23.0	37.5	4.41
1996	8.2	13.2	17.5	23.1	38.0	4.63
1997	8.3	13.6	17.7	23.2	37.2	4.48
1998	7.4	12.8	17.1	22.9	39.8	5.38
1999	7.3	12.6	17.0	22.8	40.3	5.52

Sources: Reconstructed Table from NSO (1998a: 156, 2000c: 168).



Perhaps responding to this growing income disparity, public opinion changed greatly from 1997 to 1998. For example, the percentage of those who supported the view that 'individuals should be responsible for their own welfare' in 1997 (20 May to 3 June) was 51 per cent of a total 1,117 nationwide representative. In 1998 (13 to 22 October), it dropped greatly to only 17 per cent of a total 1,010 adults. On the other hand, the percentage of those who chose the statement 'the state should be responsible for everyone's economic security' was 49 per cent in 1997 while it increased dramatically to 83 per cent in 1998 (Shin and Rose, 1997:28, 1998: 35).

Under these socioeconomic conditions, the proposed Act was centred upon the need to reform the existing categorisation of benefit recipients and the determination of eligibility<sup>1</sup>. The legislative petition was made by civic groups through Kim, Hong-Shin (Grand National Party) an assemblyman who introduced the Bill on 29 June 1998. In August 1998, on the basis of petitioning by civic groups and the draft bill designed by the ruling party committee for the basic livelihood security, the legislation judging committee of the ruling party (National Congress for New Politics) confirmed the National Basic Livelihood Security Bill as party policy and put forward legislation to this end. On 21 June 1998, there was the President's positive announcement of the enactment of the Act. This speech was the final decision made by the top-decision maker: the President. Yet, the National Assembly was not running on a regular basis because of confronting positions taken by ruling and opposition parties concerning the issues of political audit and the attempt to absorb opposition party members. For this reason, the Bill had remained outside the National Assembly. By the time those issues were through, the Bill was finally submitted to the National Assembly on 15 October 1998, sent to the Standing Committee for Health and Welfare on 17 October, and forwarded to the Petition Committee for Legislation Inspection on 25 November 1998 (Kim, Hong-Shin, 1999:22-23).

During this political process there were two sets of conflicts, the first of which occurred between those who wished to design the Act in different ways, while the second set of which concerned budgetary issues. First, the MoL maintained the negative position and argued that

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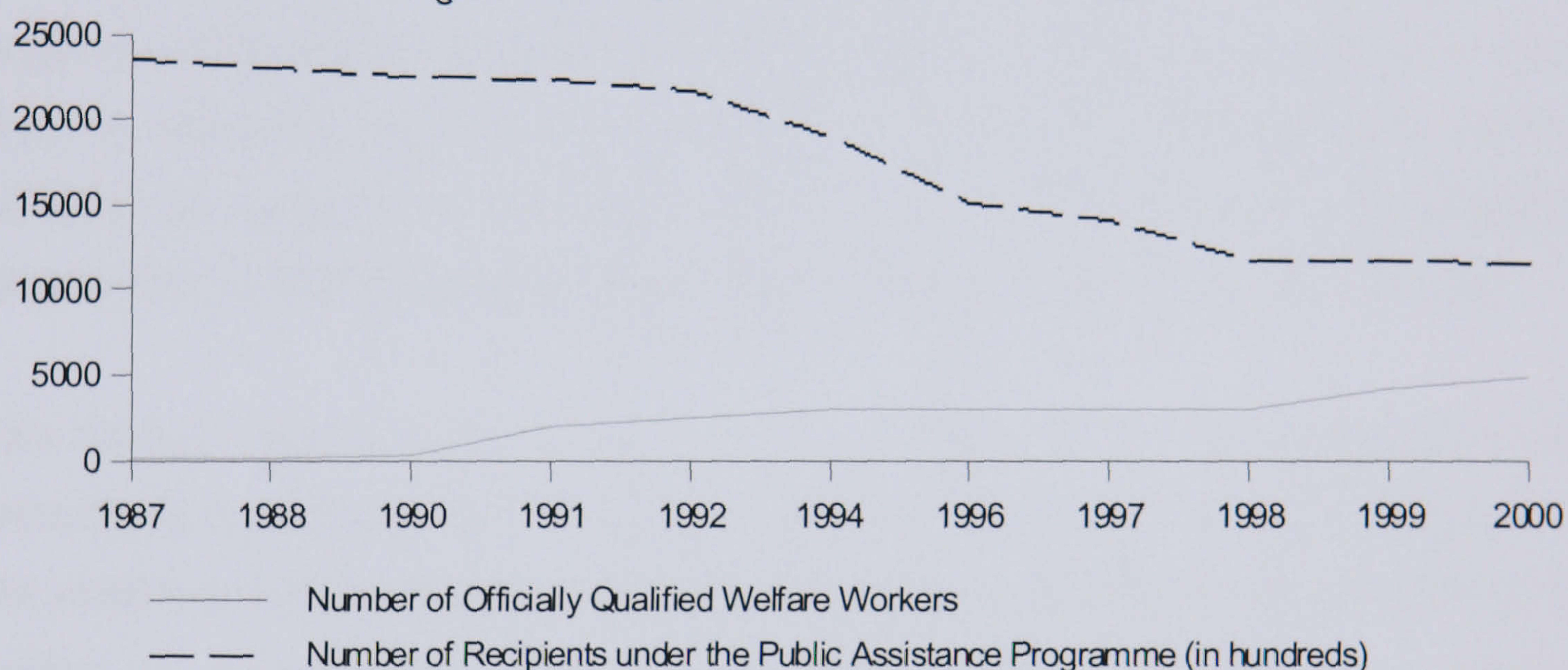
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Benefit recipients had been based on earning ability, and the determination of eligibility had been based on demographic criteria. In other words, those between the ages of 18 and 65 are assumed to be able to work unless mentally or physically disabled.



strengthening the social safety net should be promoted by making investment on employment maintenance such as promoting public workfare. However, the MoL did not achieve sufficient public support. This was because of the dramatic increase in the number of the unemployed and limited applications of temporary employment policies to marginalised classes. In contrast, the MoHW had agreed with the general principle of the extension of public assistance but raised administrative difficulties within the Act. The expansion of the Public Assistance Programme would require an expansion of the professional workforce prior to its implementation. This was largely because the programme had been carried out by a relatively small number of trained welfare officers since 1987.

Figure 4.2 Number of Welfare Officials and Clients



Notes: The actual number of both workers and recipients is lower than the above figures since the data is based on the regulation. For example, 3,000 places were available each year for welfare workers from 1996 to 1998 but only 2,935 in 1996, 2,929 in 1997, 2,887 in 1998 were actually on the job, and the fixed number of workers was 4,200 and 4,800 but the actual number was 4,095 and 4,496 in 1999 and in 2000 respectively; the number of recipients under public assistance does not include those under the temporary livelihood protection.

Sources: Reconstructed from MoHW (1998b: 299, 310, 311, 1999b: 201, 263, 2000a: 199, 2000b: 110, 154-155, 2001b).

As Figure 4.2 shows, the gap between the number of welfare workers and public assistance recipients became narrower over time. Yet, the gap still remained substantial. When it comes to the actual number of welfare workers rather than the number according to the regulation, the gap becomes bigger. This is also the case when the temporary livelihood protection recipients are included. Without an increase of their numbers, the programme was less likely to be effective. A single official worker, for example, took the responsibility for an average of 165 households in 1995. And almost 33 per cent of administrative units where they were required to be present was in operation with unqualified workers (MoHW, 1998b: 310-311).



Further to this, these professional welfare officials in the administration unit had officially been confined to particular types of positions which were unlikely to carry promotional prospects. On the scale of one (highest) to nine (lowest) in the ladder of an office-bearer, they could not rise above point seven. This obviously resulted in a lack of motivational incentives.

The second set of conflicts derived from the Office of Budget which opposed the introduction of the Act mainly because of underlying difficulties in financing the new scheme. The budget for unemployment and the existing social safety net had already increased. Once the Act was enacted, there would be increased risk of additional demand on an already overloaded social welfare budget. For this reason, as far as the Office of Budget was concerned, the existing Livelihood Protection Act should be maintained. Yet, those who supported its introduction argued that difficulties of financing could be resolved in two ways: first, by improving the leaky bucket effect of management (Atkinson, 1991); and by adjusting the emergency measures of the economic crisis in the form of public workfare programmes and training programmes for the unemployed (Kim, Hong-Shin, 1999:23).

This National Basic Livelihood Security Act was composed of several progressive and groundbreaking elements. Because of these elements, it would be possible to declare: first, the separation from previously imitated Japanese systems; and second, the introduction of welfare as a right (Kim, Yeon-Myung, 1998, 1999). Compared to the previous stigma-attached relief provision, benefits are provided as social rights under the new Act. Also, terminologies used in the new Act differ from those in the previous Act. The term 'protection' has changed to 'security' for example. Housing benefit has been introduced and the welfare workers' position in the administration unit has been absorbed into the mainstream ladder of public services. This means that they now have prospects for promotion. In addition, the increase in the number has also been promised up to the level of 7,200 nationwide (MoHW, 2000b: 152). An administrative official in the Livelihood Protection Division of the Ministry of Health and Welfare who has participated in the design of the temporary livelihood protection scheme said that:



‘The long lasting concern with this consistent demand for them to be located in the mainstream classification was possible because the issue has been taken into consideration with the support of the grand reform. It could have not been possible otherwise as the past experience for more than 10 years shows’ (Interview with Lee, Hyung-Hun on 12 June 2000, York, England)<sup>2</sup>.

The new Act requires the government to specify and announce the ways in which the minimum living cost is determined. To this end, the Central Committee for Livelihood Security in the Ministry of Health and Welfare is now given a role to play in consulting and making this decision which will later be confirmed and announced by the Minister of Health and Welfare. Further, the Act dismissed the existing categorisation of benefit recipients that had been based on earning ability. Integrating beneficiaries into the same categories means that all of those receiving public assistance are entitled to livelihood (income) support. This had previously been paid only to those unable to work. In other words, livelihood support used to be unavailable to households including at least one person aged between 18 and 64. Those aged between 18 and 64 had automatically been considered to be able to work. In this tradition, it did not matter if the household’s incomes were less than the minimum cost of living (MoHW, 2000b: 154). By the abolition of this demographic criterion that the person was deemed capable of working, however, they are now eligible for payments equivalent to the difference between their real income and the minimum cost of living<sup>3</sup>. In short, the overarching social demands of the time were reflected by this reform that was a step forward in institutionalising the principle of universality within public assistance.

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At the outset, he said further, this integration had been opposed by the Ministry of Government Administration and Home Affairs (MoGAHA) for two reasons. First, there was an equity reason because they had entered this employment through an exceptional route. Second, there had been emerging trends of ‘the small but effective government’ before the economic crisis. Thus, integrating welfare officials in the administration unit to a mainstream ladder would be a self-contradictory course of action for the government. In other words, the integration would inevitably result in an increase in the total number of officials in local authorities (governments). Hence, the integration would be likely to raise equity issues between those who become integrated and those not. But also would this raise difficulties for the overall management of all office bearers. To an extent, these problems are a result of the overall administrative structure. The work of welfare officials has been instructed by the MoHW, while the management of those personnel has been under the MoGAHA (Lee, Hyung-Hun, An Administrative Official in the MoHW. Interviewed on 12 June 2000, York, England).

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In fact, this has been another critical point that the Ministry of Planning and Budget presented. The reason was simple. Integration could reduce work incentives for those able to work. It could also generate an excessive demand from the general public. And once the level of welfares was set up at a high level, it is less likely to be feasible to bring it down.



In sum, originated and initiated by civic groups, the original motives of the Act were neither in response to legitimacy-deficit nor to capital accumulation. By integrating the beneficiaries categorisation, the Act responded to the criticism that the existing programme was no longer able to play a role as a social safety net in dealing with the newly emerging group of those in poverty: the unemployed. A senior member (Park, Soon-Chul) of the Committee for Social Welfare in the People's Solidarity for Participatory Democracy argued that 'by reforming the existing Public Livelihood Protection Act, the Bill aims to promote the state's active concern towards the issue of poverty. Public assistance has been in operation on the basis of residual welfare only for those in low income' (HDN-b, 15 January 1999; interview also undertaken on 8 September 2000, Seoul).

Despite all these positive elements, there appeared a number of features that were sensitive to political pressures. The media expressed a great deal of doubt about its initial intention by criticising the timing of its announcement. In fact, the government announced a set of welfare programmes<sup>4</sup> right ahead of the general election on 13 April 2000. This controversy was substantiated by the fact that none of the government's policy proposals dealt with appropriate explanations on methods of financing and of implementation. For example, the MoHW announced that the National Basic Livelihood Security Programme would be launched from 1 October 2000. Fifteen days later, the MoPB presented the budget reduction for livelihood protection of 2000. The rationale behind it was based on the assumption that the national economy would grow in general and the number of beneficiaries under the temporary livelihood protection scheme would decrease by half. That is, those under the temporary livelihood protection scheme (760,000 in 1999) out of the total number of those under public assistance (1,919,000 as 4.2 per cent of total population) would be reduced by half (380,000). Therefore, the total 1,539,000 would be selected under the new programme (HDN-b, 2 September 1999; see also Table 4.2).

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For example, the expansion of the unemployment benefit up to one year and a doubling of the number of beneficiaries; the government's promise to hold itself responsible for the loan guarantee for a great many households in the agricultural and fishery sectors; and the National Basic Livelihood Security Programme right after the Presidential Address on 15 August 1999.



Table 4.2 Social Security and Social Welfare Budget, 1980-2000

(Unit: hundred million won, current prices, per cent)

	A	B	C	D	B÷A	C÷A	D÷A
1980	64,670	1,730	-	-	2.7	-	-
1985	125,320	3,970	1,480	-	3.2	1.2	-
1986	138,010	4,560	1,740	-	3.3	1.3	-
1987	160,600	5,800	2,340	-	3.6	1.5	-
1988	184,290	8,200	3,130	-	4.4	1.7	-
1989	220,470	11,430	3,800	-	5.2	1.7	-
1990	274,560	14,870	3,860	11,520	5.4	1.4	4.20
1991	313,800	19,960	4,380	14,630	6.4	1.4	4.66
1992	335,020	24,190	4,630	15,460	7.2	1.4	4.65
1993	380,500	24,150	4,880	16,550	6.3	1.3	4.35
1994	432,500	26,140	5,390	17,720	6.0	1.2	4.10
1995	518,810	29,250	5,740	19,840	5.6	1.1	3.82
1996	588,228	35,279	7,130	23,710	6.1	1.2	2.94
1997	675,786	42,071	9,268	28,510	6.2	1.4	4.22
1998	755,829	45,761	11,210	31,130	6.1	1.5	4.12
1999	836,851	61,051	19,427	41,610	7.3	2.3	4.97
2000	887,363	80,737	24,090	53,100	9.1	2.7	5.98

Notes: (A) Government Budget (general account); (B) Social Security; (C) Public Assistance; (D) Social Welfare Budget allocated to the Ministry of Health and Welfare; (B÷A) Social Security as % of Government Budget; (C÷A) Public Assistance as % of Government Budget; (D÷A) Social Welfare Budget allocated to the Ministry of Health and Welfare as % of Government Budget.

Sources: Reconstructed Table, data adopted and calculated from MoHW (1998a: 362-365, 1999b: 364-367, 2000a: 362-363); MoPB (1999).

As Table 4.2 illustrates, public assistance as a percentage of the government budget increased not as dramatically as it should have from 1999 to 2000. Compared to a great leap forward in social security as percentage of government budget, public assistance increased by an even smaller margin than the previous year. A somewhat dramatic increase in the public assistance budget from 1998 to 2000 resulted in part from the necessity in financing a newly introduced temporary livelihood protection scheme. Not a serious budgetary concern was made in 1999 for the preparation of implementing the NBLSP. In fact, the MoPB (1999)



produced *the Inquiry Report for Budget 2000*. It shows that the actual government budget for the new scheme in 2000 was reduced by 9 per cent than first agreed and planned. Compared to the amount of budget required by the MoHW (2,263,177,000 won), the actual budget announced by the MoPB was only 1,767,690,000 won.

Overall, although those in need are to benefit from the programme regardless of their age or ability to work, benefits are conditional upon the activities for those who continue to seek or train for jobs. In late 1998, there was a certain degree of hesitation for the National Assembly to pass the bill into act at the request of the Kim Dae-Jung Administration. This was largely because of the budgetary concerns. As there is little doubt that public assistance reform is an attempt to reflect the government's policy orientation of 'productive welfare', the workfare principle is deeply embodied in it (see Chapter 5). In other words, productive welfare owes its core meaning to avoiding 'welfare dependency'. This has long been one of the predominant values of Korean social policy development. For this reason, whether the programme functions as an effective social safety net remains yet to be seen. The chairman of the Joint Policy Board for the National Basic Livelihood Security Act within the People's Solidarity for Participatory Democracy, who has been actively involved in the process of the public assistance reform bill, has expressed his worries that:

'[The most difficult problem when the Act comes into effect] is how to construct the infrastructure for those able to work. How many benefit recipients will fall under the conditions of job seeking activities clearly remains of great significance' (Interview with Moon, Jin-Young, 11 July 2000, Seoul).

This public assistance reform should be seen as an attempt to break the traditional less-eligibility rule and to solidify the foundation of the middle class. Indeed, the idea of reforming the social safety net originated from the inconsistent foundation of the middle class which may have generated the significant gap in terms of polarisation in society (see Baldwin, 1990; Gould, 1982). On 21 June 1998, when the decision on its enactment was finalised by the President, he stressed the centrality of the middle class in the rebuilding of the nation (Kim, Dae-Jung, 1998). It was repeated three days after its enactment, when President Kim Dae-Jung gave a speech to the public, saying that:

'The great majority of the people will join the middle class. To nurture the middle class and enhance the living standards of the masses, I will actively seek to implement productive social welfare policies built around the principle of human development' (President Kim, Dae-Jung (1999b), Presidential Address on the 54<sup>th</sup> Anniversary of National Liberation, 15 August 1999).



In sum, there were a great many actors involved in the process including the president's decision, the IMF's policy packages, interest groups' and citizens' groups' active involvement, and the roles of the executives and the National Assembly. Shin (2000c) has argued that social security reforms during the financial crisis resulted from domestic institutional changes rather than exogenous influences. It was domestic institutional changes that constrained the policy options of the government. Yet these institutional changes should be seen as a consequence of a breakthrough in coordination impact between decision-makers, growing social demands, and the point of crisis. The ideas about what is good for society have been reproduced as a result of the increasingly positive coordination between the state and other agencies (see Giddens, 1998:128). The ways in which such ideas are institutionalised into each social programme is the subject to which now we turn.

### **4.3 Public (Social) Assistance: Old Legacies and their Continuity**

First enacted in 1961, the Public Livelihood Protection Act provided a legal basis of the Public Livelihood Protection Programme. Under this public assistance programme, those on low-income have been given means-tested benefits since 1965. This programme, however, is now a defunct programme being replaced by the National Basic Livelihood Security Programme (NBLSP) from 1 October 2000. Nonetheless, old legacies and the underlying principles of public assistance have been carried over into the new scheme despite the progressive elements within the new scheme identified earlier. And its critical position as one of the central pillars of social security remains unchanged. This section critically examines the thirty-five year old public assistance programme that had played a role as a last resort for those in need.

Under the old public assistance programme, the recipients were awarded benefits by a strict eligibility rule and the level of benefit was decided annually when financial standing and average income were taken into account. The eligibility criteria were based on the two-tiered standard: (1) the per capita income of a family; and (2) the value of household property. This two-tiered standard had been on the basis of the minimum cost of living being defined as 'the minimum expense required to maintain a person's health and cultural life announced by the Minister of Health and Welfare' (Public Livelihood Protection Act, Clause 5, Art. 2, amended on 22 August 1997). In accordance with the change in consumer prices, this minimum cost of living has been calculated annually and is also interchangeably used with the poverty line.



According to the Public Livelihood Protection Act (especially, Article 3), those who had no one under obligation to support them were eligible for benefits<sup>5</sup>. Based on the criteria, four different categories of benefit recipients used to apply to the programme according to earning ability. This earning ability principle basically determined the types of benefit, the level of assistance, and the degree of living standard. The first category (domiciliary protection) consisted of those who lived in their own homes but resided there under the aforementioned criteria. The second category (institutional protection) comprised those who were under protection of public (social welfare) residential institutions because of old age, mental disability, or homelessness. A clear distinction was made between these two categories and the third. Those in the first and second categories had no earning ability, while those who had earning ability (i.e. those who were able to work) but lived in poverty belong to the third category (self-reliance protection). The fourth category (health assistance) was legally derived from the Medical Protection Act but its implementation was under the provision of the Public Assistance Programme. Health assistance covered those who needed health care but could not afford to pay health insurance contributions, and were thereby excluded from the National Health Insurance Programme.

This fourth category (Health Assistance Scheme) was also divided into two subcategories. Class I applied to those under domiciliary protection and institutional protection<sup>6</sup>. Class II included those under self-reliance protection (Appendix 6). In 1998, for those under Class I, services were provided free of charge at the point of delivery. In comparison, those under Class II should pay 1,500 won per out-patient treatment in primary medical institutions and 20 per cent of total cost when hospitalisation (in-patients treatment) was required. If the individual's allotment exceeded 10,000 won, the government would lend the rest. This could be redeemed on an instalment basis between the first and the third year with no interest. The

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In case there had been anyone under obligation to support potential beneficiaries but their earning ability was too limited to maintain them, potential beneficiaries became eligible for benefits. These criteria specifically included those over 65 with no earning ability, due largely to the infirmity of old age; those under 18; expectant mothers; those unable to work because of disease or mental and/or physical disability; and those in need who were qualified to receive assistance under the Public Livelihood Protection Act.

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For example, persons in nursing facilities; the victims of disasters whose income and the value of household property were below a threshold according to the Victim Salvation Act; persons of national merit; those considered to be cultural assets; defectors from North Korea; and those infected with venereal disease.

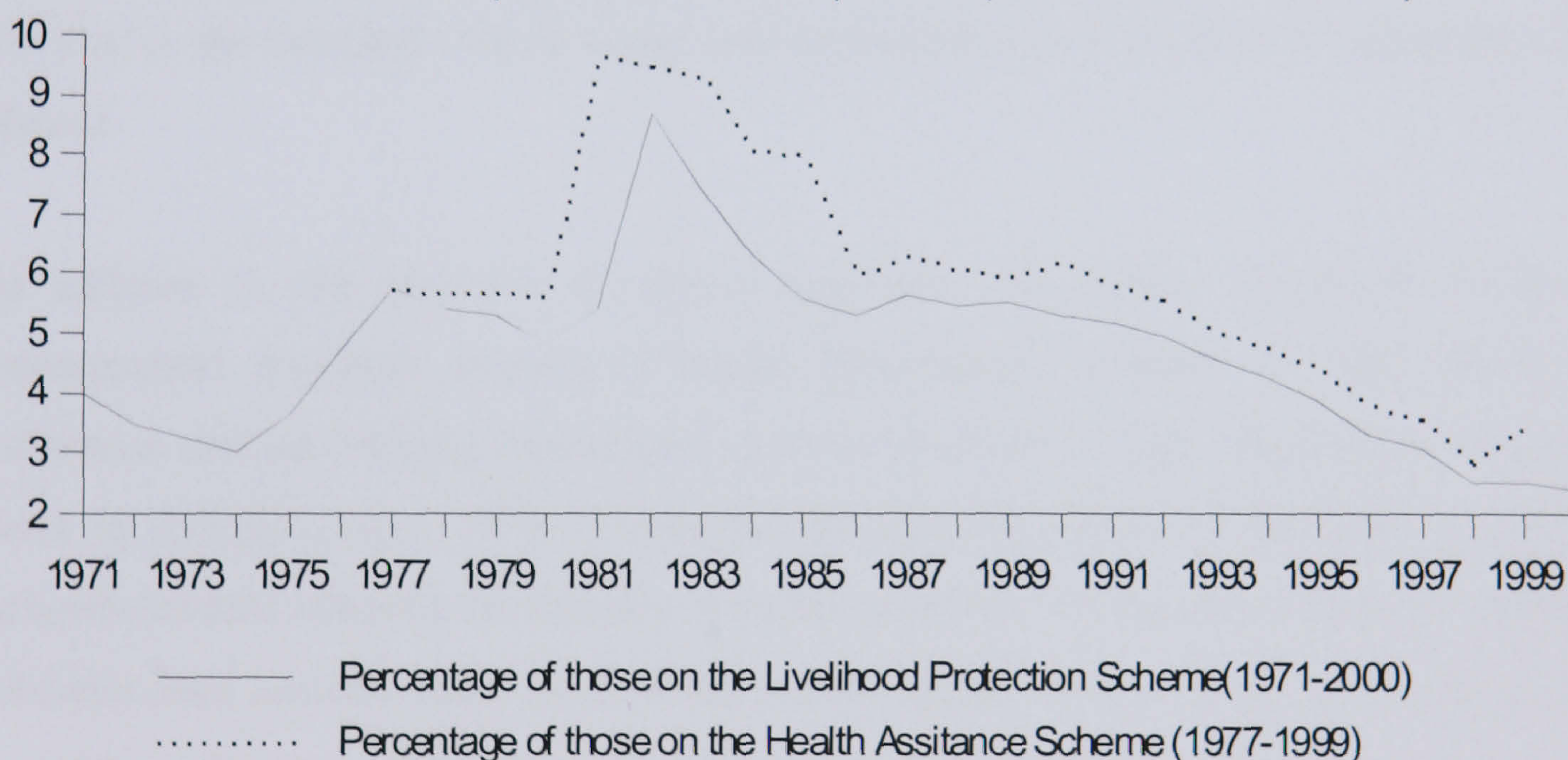


White Paper of Health and Welfare clarifies that this strategy aimed to avoid ‘welfare dependency’ and to promote the individual’s will to support himself (MoHW, 1998b: 444-445)<sup>7</sup>.

As Figure 4.3 and Appendix 6 show, the percentage of those on public assistance (excluding those under health assistance) was 5.4 per cent of total population in 1981 but increased dramatically to 8.7 per cent by 1982. The reason for this was the integration of the third category under health assistance into public assistance. Figure 4.3 illustrates that there was no increase in the number of those on the Public Livelihood Protection Programme while there was a notable increase in the number of those on the Health Assistance Scheme after the economic crisis. This is precisely because the figure does not include those on the temporary livelihood protection scheme. If included, the figure goes up to 3.72 per cent which is much higher than 2.71 per cent (see Appendix 6).

Figure 4.3 Percentage of benefit recipients under the PAP to total population

Sources: MoHSA (1980, 1984, 1988, 1990); MoHW (1996, 1999b, 2000a, 2000b)



This temporary livelihood protection had been in operation between April 1998 and September 2000. It was created as an emergency measure to assist those who were no longer able to maintain their living standard due largely to a job loss, a loss of their means of living,

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The Health Assistance Scheme was reformed on 24 May 2001 and its implementation was embarked upon 1 October 2001. The reform was made by the Medical Benefit Act (Law no. 6474). But it still maintained a two-tiered structure with those unable to work (aged between 18 and 60) belonging to Class I. The rest of those under the National Basic Livelihood Security Act belong to Class II (the Medical Benefit Act, Art. 3 and Art. 13).



or a dramatic reduction of income as a result of the economic crisis of November 1997. The temporary livelihood protection was divided into two subcategories: livelihood protection (Class I); and self-reliance protection (Class II). This categorisation comprises rather different properties from the previous one. Further, its underlying principles have been absorbed into the NBLSP since 1 October 2000. First, the concept of breadwinner is not taken into account when eligibility is considered, whilst the existence of the breadwinner who is able to work makes applicants unlikely to be eligible for benefit. That is, if a breadwinner does not live in the same residence, potential beneficiaries are considered not to be supported by those who are obliged to maintain their living standard. Second, even in the case of home owners, if their house is only used for residence and they have suffered a loss of income in order to maintain their living, they are eligible to the scheme (MoHW, 1999c). In short, as an emergency measure, the temporary livelihood protection scheme was due to be ended when the NBLSP started to take full effect. Welfare professionals have however become worried that the possibilities of disturbance from those due to be removed from the scheme are more likely since they would lose this additional source of income (A Welfare Official in the Smallest Unit of Local Administration. Interviewed on 17 September 2000, Seoul).

In addition to this structure of public assistance, the Public Assistance Programme encompasses important features of human development strategy. In other words, both education and job-training mechanisms are embodied in it. First, educational support has been in operation since 1979. It first provided the school fees of children in secondary schools (middle schools) for families on public assistance. Then, the coverage expanded to children from families under the first and second categories as well as those under the third category living in a subdivision (-myeon) of a county (-gun) or smaller areas up to the first year of the vocational high school level in 1987. Before 1997, educational support covered all children from families under public assistance studying in secondary schools and vocational high schools. From 1997, educational support began to cover the school fees of children under public assistance in secondary schools, vocational high schools, and high schools for higher education (MoHW, 2000b: 156-158).

Second, those who join the job training programmes are entitled to training payments, family allowances, and transportation payment. Under the guidance of the MoL since 1993, those



registered at public job training centres and those who live in their halls of residence are entitled to food support during the training period. Training preparation grants and employment preparation grants are also provided for the pre- and post- training period. Employment Support Allowance as a one-off cash benefit is also available to those receiving training; or who have found a job related to the training within 6 months after training, and have worked on the job over 3 months; or who have become certified as at least a second-level technician (MoL, 1997a). Table 4.3 summarises the types of benefits provided by public assistance in 1999.

Table 4.3 Types of Benefits provided by the Public Assistance Programme, 1999

	Types of Benefits	No. of persons (thousands)
1 <sup>st</sup> category (domiciliary)	Livelihood (income) support, medical support, self-support aid (vocational training, self-reliance grants, and self-reliance aid centre), educational support for children, maternity payment, funeral payment	331
2 <sup>nd</sup> category (institutional)	Same as the 1 <sup>st</sup> category	78
3 <sup>rd</sup> category (self-reliance)	Educational support for children, medical support, self-support aid	766
4 <sup>th</sup> category (health assistance)	Medical support (depending on Class, types of benefits could be either identical to the 1 <sup>st</sup> and 2 <sup>nd</sup> categories or to the 3 <sup>rd</sup> category)	Class I: 596 Class II: 798
5 <sup>th</sup> category (temporary livelihood protection)	Livelihood (income) support, educational support for children, medical support, self-support aid	1 <sup>st</sup> subcategory (livelihood protection under temporary livelihood protection): 190 2 <sup>nd</sup> subcategory (self-reliance under temporary livelihood protection): 380

Note: Data on the number of persons under the 4<sup>th</sup> category are based on 1998 figures.

Sources: Reconstructed Table from MoHW (1998b, 1999a); Park, Chanyoung and Kim, Meesook (1998:65-76).



As Table 4.4 elucidates, the job training programme subsequently experienced a steady increase in the number of participants until 1993. However both the employment rate and the number of participants began to decrease. This was mainly because public job training programmes organised by a number of different ministries became integrated into the jurisdiction of the MoL after 1993 (Presidential Decree no. 13823). The integration resulted from increasing criticisms that the programme had been managed in an irregular manner which had resulted in ineffectiveness of both budget operation and individual programmes themselves (MoHW, 2000b: 159).

Table 4.4 Number of Participants in Job Training Programmes, 1981-1996

	Number starting course	Number completing course	Number subsequently employed (%)
1981	3,466	2,918	2,591 (88)
1982	4,626	4,145	3,372 (86)
1983	5,011	4,413	3,800 (86)
1984	5,095	4,583	3,715 (81)
1985	5,675	4,881	3,828 (78)
1986	6,492	5,583	4,236 (76)
1987	9,034	6,346	5,163 (81)
1988	10,413	9,849	8,113 (82)
1989	16,628	12,672	9,730 (77)
1990	16,362	15,813	11,389 (72)
1991	14,794	11,231	7,436 (66)
1992	19,530	12,327	5,901 (48)
1993	22,401	15,331	7,961 (52)
1994	9,089	6,251	3,171 (51)
1995	4,871	3,391	1,709 (50)
1996	3,500	2,224	1,182 (53)

Note: Employment rate = number in employment ÷ the number of those completing the course.

Sources: Reconstructed Table, data adopted and calculated from MoHSA (1990:192); MoHW (1998b: 302).



In principle terms, this overarching structure of public assistance itself appears to encompass all of those in poverty. However, further to the low level of government budget both as a proportion of social security spending and of total government expenditure in general (see Table 4.2), there have been serious administrative difficulties in implementing the programme. For example, there are two stages to the application process: (1) the potential recipients have to apply proactively; and then (2) their claim is officially verified. The eligibility of those who make a claim is initially ratified by the officials in the smallest unit of local administration. Alternatively, however, potential recipients can be reached by welfare professionals in the smallest unit of local administration in cooperation with those in community centres. This out-reach service sometimes brings in community members to identify potential recipients in their neighbourhood. In other words, informal contacts in the process of new recipients' selection at the local level are officially recognised as an important procedure. Partly because of this, there exists constant friction between those who have to reject the application and those who wish to pass it through.

This two-stage process is designed to prevent two types of errors in the claiming process. On the one hand, the first type of error may occur: 'errors of harshness' (i.e. false negatives or Type I errors, Goodin, 1985a: 141-142; Rossi and Freeman, 1985:196). This is where those eligible are not awarded benefits. There may be many reasons for this type of error. It occurs perhaps because of the problem of 'incomplete take-up' or because of an incorrect rejection of the application, or because of 'administrative error' or of an 'inability of the applicant to provide the necessary documentation' (Atkinson, 1991:16). On the other hand, when the administrative process fails to identify the application of those not eligible, 'errors of generosity' occurs. This is where those not eligible are awarded benefits (i.e. false positives or Type II errors, Goodin, 1985a: 141-142; Atkinson, 1991:16). Informal contact at the local level, a welfare official in the smallest unit of local administration clearly points out, sometimes enables those not eligible to be awarded benefits through their personal ties with those in high ranking posts in the local administration unit (Interviewed on 17 September 2000, Seoul).

As Atkinson (1991:16-17) argues, these two types of errors are more likely to reduce both the efficiency and effectiveness in the administration of the safety net. Nonetheless, there has been no substantial research carried out on the take-up or the non-take-up rate of social security benefits in Korea, compared to Britain where it has been relatively well researched



(van Oorschot, 1991,1995; van Oorschot and Schell, 1991). Nor have there been substantial studies on the actual situation of benefit fraud in Korea. Perhaps only reference to the level of benefit fraud is available from the KDI survey (Koh, Il-Dong, 1990:332), which identifies that the percentage of those *not* entitled, yet receiving public assistance benefits in 1989 was almost 50. Compared to the 80 per cent Income Support take-up rate in 1991 in Britain (Eardley *et al.*, 1996b: 408), it is difficult to expect that the public assistance take-up rate would be higher than the case of Britain. Perhaps the only available source to this end is the *Analysis of Livelihood Protection Recipients* that the MoHW (1991-1998) has annually published. This analysis includes both the actual number of recipients and the allocated number of those who might be entitled to protection. By comparing the number of those actually receiving benefits and that being allocated, Table 4.5 shows the case-load measure of take-up which compares 'the number of benefit recipients, averaged over the year, with the number who would be receiving if everybody took up their entitlement' (Corden, 1999a: 136).

Table 4.5 The Number of Livelihood Protection Recipients, 1991-1998

	Allocated number (A)			Actual number receiving benefits (B)			Ratio (B÷A) <sup>1</sup>
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	
1991	338,168 (180,284)	81,556	1,826,421 (475,892)	330,909 (178,055)	75,082	1,709,678 (447,985)	94.19 (95.41)
1992	338,168 (183,232)	83,279	1,755,000 (475,578)	319,902 (176,572)	77,835	1,489,811 (409,250)	86.73 (88.92)
1993	338,168 (183,232)	82,875	1,580,000 (428,020)	304,622 (173,737)	77,843	1,319,746 (385,767)	85.07 (91.53)
1994	320,414 (179,647)	81,448	1,501,000 (406,619)	287,676 (170,557)	76,344	1,117,287 (353,860)	77.85 (89.45)
1995	307,401 (180,708)	77,671	1,369,832 (420,275)	287,439 (175,678)	77,671	953,242 (319,426)	75.12 (82.38)
1996	295,767 (183,447)	76,001	1,134,242 (338,292)	285,185 (179,484)	76,001	798,020 (285,140)	76.97 (89.05)
1997	296,988 (188,623)	76,769	1,039,908 (299,782)	290,762 (186,627)	76,343	680,757 (257,364)	74.11 (90.91)
1998	300,902 (194,880)	76,265	798,020 (311,382)	295,939 (193,669)	71,740	610,929 (241,557)	83.27 (83.27)

Note: 1. The ratio of total number of beneficiaries (case-load take-up), i.e. the number of beneficiaries in the 1<sup>st</sup> + 2<sup>nd</sup> + 3<sup>rd</sup> categories; figures in parentheses refer to the number of households.

Sources: Reconstructed Table, data adopted and calculated from MoHW (1991-1998).



Despite this relatively high case-load take-up rate, the number of livelihood protection recipients was allocated based on the annual budget announced even before the actual survey of potential recipients being carried out until public assistance was reformed. For example, the annual budget for public assistance 1996 was announced on 4 September 1995. The announcement was even before the livelihood survey was undertaken by welfare officials which usually takes place throughout September every year. Obviously, therefore, regardless of the actual survey of the number of those in need, the number of beneficiaries cannot exceed the allocated number of those under the scheme. Two possible interpretations could be made. First, because of the substantial gap between two sets of figures, the government may have left enough space for the possibility of the potential increase of real number of beneficiaries. Second, the number of poor can be manipulated by the government by adjusting the total allocated number of beneficiaries.

Given all this, two potential tasks have to be resolved based on both effectiveness and efficiency terms under the new scheme (see Eardley *et al.*, 1996a:Ch.4; Corden, 1999a). To begin with, possible benefit fraud might have to become a central concern in its implementation for two reasons. First, the scope of means-testing has widened up to those who have initial responsibilities for primary beneficiaries. Second, a systemic infrastructure for encouraging take-up by those who are entitled to benefits has not yet been fully established. A welfare official commented that there have been a number of cases where some had transferred their assets to those who were not considered to be responsible for their living standard. This should be traced and prohibit them from benefiting from the system. But this was very difficult to pinpoint (A Welfare Official in the Smallest Unit of Local Administration. Interviewed on 17 September 2000, Seoul).

Furthermore, a speculation can possibly be made by drawing on the four provisional anti-benefit fraud strategies. First, the government may decide to reduce the overall level of benefit as low as possible. Second, heavy punishment might be introduced such as the case of Switzerland, based upon retrospective means-testing strategies. Third, the possibility of benefit fraud could simply be ignored based on collective assumptions evidenced in Denmark. Finally, a benefit fraud squad could be established to disclose fraudulent claims such as the case of Britain (see Ditch *et al.*, 1997).



In sum, Veit-Wilson (1999:80) argues that the realm of political ideologies may explain the underlying rationale for the setting of priorities. In other words, the view that interprets social policy as subordinate to economic policy generates the belief that social assistance should not exceed its minimum function of subsistence. The concept of adequacy is highly vulnerable to a political consideration of feasibility and cost. For this reason, the official poverty line, set up by the government, is more likely to be based on political decisions rather than scientific measures of the minimum incomes (Veit-Wilson, 1998:8, 1999:82; for further detailed discussion, see Chapter 5). In principle terms, those who fall below the public assistance scale are officially designated as poor. The public assistance scale was determined by the Central Committee for Livelihood Protection under the livelihood protection division within the MoHW (Public Livelihood Protection Act, Clause2, Art.5). Perhaps as an equivalent to the 'Income Support level' in Britain, it provides only the 'state's poverty standard'. In Korea, however, there had been no published data on how it was measured. Given this, one of the major disadvantages remains the lack of 'public discussion of what implies in terms of contemporary patterns of expenditure and styles of living' (Wedderburn, 1974:4). By expanding the boundaries of those in poverty (i.e. broadening the concept of poverty), universality within public assistance can be achieved. The ways in which this principle of universality is institutionalised within social insurance are the subject of the next section.

#### **4.4 Social Insurance: Universality and Solidarity**

There is a critical distinction between Bismarckian and Beveridgean models of social insurance. In the Bismarckian insurance scheme, benefit entitlement and benefit levels are closely linked to individual contributions. In the Beveridgean insurance scheme, subsistence benefits are available to all in return for flat-rate benefits on a 'pay-as-you-go' basis from the start (Alcock, 1999:55). A more conceptually bound explanation has been given by Baldwin (1994) that the Beveridgean conception of social insurance formulates an ideology of collectivist social insurance. The potentially solidaristic impulse behind this is given life with the universalisation of risk-sharing and the equalisation of risk-pooling. On the other hand, the expansion of the risk pool from being limited to particular classes to embracing all citizens is relatively marginalised in Bonapartist ambitions pursued by Bismarck with his welfare legislation, the achievement of which had been only partially solidaristic (Baldwin, 1994:41- 45). In Korea, social insurance programmes have been modelled in part on the kind



of insurance protection developed in Germany in order to provide security against a set of contingencies such as industrial injuries (industrial accident insurance, 1964), disease (national health insurance, 1977), old age (national pension insurance, 1988) and job loss (employment insurance, 1995).

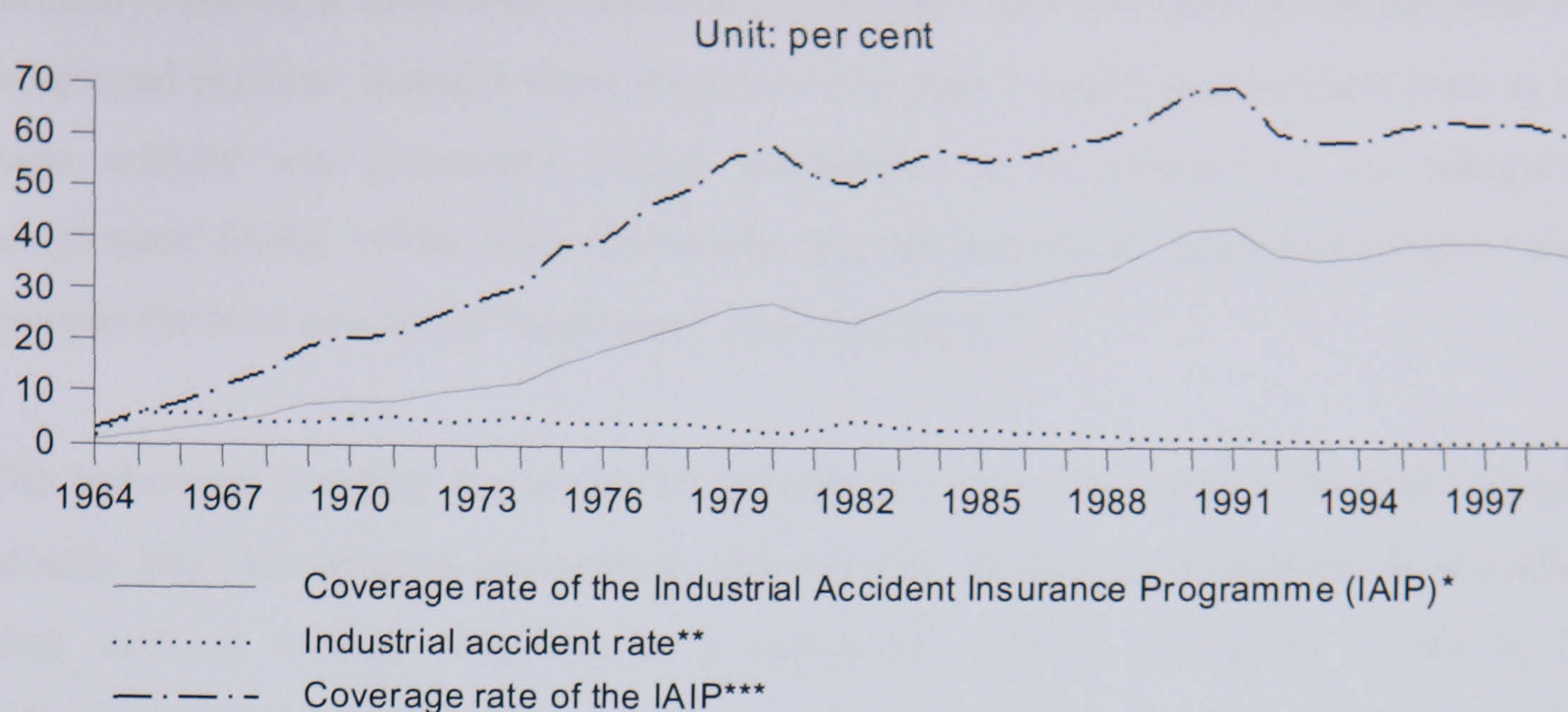
#### **4.4.1 Protecting Workers? : The Industrial Accident Insurance Programme**

Industrial accident insurance was one of the earliest social insurance programmes introduced in most OECD countries during the period of the birth of the welfare state (1880-1914). Introduced in 1871, Germany takes a position as an innovator of the programme (Pierson, 1991:107-109). Industrial accident insurance was not only the first compulsory welfare programme introduced in Korea but also the only insurance programme financed solely by contributions from employers (see Chapter 2). The programme is administered by the semi-public carrier to which all employers subject to the programme should pay contributions, and which in turn pays the benefits when due (Park, Chong-Kee, 1975:36).

Until the Labour Standard Act was enacted in 1953, compensation for industrial accidents had been resolved either by the civil law as an illegal activity if the employers had been responsible for the accident or by a collective agreement based on the individual unit of workplaces. Although the Labour Standard Act introduced the principle of an employer's liability, its effectiveness had been almost negligible. Neither was compulsory nor administrative power strong enough to provide industrial accident compensation. Industrial accident insurance was introduced into legislation on 5 November 1963 and brought the employer's liability to life in the form of a compulsory insurance guaranteed by the state (see Chapter 2). The programme at the beginning only covered workplaces with 500 employees and more, but the coverage has gradually expanded, while the rate of industrial accidents has gradually decreased (Figure 4.4).



Figure 4.4 Coverage of the IAIP and Industrial Accident Rate (1964-1999)



Notes: calculated from Appendix 7; \* number of workers covered by the Programme divided by total number of employed persons  $\{(5) \div (1)\} \times 100$ ; \*\* number of victims divided by number of workers covered by the Industrial Accident Programme  $\{(7) \div (5)\} \times 100$ ; \*\*\* number of workers covered by the Programme divided by total number of employees.

Sources: Appendix 7; NSO (1998b: 98, 2000c: 182).

Since 1992, industrial accident insurance has been compulsory for almost all types of businesses and entire workplaces<sup>8</sup>. The coverage rate of industrial accident insurance in 1997 was 39.03 per cent. This means that the Industrial Insurance Accident Programme covered less than 40 per cent of total employed persons. However, the coverage rate goes up to 62.28 per cent in the same year if the rate is calculated by the number of workers covered by the programme divided by the total number of *employees* instead of the total *employed persons*. The former method has been widely accepted as the standard measure of industrial insurance coverage. However, as the Labour White Paper (MoL, 1999a) clarifies, industrial accident insurance in Korea has operated by ‘accidents due to occupational cases’ which refer to ‘a series of activities where labourers work under labour relations built up by the labour contract’. For this reasons, the latter method may also make sense to a certain extent. The distinction between ‘employees’ and ‘employed persons’ is determined by the period of

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Except workplaces with less than 5 employees; construction work which amounts to less than 40,000,000 won; and seasonal industries with less than 1,350 annual employees. Since July 2000 those in workplaces with more than one person have been covered by industrial accident insurance. These exceptional cases have been made according to the rate of accident, scale of industry and place of work and remain outside the principle of compulsory participation. However, if industrial accidents occur under the circumstances where participation is compulsorily required, and is not, the employers will be given penalties to pay 50 per cent of the insurance benefit (MoL, 1999a).



employment contract. Thus, 'employees' includes both those employed more than 1 year (ordinary) and those more than 1 month but less than 1 year (temporary). On the other hand, 'employed persons' includes those employed less than 1 month and workers paid on daily basis without any permanent (fixed) establishments in addition to the category of 'employees' (NSO, 1998a: 582). Obviously, the total number of 'employed persons' always exceeds the total number of 'employees' (see Appendix 7).

The Industrial Accident Insurance Programme provides two types of benefits classified broadly into cash benefits and medical care benefits. Medical care benefits are provided in kind such as medical treatment at a designated medical institution (3,144 in 1998 nationwide, MoL, 1999a). Cash benefits are also provided for those in temporary sickness and in disability. For those who require either medical care or hospitalisation full medical costs are provided until complete recovery unless the injury or illness is diagnosed to be treated within 3 days wherein employers provide industrial compensation under the Labour Standard Act. In addition to the medical costs, an employer provides cash benefits for the suspension of work equal to 60 per cent of the average wages during the period of medical treatment (Labour Standard Act, Article 82).

If the industrial accident causes a permanent disability of a worker after having been given all available medical treatment, either a lump-sum or an annuity payment for industrial accident compensation is provided according to the severity of disability. The severity scales the most severe disability as class 1 to the least severe disability as class 14. That is, a person with disability resulting from industrial accidents can benefit from either the maximum lump-sum payment equal to 1,474 days' wage to the minimum 55 days' wage, or the maximum annuity payment equal to 329 days' average wage to the minimum 138 days' average wage. If the annuitant dies without having been fully paid by the sum of annuity (i.e. in case one has failed to reach the amount of the lump-sum payment that he or she could have been paid if he or she had chose to be paid that way), the balance is paid to the survivors of the annuitant in the form of lump-sum payment (MoL, 1999a). The types of benefits and their payments are summarised in Table 4.6.



Table 4.6 Industrial Accident Compensation by Benefit Categories (unit: per cent)

BC <sup>1</sup>	1964	1973	1980	1985	1990	1995	1996	1997	1998	1999
MCB <sup>2</sup>	40.9	47.0	38.36	44.3	32.2	24.6	25.3	25.5	26.2	28.1
SLB <sup>3</sup>	20.6	15.1	17.67	18.5	28.9	31.6	21.2	30.8	27.5	26.5
DB <sup>4</sup>	1.6	17.7	29.80	24.7	23.4	26.1	25.7	27.1	30.0	27.0
SB <sup>5</sup>	33.7	18.5	12.97	11.1	12.9	14.2	13.2	12.8	11.6	12.4
FB <sup>6</sup>	3.2	1.6	1.16	1.0	1.2	1.2	1.2	1.2	1.1	1.1
SB <sup>7</sup>	-	0.1	0.04	0.4	1.4	2.3	2.4	2.6	3.6	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: 1. Benefit Category; 2. Medical Care Benefits; 3. Sick Leave Benefits; 4. Disability Benefits; 5. Survivor Benefits; 6. Funeral Benefits; 7. Special Benefits; Survivors refer to the spouse of the deceased (only in marital relations), offspring, grandchildren, parents, grandparents, or siblings. Survivor benefits are only available to those under the support of the worker when s/he died, such as, wife, husband who is aged over 60 or disabled (severity level 3 or above), parents, grandparents, those aged under 18 or disabled offspring, and those aged under 18 or aged over 60, siblings; funeral benefits are paid to the person who is in charge of the funeral in the form of cash equal to 120 days' average wage (MoL, 1999a).

Sources: Reconstructed Table, data adopted and calculated from Park, Chong-Kee (1975:36); NSO (1998a: 316); MoL (1999b); MoL (2000b).

In sum, there is little doubt that industrial accident insurance has provided an important safety net against industrial accidents. The expansion of the coverage and increasing generosity of benefit may imply that industrial accident insurance has come to read as such that industrial accidents in prescribed contingencies should be compensated without any question being raised as to 'whether the injury was attributable to fault on the part of employer, the employees, or any third party' (ILO, 1984:44). Yet, 'in terms of protection of workers', Kwon (1999a: 83) argues, 'industrial accident compensation is only a second-best solution. The most important form of protection is prevention, and for this reason the effectiveness of any industrial accident insurance programme must be considered in tandem with efforts to prevent accidents'. In Korea, As Table 4.6 clearly shows, disability benefits have taken a relatively high proportion which in turn may imply that the programme has been curative but failed to be preventive.



#### **4.4.2 Efficiency, Effectiveness, and Equity: The National Health Insurance Programme**

In Korea, the origins of national health insurance date back to the Health Insurance Act on 16 December 1963. Until its actual institutional initiation geared by the Second Health Insurance Amendment Act on 22 December 1976, however, only experimental programmes were in operation on the basis of voluntary participation. The number of experimental health insurance projects increased from one company covering 340 insured people in 1965 to 12 workplaces insuring 63,455 people in 1977. This voluntary principle is typically seen in private insurance which tends to rely on an actuarial basis, while social insurance contributions are determined by the level of income. In efficiency terms, therefore, private insurance may not be of any help in improving horizontal efficiency (i.e. in assisting all of the target group) in favour of vertical efficiency (i.e. in assisting only the target group). However, as Atkinson and Hills (1991) argue, this vertical efficiency could not be enhanced even by social insurance unless all types of different risk categories participated in the project. This was one of the many lessons drawn from the experimental projects (Choi, Chun-Song, 1991:109-129). In short, the application of voluntary principle to social insurance may result in a negative-sum game.

The voluntary principle applied to the experimental projects became more problematic because all the participants in the projects were in high-risk categories. They were likely to gain more than the low-risk categories partly because their demands for medical services were more likely to be higher than those of the low-risk categories. At the same time, the contributions from the high-risk categories remained low because of an across-the-board low level of income. The occurrence of such 'adverse selection' caused significant implementation difficulties. In order to solve this problem, there should be an increase in either the level of contributions from those unable to afford the high level of premiums or state intervention, providing subsidies.

All that has been said subsequently led to an amendment of the Act in 1970. The amendment was designed to implement the compulsory principle within a specific category of population. The Health Insurance Unit of the CSS targeted civil servants and military personnel for another set of experimental projects on the basis of the compulsory principle. The rationale behind this decision had drawn upon the fact that they had been relatively solid



for two reasons. First, once they were instructed by the government, other external factors such as accidents of private insurance were less likely to affect their behaviour towards social insurance. Second, they already had experience from the existing pension programmes for civil servants and military personnel. However, these projects caused severe conflicts between ministries such that the then Ministry of Government Administration, Ministry of National Defence, and Ministry of Health and Social Affairs failed to come to terms with jurisdiction and supervision of civil servants and military personnel (Choi, Chun-Song, 1991:118-119).

Despite all the lessons drawn from the experimental period of health insurance (1963-1976), national health insurance in Korea was formed by expediency, not by principle. Largely learned from the first set of experimental projects, the second amendment of the Act combined compulsory and voluntary principles. It maintained the compulsory principle for employees and their dependents in large-scale industries with 500 employees and more. But at the same time, there remained the voluntary participation from the community and workplaces outside the compulsory participation. Thus, the implementation of the Act from 1 July 1977 was the *de facto* initiation of national health insurance. This initiation was extremely segmented on the basis of eligibility determined by occupational and regional categories. From the second set of projects, the programme's operation was set to be based on the principle of autonomous management whereby different categories of the insured were managed by financially independent health insurance societies. Those employed in industrial sectors were categorised as Class I and the rest as Class II. This was again subdivided into regional health insurance for regional members and occupational health insurance for self-employed<sup>9</sup>. Only those under Class I were legally bound to be in the category of compulsory participation. In short, the risk-pooling function of health insurance was undermined by its separate management between different risk categories by three health societies.

In December 1977, the Health Insurance Act for government employees and private school teachers was put into legislation. Subsequently, they became compulsory members of the

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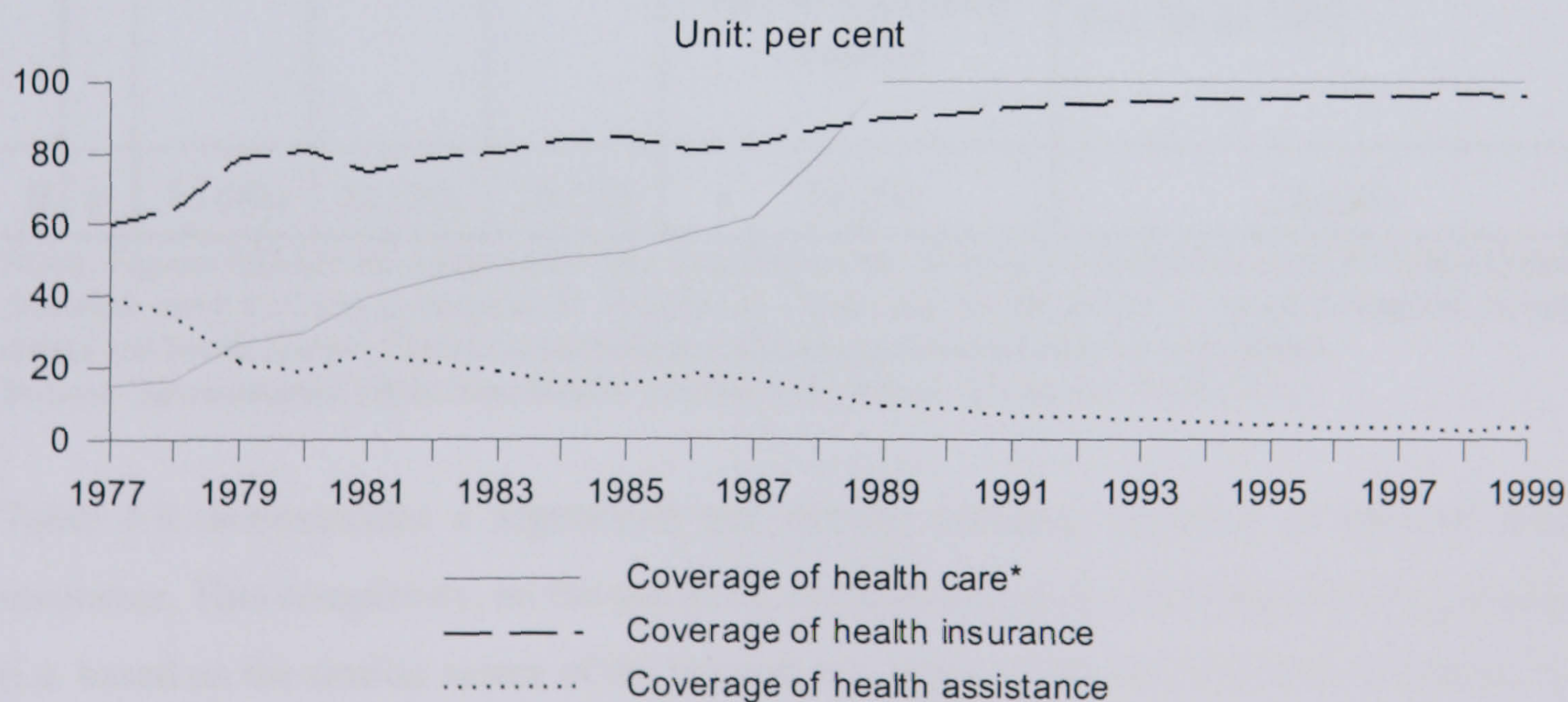
The usage of Class I and II was abolished by the Sixth Amendment of the Health Insurance Act on 31 December 1984 which instead used business and regional health insurance.



programme after 1 January 1979. A series of pilot projects were initiated in three geographic areas from 1 July 1981 and in three additional areas in July 1982. These projects were to evaluate the possibilities of compulsory participation involving those under Class II. These projects raised a key issue regarding the financing of health insurance which required a revision of the original government plan. State intervention only in the administrative cost in the form of the government subsidy appeared to be not as effective as it had been expected to be since those under Class II were not in favour of paying the full cost of contributions. Accordingly, a governmental decision was made to subsidise 50 per cent of the total cost including the premiums for those under Class II (Kwon, Soonwon, 1993b: 255-256).

The programme's coverage had gradually expanded covering workplaces with 5 employees and more in 1988. By 1987 almost 69 per cent of total population was covered either under health insurance or under health assistance (NHIC, 1990). The rest of the population consisted of the self-employed in rural areas and those under regional health insurance for regional members. These two groups finally became compulsory members of health insurance from 1 January 1988. From 1 July 1989 the self-employed in urban areas became part of it. By this expansion, as Figure 4.5 shows, the coverage rate of national health insurance began to be virtually 100 per cent of the total population from 1989 (see Appendix 8).

Figure 4.5 Coverage of Health Care (1977-1999)



Notes and sources: calculated from Appendix 8; \* total coverage of both health insurance and health assistance out of the entire population; it should be noted that although the total coverage rate of health insurance and assistance had reached 100 per cent by 1989, the actual figures do not exactly match the number of entire population because the number of those under health insurance has been estimated on the basis of double qualification (KMIC, 1990:33; NHIC, 1999:36, 37; NSO, 1999b).



In other words, the National Health Insurance Programme has begun to be universal in scope since 1989. Yet, it is not free at the point of service delivery except for those under Class I category of health assistance. Health insurance only lasts until a patient requires no more medical treatment<sup>10</sup>. The imposition of the partial payment for medical services to the insured was intended to discourage unnecessary utilisation of medical treatment and to maintain the financial stability in health insurance. However, whether the programme could conform to a social insurance model remained contentious largely because the rate of the insured's responsibility for cost sharing was set too high in 1977. For this reason, as Table 4.7 shows, there has been gradual adjustment in the cost-sharing (co-payment) mechanism of the insured.

Table 4.7 Changes in the Cost-Sharing System, 1977-1997 (%)

Type	1977	1979	1980	1986	1992 onwards
A	40 (50)	30 (30)	50 (50)	65 % (65 %) when total medical expenses exceeds 10,000 won; otherwise a flat co-payment is applied: 2,600 won for a visit to a clinic and 3,000 won for a visit to a teaching hospital	Consultation fee + (total fee - consultation fee) × 55 ÷ 100
			50 (50)		Consultation fee + (total fee - consultation fee) × 40 ÷ 100
			30 (30)		30 % of the total fee when total fee exceeds 12,000won; otherwise 3,200 won as a flat rate fee in 1997
B	F	30 (40)	20 (20)	20 (20)	20 (20)

Notes: Figures indicate the coinsurance rate, imposed on the insured; A. Outpatient care; B. Hospitalisation (Inpatient care); C. General Hospital; D. Hospital; E. Clinics and health centres; F. General Hospital, hospital, clinics and health centres. Figures in parenthesis indicate co-insurance rates for dependents.

Sources: Reconstructed Table from MoHW (1998b: 408); Kwon, Soonwon (1993b: 267).

Table 4.8 demonstrates a segmented and equally complex structure of national health insurance. This complexity, on the one hand, originated from the idea that specific groupings (i.e. based on the similar nature of the insured; e.g. types of income, easiness of income-test,

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The length of the health insurance coverage had been only 6 months until 1995, 240 days in 1996, 270 days in 1997, 330 days in 1999 and 365 days in 2000 (MoL and MoHW, 1999).



etc.) would improve equality issues about contributions and benefits. Thus, individual health societies were in separate and different operation (MoHW, 2000b: 440). This segmentation, on the other hand, was a partial product of incremental development of health care in Korea which had contained an overarching structure of a provider-friendly mechanism. A former research officer of the KDI argues that this arrangement of health insurance was by no means robust since possible disparities would obviously exist even within the same health insurance societies (Interview with Kwon, Soonwon, 31 July 2000). In addition to the lack of overall health insurance infrastructure, the administrative expediency to reduce administrative costs had been given prior attention to the principles of income redistribution inherent in social insurance. In short, inequality had even been precipitated especially on the health care system.

Table 4.8 The Structure of the National Health Insurance Programme in 1997

Classification		Type	Premiums; Finance; Methods	(1)
N H I	Wage Earners	Health Insurance for Industrial Employees	Each health society makes autonomous decisions to the extent of 2-8 % of standard monthly wage (earning-related fixed rate system); both employers and employees contribute 50 % each; payroll taxes	145
		Health Insurance for Government Employees and Private School Teachers	3.8 % of standard monthly wage (3.0% for military personnel) (a flat sum system based on grades); the government and government employees pay 50% of contributions each; private school teachers (50%), school board (30%), government (20%); payroll taxes	1
	Non-Wage Earners	Regional Health Insurance	Those in rural areas pay 54 % of total contribution; those in urban areas pay 66 % of total contribution, the rest of which is subsidised by the government	92 <sup>R</sup> 135 <sup>U</sup>
National Health Assistance		Class I	Free of charge at the point of service delivery	G't
		Class II	1,500 won in the case of outpatient primary medical treatment; when hospitalisation is required, individuals pay 20 % out of the total costs.	

Notes: (1) Number of health societies; R. Rural; U. Urban; \* Health Assistance Scheme under public assistance. Source: Reconstructed Table from MoHW (1998b).



In order not only to maintain the equal distribution of health resources and to improve regional disparities in health care services and facilities but also to reduce the overall health care costs, clinics, health centres, and (general) hospitals are designed to compete for patients in association with the enforced use of the referral system since 1 July 1989. In other words, health care systems in Korea provide consumer choice (MoHW, 1998b, 2000d). However, in reality, the insured patients have tended to prefer large scale health institutions such as general hospitals since national health insurance's inception in 1977. For example, large scale health institutions were preferred by 60.95 per cent of medical professionals and 62.95 per cent of the insured and the general public. Shin (1978:142) explains that this was due to the relative supremacy of medical facilities and medical professionals. Given this, the country was divided into three subdivisions: (1) 138 medium-sized health care regions; (2) 8 large health care regions; and (3) one nationwide health care region<sup>11</sup> (MoHW, 1998b: 434-435). In the regional health system, all patients should be referred by clinics and health centres if medical treatment from a general hospital is necessarily required. If this rule of health care delivery is not followed, health insurance stops being applied except for certain medical subjects and emergency patients.

Yet, this proposed solution for regional disparities has generated unexpected externalities. The referral system has built up the medical delivery system by clustering health regions, thereby contributing to an equal development in different regions. But the actual outcome has not been as successful as it could have been because middle class patients or even those poor in urban areas tend to use the outpatient services of a hospital for primary care. Only those who are poor in rural areas remain as users of primary medical treatment. In other words, they are the only users who have followed the enforced mechanism of the referral system.

In addition, consumers could choose either regular medical care provided by general practitioners or special care by patient-designated specialists requested by name at an

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The first division provided primary medical treatment. Initially, there were 140 medium-sized health care regions in 1989 but current regions were set up according to the changes in administrative boundaries in 1994-5. The second division provided secondary medical treatment. The third division provided special/tertiary medical treatment including 39 university hospitals and large general hospitals on 1 July 1995 and 42 in 1997.



additional cost. The initial purpose of this two-tiered service charges system in hospital care has been to provide financial leverage to hospitals under the compulsory health insurance system. In principle terms, this was to hold costs as low as possible. In fact, however, this has been considered to be another concessionary measure taken by the then Ministry of Health and Social Affairs in favour of hospitals. In most cases, as Kwon (1993b, 274-276) has argued, information on the specialists available to consumers is extremely limited.

Much that has been discussed relates to the underlying difficulties implementing health insurance which in turn led to a set of reforms. In October 1998, the integration took place between a health society for government employees and private school teachers, and regional health societies for the urban self-employed and residents in rural areas. In January 1999, the integration of the two-tiered financing and administrative operation was finally materialised into legislation. Since 1 July 2000, therefore, national health insurance has come into effect on the basis of employment status. At the same time, the system of delineating pharmacy - and doctor - prescribed drugs was also scheduled to come into effect (for detailed discussion, see Chapter 5). As Immergut (1992a, 1992b) clearly points out from the cases of European countries, these health insurance reforms in Korea also involved self-interested groups' activities. The idea of integrating health societies had been opposed by the health insurance societies at workplaces arguing that it should remain to maintain their own organisational and financial systems. There is little doubt that this opposition undermined the tenets of the legislation enacted for this integration but it was also reasonable to claim that the difficulties underlying financial instability of the regional societies should not be resolved at the expense of others. In other words, the merger was likely to bring the relatively unstable financial status of regional health societies into financially stable health insurance societies at workplaces.

Figure 4.6 and Figure 4.7 show that the rate of expenditure to revenue had substantially increased during the economic crisis for government employees and private school teachers, as well as industrial workers. From 1998, however, the financial balance for government employees and private school teachers began to be recovered. Nonetheless, it should be read with a caution that this financial recovery was made by a marked increase in contribution rates, representing 88.07 per cent of total revenues in 1999, which had only been 54.43 per cent in 1995 (MoHW, 2000a, 2000b).



Figure 4.6 Rate of Expenditure to Revenue by Year (per cent)

Expenditure/Revenue; Sources: MoHW (2000a); NFMI (1990:124, 1999:98)

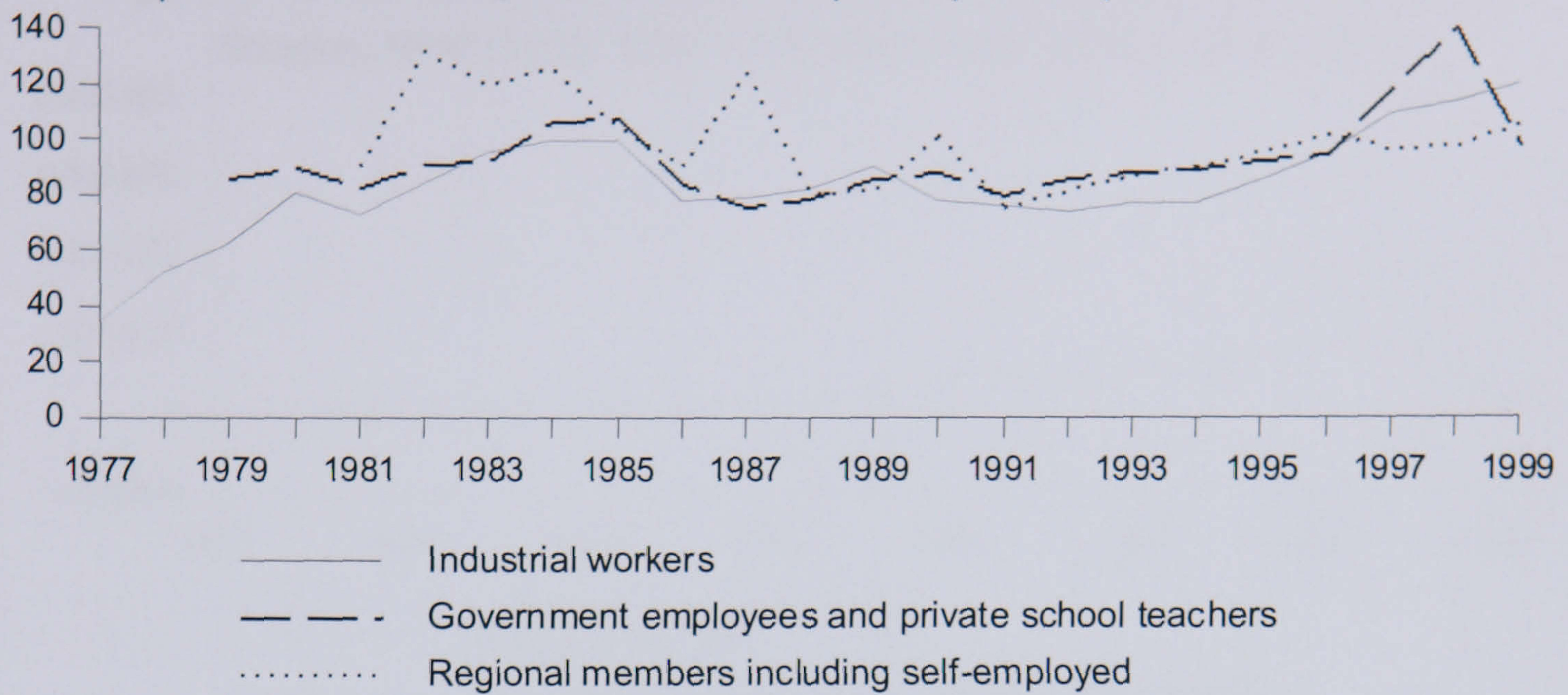


Figure 4.7 provides a clearer illustration that the accumulated legal reserve for each category under health insurance has not been in a state of equilibrium. One might read from Figure 4.7 that regional health insurance funds have been more sustainable than those for government employees and private school teachers. However, there have been government subsidies for industrial workers only for the first eight years ever since national health insurance began to take effect, while regional members have benefited from government subsidies for almost two decades. For this reason, if the ratio of government subsidies to both categories is taken into account, the financial instability in regional health insurance becomes much worse. This argument is clearly evidenced by Figure 4.8 which shows the percentage of government subsidies to total revenues in each category. Figure 4.9 clearly demonstrates that all these difficulties maintaining sustainable health insurance finance have been approached by increasing the rate of contributions. In turn, this approach has generated socioeconomic disruptions especially from those who have been rather explicitly exposed in financial terms.



Figure 4.7 Financial Sustainability of National Health Insurance (million won)

Sources: NFMI (1990, 1999, 1991-1999); NHIC (2000); SoNA (2001)

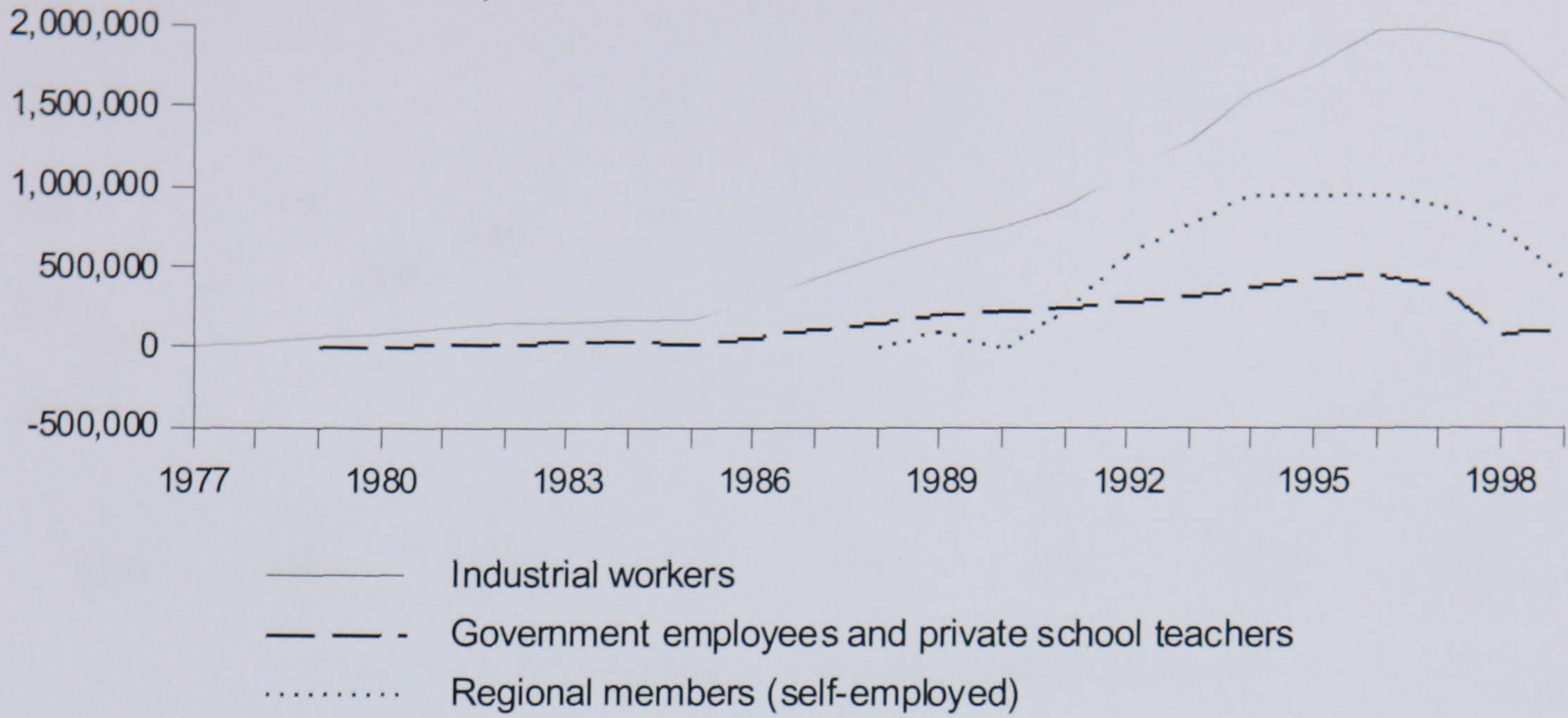


Figure 4.8 Percentage of Government Subsidies to Total Revenues

Unit : per cent ; Sources: MoHW (2000a); NFMI (1990, 1991, 1999)

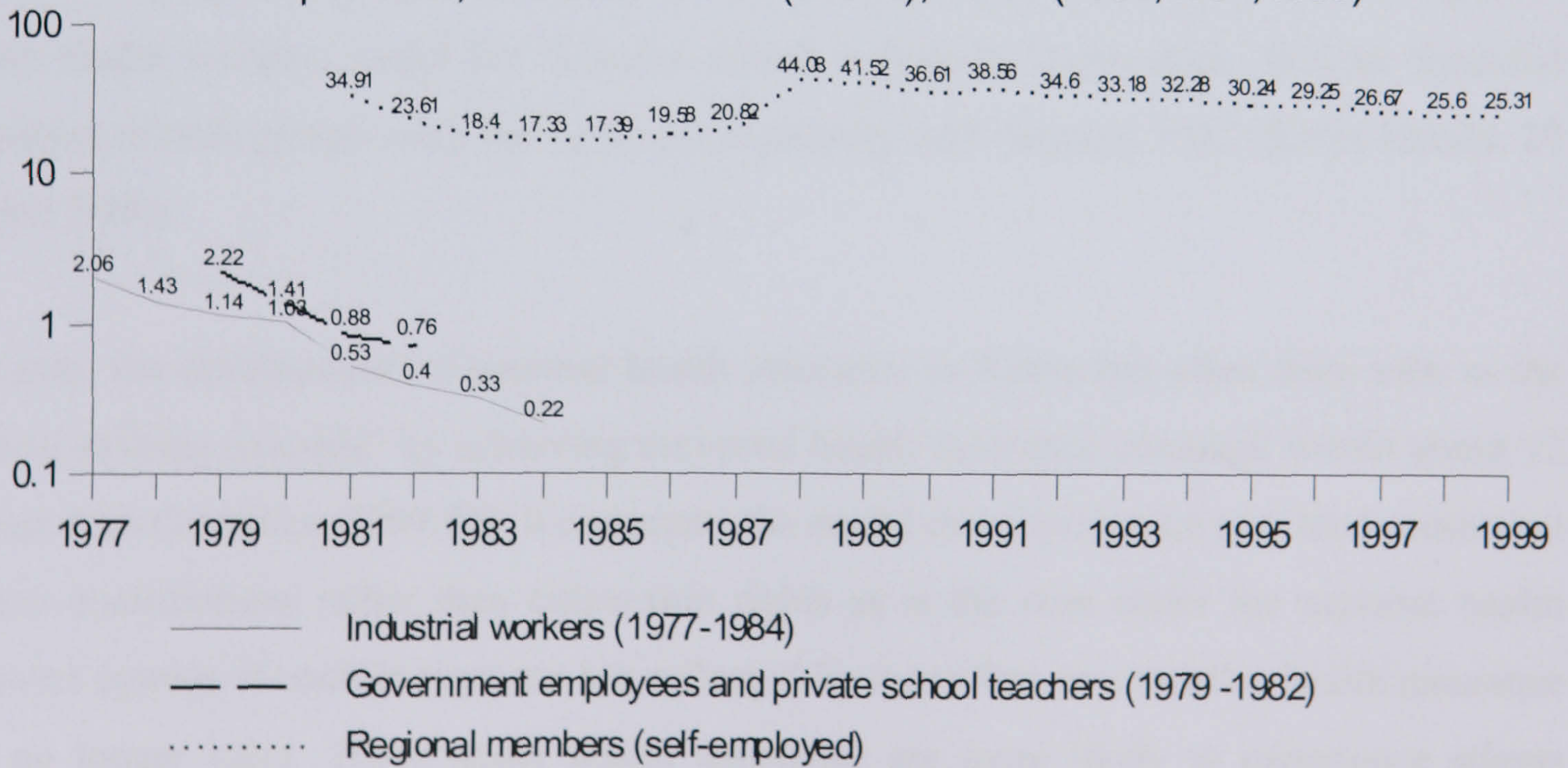
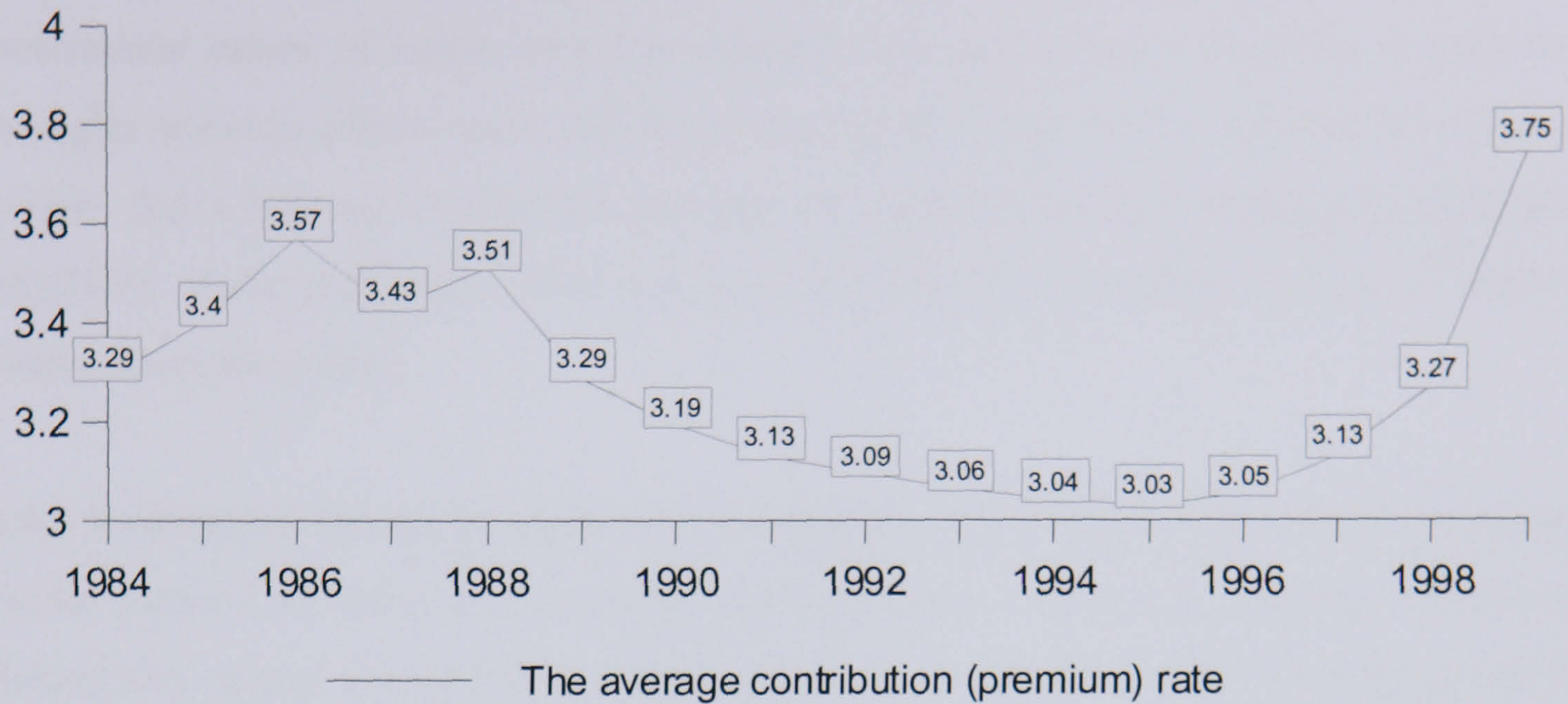




Figure 4.9 The Change of Average Annual Contribution Rate

Unit: per cent; Source: MoHW (2000b:445)



All that has been said seems to acknowledge that there is a certain degree of validity in the opposing argument to the system integration. One of the crucial reasons that the regional health societies are financially unstable results from the fact that the premiums paid by the self-employed are collected on the basis of their incomes. As is well known, this method of collection has not been reliable. Therefore, this argument goes further that the integration should be postponed at least until improvement was made in the method of detecting the self-employed's incomes. Since 1 July 2000, the integration nevertheless has encompassed both health societies under the National Health Insurance Corporation. But the financial systems of both groups were due to be run separately until January 2002 (Korea Herald, 20 April 2000).

In sum, the development of national health insurance in Korea has often been seen as the 'most striking example' by achieving universal health insurance coverage within about 12 years (van Ginneken, 1999:57). It represents the model that services are provided contingent upon contributions rather than citizenship rights as is the case under the national health service system: if contributions are not collected for more than two months, health insurance is no longer valid. Those under health assistance are more likely to experience stigma attached to health services. As was the case in most industrialised countries where interactions between those directly involved in their own concerns and interests tend to be explicitly exposed in shaping health care systems, national health insurance in Korea was



also greatly influenced by self-interested groups' activities. However, it was political and administrative expediency that undermined the effectiveness and efficiency principle. This expediency in turn has led to an *ad hoc* development of national health insurance. This incremental nature of health insurance development was in part a response to consistent struggles between effectiveness, efficiency and equity issues. In the end, there has been no winner, but a lack of coordination between contrasting principles endangered increasing instability of the programme. This has in turn imposed a substantial amount of financial burden upon the public.

#### **4.4.3 Inadequate Design or Operational Failure? : The National Pension Programme**

Public pension in Korea is a social insurance system in which the pension benefits are financed by means of contributions (premiums) imposed equally on the insured persons and employers. When the self-employed are included, one third of state subsidies are provided. This public pension scheme has consisted of two pillars. Pensions for civil servants (1960) constitute the public pension for particular occupational groups (e.g. military personnel in 1963, and private school teachers in 1975). A national pension covers the rest of the population (1988). Implemented from January 1988, a national pension has been one of the most controversial welfare programmes in its financing and management. In addition to the introduction of minimum wages and the expansion of national health insurance, its introduction was one of the big three national welfare policies announced by the then President Chun Doo-Hwan on 11 August 1986 (see Chapter 3). The first attempt to introduce a national pension in 1973 was proposed by the EPB and its affiliated research institute, the KDI. Their intentions were largely drawn from the existing political and economic motivations (see Chapter 2).

Learning from past experience, there had been concerns expressed between the MoHSA and the KDI that national pensions should not be recognised as a political instrument to mobilise domestic capital (NPC, 1998a: 119). Nonetheless, the deposit on account of national treasury for public services and utilities had remained a compulsory requirement for the fund's operation. In this situation, there had been enormous risks that the funds would not be operated to fulfil this promise. The Director of the Welfare Policy Division in the MoHW made plain:



‘When the national pension programme was designed by the KDI in the late 1980s, the major concern was in the accumulated fund of the pension system. The method of its finance was based on the funded scheme. Although the funds were expected to be exhausted in the 2030s, it had been ignored. Since most Western countries began their pension systems based upon a funded scheme, moving towards a pay-as-you-go scheme, shifting the method of funding had not been a serious problem in a later stage of the programme management. For the first year following the implementation of the programme (1988), almost 5,000 billion won was expected to be accumulated. The then Fiscal Investment and Financing Special Account Act, engaged by the then EPB, allowed the public funds to be driven by the government ministries such as the Ministry of Construction and Transportation which used lower interest rates than the private investment market...since the abolition of this Act, the funds reserved for use by government departments deliver no less than market interest rates. The discretionary operation of the funds is no longer allowed perhaps because of the increasing public concerns over the funds’ (Interview with Lee, Young-Chan, the Director of the Welfare Policy Division, Social Welfare Bureau, the MoHW, 24 July 2000, Seoul)<sup>12</sup>.

In principle, the main purpose of pensions is to ‘prevent poverty in old age and (at least partly) to protect the living standards to which pensioners have become accustomed’ (Barr, 1987:205). The primary group for pensions should therefore be applied to those in great need rather than those who are financially stable or those favoured by administrative convenience. By expanding its coverage, one might argue that a national pension in Korea may have fulfilled this main purpose to an extent. Beginning with a coverage of workplaces with over 10 employees amongst those of working age of 18 to 60 in 1998, those in workplaces with over 5 employees were part of it by January 1992. In July 1995, those in rural areas became members of the programme. Since April 1999, virtually all the population have become integrated into the system<sup>13</sup>.

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He continues to point out that it was the president of the KDI, Kim, Man-Jae, who was the key figure in the attempt to introduce national pensions in the early 1970s. In 1986 when he became the Minister of the EPB, he again made a major contribution to implement the pension system together with the head secretary to the president for economy. However, his contribution was influential not simply because of his character, but also because of his position. Political decisions were drawn from economic capacity and this had remained highly influential compared to what had actually been required by the society (NPC, 1998a: 68, 111; Lee, Young-Chan, the Director of the Welfare Policy Division, Social Welfare Bureau in the MoHW. Interviewed on 24 July 2000, Seoul).

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This includes the self-employed in urban areas, those in workplaces with less than 5 employees, temporary and daily workers, and part-time employees. From July 2002, those in workplaces with more than 1 employee can be a member of the programme in workplaces category. Those aged below 27 with no income will be excluded from the programme in regions (CDN, 19 August 2000).



As Table 4.9 shows, the rate of pension coverage to the economically active population was only 25.6 per cent when it first took off in 1988. In 1999, however, it reached 49.7 per cent of the economically active population. This increase was indeed a remarkable expansion but at the same time this fast expansion towards the self-employed in rural areas had stimulated the radical reform of the programme. In consequence, the new pension formula was introduced according to the National Pension Reform Act of 1998 which is shown in Table 4.10.

Table 4.9 The Coverage of the National Pension Programme (1988-1999)

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1988	4,432,695	4,431,039	58,583	-	1,370	286	25.6
1989	4,520,948	4,515,680	62,952	-	4,036	1,232	25.1
1990	4,651,678	4,640,335	72,511	-	8,274	3,069	25.1
1991	4,768,536	4,747,605	80,987	-	14,921	6,010	25.0
1992	5,021,159	4,977,441	120,374	-	32,238	11,480	25.8
1993	5,159,868	5,108,871	129,703	-	40,452	10,545	26.1
1994	5,444,818	5,382,729	144,910	-	48,332	13,757	26.8
1995	7,257,394	5,541,966	152,463	1,650,958	48,710	15,760	34.9
1996	7,425,700	5,677,631	164,205	1,681,915	50,514	15,640	35.0
1997	7,356,931	5,600,947	172,759	1,606,542	47,208	102,234	34.1
1998	6,580,265	4,849,926	160,027	1,583,201	29,024	118,114	30.7
1999	10,749,322	5,238,149	186,106	5,390,735	32,868	168,570	49.7

Notes: (1) the total number of participants in the NPP; (2) the total number of participants in workplaces; (3) the total number of workplaces in the NPP; (4) number of participants in regions, those aged 18-60 who are not members of (2) including the self-employed; (5) number of voluntary participants, those who are not the members of (2) or (4) such as students or soldiers aged 18-23, or spouse of participants but without income; (6) continuously voluntary participants, those aged 60 or more but whose period of contributions is less than 20 years can stay in the NPP until the age of 65; (7) percentage of the economically active population.

Sources: Reconstructed Table from MoHW (1999b, 2000a); NPC (1999, 2000a); NSO (2000c: 180).



Table 4.10 The National Pension Programme's Pension Formula II

Basic pension (1)  $2.4 \times (A + 0.75B) \times (1 + 0.05 \times N)$   
: Applied to those who had been insured from 1988 to 1998

Basic pension (2)  $1.8 \times (A + B) \times (1 + 0.05 \times N)$   
: Applied to those who have been insured from 1999

According to the 1998 National Pension Reform Act basic pension (1) and (2) are added to generate the following formula;

$$\text{Basic pension} = \{2.4 (A + 0.75B) \times P1 \div P + 1.8 (A + B) \times P2 \div P\} \times (1 + 0.05 N \div 12)$$

- A: mean monthly wage of all participants in the pension programme a year before their pensions begin (equalised amount; regardless of the individual participant's income, the total amount of the previous year's (31 December) standard monthly income of all participants both in workplaces and regions is divided by the total number of participants. For example, 1,272,595 won is applied to A until March 2000).
- B: the average amount of Standard Monthly Income during the period of insurance (earnings-related amount; the standard monthly income of those insured during the period of contributions is converted to the present value of the previous year that pensions start by means of the annually determined re-valuation rate. Then, the re-valuated aggregate amount standard monthly income is divided by the year of insurance. The re-valuation rate is to be announced by the MoHW on the basis of the annual rate of change on all participants' average standard monthly income during the period of insurance).
- 1.8: means the constant which determines the level of benefit on the basis of 40 years' (480 months) participation in the programme. When  $A = B$ , a participant who has been in the programme for 40 years will earn about 60 per cent of his final income as a basic pension.
- P1: the number of months that a person has been in the programme before Jan. 1 1999.
- P2: the number of months that a person has been in the programme after Jan. 1 1999.
- P: the total number of months that a person has been in the programme.
- N: number of years of contribution - 20

As briefly seen in Chapter 3 (Table 3.3), its design contains powerful re-distributional elements between intra-generational groups (vertical redistribution) for two reasons. First, a mean monthly wage of all participants a year before their pensions start provides lower pensions to higher income groups, and higher pensions to lower income groups. In other words, 'A' represents an income-proportional component, earnings-related average monthly remuneration for the year preceding the year of pension payment. For example, if a person's income is one fourth of A and his contribution has been for 20 years, he would be able to receive 95 per cent of his life-time income. But if a person's income is either equal to A or



double, he would only be able to receive 35 per cent or 25 per cent of his life-time income respectively. Second, due to 'B' which is an equal distribution component, flat-rate average standard monthly remuneration during the aggregate insured term of the insured person, an average monthly wage over an individual workers' working life in the programme is designed to secure the real value of pensions by re-valuating it with the present value of the previous year before pensions are provided. This real value of pensions after pensions are provided by adjusting A and B through a sliding-scale system and its adjustment is based upon the national consumer price index (CPI).

Despite all these functions, the current system has played an inter-generational distributive role in practice because the funds are yet to mature and the first full old-age pension benefit is yet to be provided. But there has been increasing need of those who have come to pensionable ages. For this reason, it might be said that a national pension scheme has an element of pay-as-you-go<sup>14</sup>. In principle, pension schemes can be thought of as being on a continuum with pure funded schemes with defined contribution at one end (e.g. Singapore, see ILO, 1984:6), and pure pay-as-you-go with (means-tested) defined benefits, at the other. However, in reality, the actual formation of pension schemes varies. Its variation depends upon their operational objectives. In other words, it differs to whether pension schemes aim to alleviate poverty and to achieve redistribution, or to encourage savings and to promote income smoothing (Evans and Falkingham, 1997:5).

Whichever of these objectives is taken, the initial formation that set out the low level of contributions and the high level of pensions questions the survival of national pensions. The contribution rate was initially scheduled to start with 3 per cent for the first five years and to increase 3 per cent in every five years. Ironically, however, even those who designed the system at first argued that it should have started with 9 per cent from the beginning (Min, Jae-Sung *et al.*, 1986). They certainly knew that the contribution rate was too low in order for

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Park (1997:67-68) argues that the method of national pensions finance is rather close to the incomplete (or partially) funded scheme because the overall scale of the funds has not fully accumulated the present value of all pension liabilities. Even in this situation, the first generation should still be integrated, at least in equity terms, into the system even before the funds are fully accumulated. For this reason, the current pension system maintains the structure that its financial burden has been imposed upon the future generation by increasing the rate of contributions but lowering the level of benefits. At the other end, national pensions benefit systems contain both features of the defined benefit and defined contribution scheme. This is because levels of contributions and levels of pensions are defined on a formula basis.



the finance of the system to be sustainable. But priority was given to lessening the negative impact on the national economy. This low contribution rate set out at the beginning is an important cause of maintaining sustainable finance because, as Table 4.11 shows, national pensions finance has entirely been based upon contributions and the interest receipts from the funds. The government subsidies remain very low only in the area of the operational and administration costs of the National Pension Corporation (NPC). The method of finance has therefore remained as the funded scheme which refers to 'the payment of pensions from the funds accumulated through the contributions paid and the interest earned from their investment' (Evason, 1999:114). According to either the KDI's or the NPC's projection, it would become necessary at some point in time to move to the pay-as-you-go scheme which finances pensions from direct transfers of income between generations rather than accumulated funds. In other words, the KDI's original estimation anticipated the exhaustion of the funds in 2041 (Min, Jae-Sung *et al.*, 1986:336), while the NPC's estimation shows that the funds will be exhausted in 2033 (NPC, 1998a: 371).

Table 4.11 The Composition of the National Pension Fund (1988-1999) (Unit: million won)

Year	Total	Contributions	Operational profit from the fund	Transferred money	Surplus on closing accounts
1988	528,221	506,931	20,110	335	845
1989	1,240,234	1,134,816	99,975	335	5,108
1990	2,259,513	1,968,821	284,838	335	5,519
1991	3,539,043	2,953,623	579,101	335	5,519
1992	5,201,885	4,177,042	1,018,524	335	5,984
1993	8,424,628	6,816,394	1,601,915	335	5,984
1994	12,766,147	10,142,169	2,617,659	335	5,984
1995	18,159,651	14,108,481	4,044,851	335	5,984
1996	25,028,387	19,052,037	5,970,031	335	5,984
1997	33,190,569	24,727,764	8,454,352	335	8,118
1998	44,851,859	32,568,480	12,274,926	335	8,118
1999	58,361,462	41,954,385	16,397,093	0	9,649

Sources: Reconstructed Table from NPC (1990, 1998b, 1999).



A national pension, like national health insurance, has developed in an incremental fashion. At each stage of its coverage expansion, different rates of contribution have been applied (see Appendix 9; Appendix 10). For example, the contribution rate for those in rural areas since 1995 has been applied differently. It started with 3 per cent for the first five years (July 1995- June 2000), and it was scheduled to increase by 3 per cent in every five years until the rate reached 9 per cent from July 2005. As has been well discussed elsewhere (see Boden and Corden, 1994; Corden, 1999b; Eardley and Corden, 1996; Williams, 1999), this coverage expansion towards those in rural areas (including those whose means of living relates to agriculture or fisheries in urban areas) brought about two important problems. First, the actual income of the self-employed can only be collected by their reported income. The most reported income tended to be lower than the actual income. Thus, this could result in the reverse redistribution from those who have reported their actual income and salaried employees whose contributions come from their pay-roll to those who have falsely reported their income. Second, the falsely downward-reported income inevitably makes contributions low which in turn provides the lower amount of pensions. In short, the earnings-test for the self-employed appears to be one of the most serious problems but hard to resolve in virtually all social security systems such as public assistance and national health insurance.

In order to solve the existing problems and to make an effective design to integrate the self-employed in urban areas, a planning mission for national pension reform came into operation from May to December 1997. Coordinated by the government, the final Bill for the National Pension Reform Act was submitted to the National Assembly in April 1998. However, the ruling party and the opposition party failed to come to terms. Meanwhile, the review of the Bill was considered by a Standing Committee for Health and Welfare under the National Assembly until the opposition party submitted their own Bill. In December 1998, the National Pension Reform Bill was finally passed by the National Assembly and this enabled the Reform Act to be implemented from April 1999. Appendix 9 summarises an overview of principles since the original design of the National Welfare Pension Programme in 1973.

This 1998 National Pension Reform Act has generated several important changes. First, the universality of social insurance has been completed by integrating those self-employed in urban areas into the public scheme. Second, the level of benefit has been reduced from 70 to



60 per cent on the basis of 40 years contribution. The eligibility begins from the age of 65 through a phase in adjustment which enables the funds to be sustainable. The contribution rate has also been readjusted for national pensions finance to be sustainable. This readjustment generates a major shift from the mixed features of defined benefit and defined contribution schemes to the paternalistic nature of defined benefit schemes. Third, as a response to financial difficulties, the committee for the national pension funds operation has been democratised. The total membership of the committee has expanded from 15 to 21, placing a great emphasis on increasing the number of representatives from participant groups. The chairman of the committee has also changed from the Minister of Finance and Economy to the Minister of Health and Welfare, the competent ministry responsible for national pensions. Finally, as whether maintaining national pensions finance is sustainable can easily be conditional upon socioeconomic changes such as the interest rate, wage increase rate, consumer price rate, unemployment rate, fertility rate, and the number of pensioners. The reform has introduced the re-computation system which is designed to enable the operation of the National Pension Fund (NPF) to be more flexible by way of regular check-ups.

Despite all these changes, whether to solidify national pensions remains largely unclear. Compared to the relative ignorance on the ways in which the NPF should be operated at the initial stage of the late 1980s (Kwon, Huck-Ju, 1998b: 109), the accountability of the NPF was one of the most critical issues that in turn became subject to political debate in 1998. Clear answers to whether the current pension system would be sustainable must be given to those who have expected their returns. To this end, it is 'the deposit on account of national treasury for public services and utilities' that has been put at the centre of the debate on whether its use can be legitimatised. As Table 4.12 shows, almost 70 per cent of the NPF had been borrowed with the interest rate of savings account plus 1 per cent. In other words, it is highly unlikely to expect high returns from more than half of the total fund. Table 4.12 also demonstrates that the rate of investment in projects for the welfare of those insured and pensioners has always been very low and has even become lower in the late 1990s. It further shows that while percentage of payment of benefits and other expenditure to the total amount of the NPF has gradually increased, the rate of investment in banking section out of the NPF has gradually decreased.



Table 4.12 The Operation of the National Pension Fund (1988-1999)

(Unit: \* in million won; per cent)

Year	Total*	(1)	(2)	(3)	(4)	(5*)	(6)
1988	527,920	54.6	-	45.4	100.0	301	0.06
1989	1,233,258	50.9	-	49.1	100.0	6,976	0.56
1990	2,198,692	46.3	-	53.7	100.0	60,821	2.69
1991	3,327,514	45.6	3.6	50.8	100.0	211,529	5.98
1992	4,750,348	44.8	5.1	50.1	100.0	451,537	8.68
1993	7,611,761	40.5	5.1	54.4	100.0	812,867	9.84
1994	11,355,724	57.7	4.2	38.1	100.0	1,410,423	11.05
1995	15,955,373	65.4	3.9	30.6	100.0	2,204,278	12.14
1996	21,670,945	67.7	3.2	29.1	100.0	3,357,442	13.14
1997	28,282,412	67.4	2.9	29.7	100.0	4,908,157	14.79
1998	37,464,653	71.5	3.9	24.6	100.0	7,387,206	16.47
1999	46,992,280	67.8	2.1	30.1	100.0	11,369,182	19.48

Notes: The total amount does not include payment of benefits and other expenditure (5) in this table. If they are included, the figure goes slightly higher which can be found in Table 4.11; (1) = deposit on account of national treasury for public services and utilities ÷ total × 100; (2) investment in projects for the welfare of insured persons and pensioners ÷ total × 100; (3) investment in banking section ÷ total × 100; (4) Total = (1) + (2) + (3); (5) payment of benefits and other expenditure; (6) percentage of payment of benefits and other expenditure to the total amount of the NPF found in Table 4.11; 1998 and 1999 data are the figures of 31<sup>st</sup> December; figures are accumulated.

Sources: Reconstructed Table, data adopted and calculated from NPC (1996, 1998b, 1999, 2000a, 2000b).

The investment of the NPF in banking section from 1988 to 1999 is separately tabled in Table 4.13. A number of shadowed places show that almost every section, except government bonds, had undergone a severe financial loss. Deposit trust, beneficiary's securities, stock and short-term funds are charted in Figure 4.10 on a quarterly basis from October 1998 to July 2000. Though not shown in Figure 4.10, government and corporate bonds had undergone a gradual increase over time (NPC, 2000b) while deposit trust and beneficiary's securities had decreased in their accumulated amount. In short, the profit-making from the investment of the NPF was hardly impressive enough to prove that those who expect their returns would receive them in due course.



Table 4.13 The Investment of the National Pension Fund in Banking Section (1988-1999)

(Unit: in billion won)

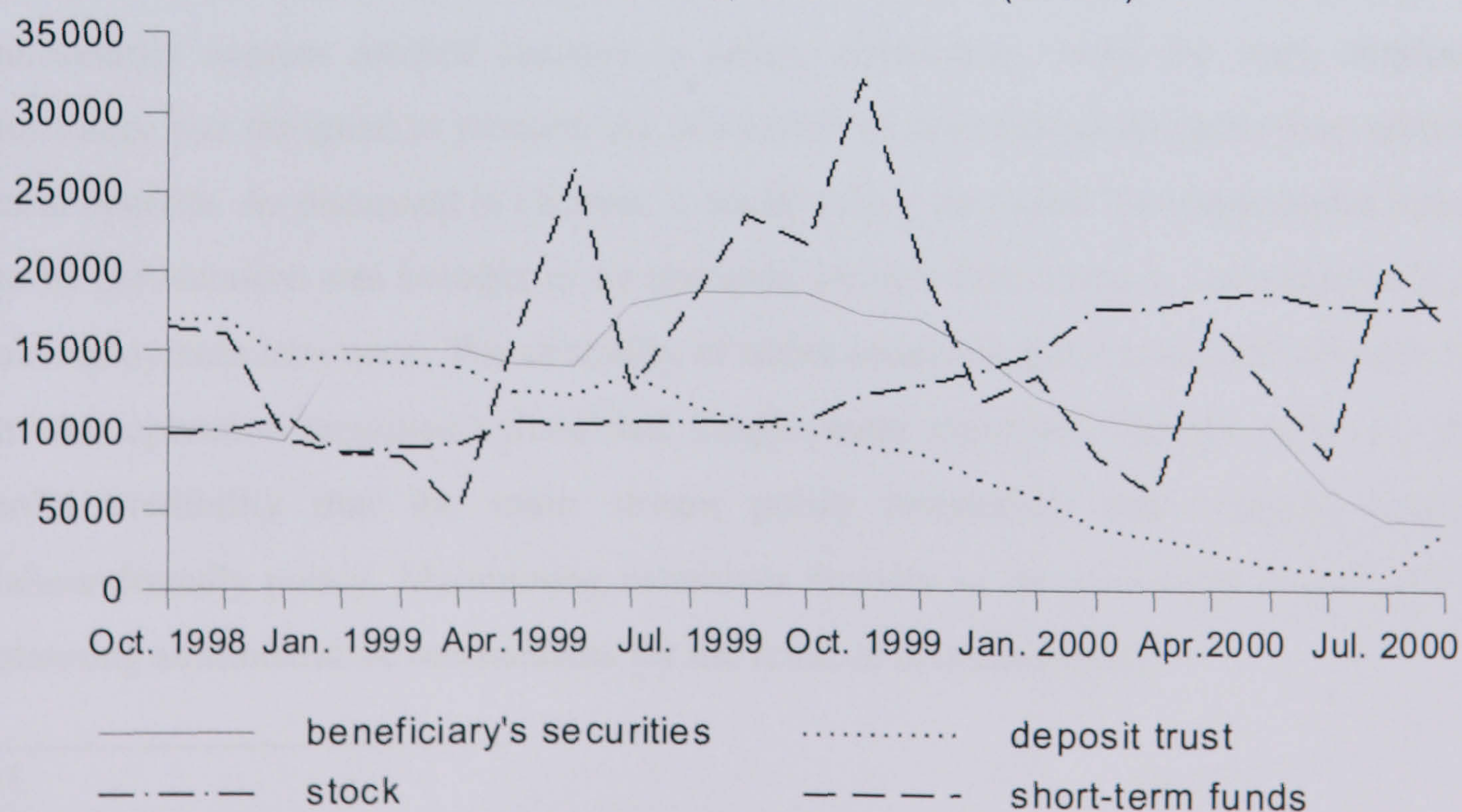
Year	Gov't bond	Corp. bond	Deposit Trust	Beneficiary's Securities	Stock	Short-term funds	Total
1988	399	192	1,153	477	-	178	2,399
1989	1,074	1,079	2,854	848	-	199	6,054
1990	2,666	2,627	3,974	2,231	-	311	11,809
1991	3,986	4,762	5,059	2,955	20	115	16,897
1992	4,702	5,685	9,125	4,192	121	-	23,825
1993	8,694	8,398	12,156	5,977	5,247	945	41,417
1994	11,336	7,057	11,430	3,430	6,683	3,273	43,209
1995	14,642	5,686	13,751	2,236	8,080	4,502	48,897
1996	18,468	8,100	18,148	6,809	10,618	869	63,012
1997	26,429	10,119	21,926	13,171	11,551	924	84,120
1998	44,481	3,793	14,583	9,261	10,789	9,403	92,310
1999	58,980	31,226	6,931	14,885	13,722	11,743	141,450*

Notes: \* The figure includes the investment in CP (Commercial Paper), the total 3,963 billion won which is not found in the table; figures are accumulated; 1998 and 1999 data are based on 31<sup>st</sup> of December each year.

Sources: Reconstructed Table, data adopted and calculated from NPC (1996, 1998b, 2000a, 2000b).

Figure 4.10 The Investment in Banking Section

Unit: in billion won; Source: NPC (2000b)





In sum, from the start a national pension expressed a political intent in its very formulation and design. The high level of benefit and low contribution rates initially built into national pensions were to fulfil the political goals that national pensions were meant to serve. In other words, an immediate short-term measure was given priority over long-term impacts and consequences that national pensions were likely to bring about. In operational terms, national pensions have undergone severe financial instability to which no clear solution has yet been given. In order to make national pension funds sustainable, lowering the rate of pensions for the future generation may result in public distrust which seems highly unlikely to be restored by a single reform. More national pension reforms would inevitably come but their impact on this public distrust is yet to be seen.

#### **4.4.4 Employability and Welfare Dependency: The Employment Insurance Programme**

The maintenance of employment has always been an important argument in forming welfare systems in Korea. Under the institutional setting that prioritises an economic growth strategy in particular, emerging employment instability no longer provides government considerable authority. For instance, the newly emerging concept of the working poor has attenuated the division of the deserving and undeserving poor. In addition, both indigenous and exogenous disruptions have influenced society and these disruptions could no longer be neglected. Under these circumstances, the introduction of employment insurance of 1995 was an institutional completion that finalised four major state welfare programmes on the basis of compulsory participation. However, fundamental ideas underpinning this completion do not necessarily express marked changes in policy orientation. From the start, employment insurance was designed to promote the prevention of unemployment rather than addressing cash benefits. As discussed in Chapter 3, social policy discourse for employment insurance to be preventative was brought in by changing its title from what is conventionally called unemployment insurance. The criticality of stable economic growth and the efficient labour market operation remained unmodified. Employment insurance, thereby, offers no sign of solid credibility that the main stream policy orientation had changed towards a labour-friendly policy. Maintaining incentives remains to be given high priority by those planning administrative mechanisms for the relief of unemployment<sup>15</sup>.

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The principle of incentive maintenance has also been prevailing elsewhere. Lipson (quoted in Creedy,



In principle, earnings of those who work are subject to a contribution assessment based upon their liability. For this reason, whether or not social insurance programmes are able to collect the insurance premium (contribution) is likely to determine administrative effectiveness. This administrative effectiveness is a rather simple yet precise reason why none of the social insurance programmes in Korea began with the full coverage of the entire population. For instance, small businesses have always been the last to be integrated due to the administrative difficulties implied.

Perhaps because of the financial crisis in 1997, which changed the initial plan of the expansion, employment insurance has grown faster than any other social insurance programme. Table 4.14 summarises how employment insurance has expanded its coverage over time since its initiation<sup>16</sup>. Despite this exceptionally fast expansion, the MoL's measures on the actual coverage of employment insurance confirmed that the ratio of the number of those eligible to that of those actually insured was only 69.8 per cent (MoL, July 1999). Moreover, as the final row of Table 4.15 shows, the percentage of those under employment insurance out of all types of waged workers (excluding family workers and the self-employed) in 1999 was less than 50 per cent. The second last row of Table 4.15 also illustrates that if the total number of the employed is considered, the coverage of employment insurance becomes much lower. These figures imply that a number of those ruled out are substantially high perhaps because of their wage threshold or instability of employment under the regulations of voluntary participation, or because of possible defaults of the administrative mechanism for take-up by those eligible for employment insurance.

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1981:3) argues that what is most important in designing employment insurance is to constrain the possibilities of 'adverse reactions upon the economic system'. For example, Britain has been credited as the first country to introduce compulsion in its unemployment insurance. However, Hill (1990:134) argues that the Social Security Act of 1989 enables unemployment benefit not to be paid where individuals fail to conduct an active search for jobs. Incentive maintenance has been a prolonged concern in British social security systems.

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In February 1998, the Tripartite Commission (the presidential advisory board represented by the government, political parties, management and trade unions) came to terms with integrating all size of businesses from 1 July 1999. But as the Korean economy and the labour market situation became much worse than expected, the expansion plan was rescheduled to come into effect from 1 October 1998 (Yoo, Kil-Sang, 1999:16). There are groups that still have not been part of this integration. Those engaged in temporary or part-time labour market have been excluded due to a great deal of administrative difficulties in collecting information on their wages. Furthermore, those aged 65 and more, and those aged 60 and more but seeking a job are also excluded and so are those employed by both national and local governments and those employed in private schools.



Table 4.14 Trends of Compulsory Participation in the Employment Insurance Programme

Coverage						
A	1 Jul. 1995 - 1 Jan. 1996	1 Jul.1997 - 31 Dec.1997	1 Jan. 1998 - 28 Feb. 1998	1 Mar. 1998 - 30 Jun. 1998	1 Jul. 1998 - 30 Sept. 1998	1 Oct. 1998 onwards
B	30 +	30+	10 +	5 +	5 +	1 +
C	70 +	70+	50 +	50 +	5 +	1 +
D	40 billion won or more	44 billion won or more	34 billion won or more	34 billion won or more	3.4 billion won or more	3.4 billion won or more

Notes: A. unemployment benefits; B. employment stabilisation scheme; C. employability development scheme; D. the total amount of construction costs in construction industry (applying to A, B and C).

Source: MoL (2000a: 89).

Table 4.15 The Coverage of the Employment Insurance Programme

	1995	1996	1997	1998	1999
No. of Establishments	38,953	43,723	47,427	400,000	601,394
No. of Participants(a)	4,204,258	4,330,885	4,280,430	5,267,658	6,054,479
Total No. of the Employed <sup>1</sup> (b)	20,432	20,817	21,106	19,994	20,281
Self-Employed <sup>1</sup> (c)	5,694	5,811	5,981	5,776	5,841
Family Workers <sup>1</sup> (d)	1,955	1,941	1,899	2,028	1,918
Regular Employees <sup>1</sup> (e)	10,974	11,261	11,333	10,455	10,233
Daily Workers <sup>1</sup> (f)	1,809	1,804	1,892	1,735	2,289
(a) ÷ (b) × 100	20.58	20.80	20.28	26.35	29.85
(a) + {(e) + (f)} × 100	32.89	33.15	32.37	43.21	48.35

Note: 1. In thousand persons, classified by type of employment.

Sources: Reconstructed Table from MoL (2000a: 93, 2000b: 236); BoK (July 2000: 140-141).

The Employment Stabilisation Scheme (ESS), the Employability Development Scheme (EDS) and unemployment benefits are the three pillars that constitute employment insurance, financial resources of which are also drawn from these pillars. First, the ESS is designed not only to provide economic incentives to employers who have been actively involved in employing marginally displaced workers. But, the ESS also provides



information and job opportunities to potential employees. Second, the EDS is mainly engaged with on-the-job-training (OJT), vocational training for new entrants and increasing capacity of those who require to be re-employed. Third, unemployment benefits provide basic benefits and incentive benefits such as the early re-employment allowance. Given this structure, as Table 4.16 shows, both employers and employees had paid 0.3 per cent of insurance premiums for unemployment benefits until December 1998. But this rate was readjusted to 0.5 per cent largely due to a growing number of the unemployed since January 1999 (see Figure 4.1). For the ESS and the EDS, employers are responsible for their full payment.

Table 4.16 The Insurance Contribution Rates by Industry (In per cent out of total payroll)

	1995-1998		1999 onwards	
	employees	employers	employees	employers
Unemployment benefits	0.3	0.3	0.5	0.5
ESS	N/A	0.2	N/A	0.3
businesses with $\leq$ 150 workers	N/A	0.1	N/A	0.1
E D S businesses with $\geq$ 150 workers	N/A	0.3	N/A	0.3
more than 150 to less than 1,000	N/A	0.5	N/A	0.5
more than 1,000 employees	N/A	0.05	N/A	0.7

Sources: MoL (1999a); Yoo, Kil-Sang (1999:85).

As part of a social safety net, employment insurance shares the nature of benefits available from the reformed public assistance programme. In both cases, preventive measures take priority over curative measures mostly by promoting active labour market policy. For this reason, employment insurance in Korea has been almost exclusively engaged with a number of built-in mechanisms to attenuate the culture of dependency. Political discourse of workfare has been placed at the centre such that social welfare should not undermine individual activities in economic terms. Not only are unemployed persons required to get registered at the public employment office but also they are obliged to report their job-seeking activity on a regular basis. Ineligibility for benefits applies to the case in which unemployment occurs due to individuals' own fault, or to personal reasons that cannot be validated by the head of the public employment office.



To be eligible for unemployment benefits, one should not only provide a minimum 12 months contribution record within the previous 18 months of employment but also be insured for minimum 60 to maximum 210 days<sup>17</sup>. Further to this, a waiting period scheme provides another strict eligibility rule such that unemployment benefits are not paid to those who are eligible for the first 14 days after they become unemployed. The rationale behind this waiting period is to confirm the eligibility of beneficiaries and to assess the amount of benefits. Yet the average duration of unemployment benefit payments was only 74.6 days during the period of 1 July 1997 to 30 June 1998 according to the Korea Labour Institute's estimation (KLI, Autumn 1998:73, 79). Compared to the average duration of the re-employment being 96.1 days, this low figure indicates that those unemployed had no choice but to live without any income whatsoever for almost 20 days. Hence benefit payments extension has been formed into the benefit system as implicit assistance to them.

The issues at stake in employment insurance that appears to go beyond all sets of built-in mechanisms to discourage welfare dependency in fact concern the unrealistic replacement rate. The replacement rate is regulated at 50 per cent but its real value has been much lower than 50 per cent because of different formulae applied to the contributions and benefits. In other words, the contributions are calculated by the total amount of wage including all types of fringe benefits in cash and additional allowances provided from the businesses. By contrast, the benefits are measured based only on basic wage excluding all amount of allowances and fringe benefits in cash. In fact, the average benefits were 1,942,770 won being provided for 74.6 days during the period of 1 July 1997 to 30 June 1998. Therefore, a person with unemployment benefits had been given monthly average benefits of approximately 880,245 won compared to the average income of 1,744,200 won having been paid at work. This clearly indicates that a replacement rate was only 44.79 per cent (KLI, Autumn 1998:73, 75; the unemployment benefits replacement rate = unemployment benefits per day ÷ daily average wage).

From the start, unemployment benefits were not given any significant emphasis in the overall design of employment insurance. Instead, the purposes of employment insurance were to build up a solid employment infrastructure and to fill in the marginal gaps where those who

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According to the Amendment Act of Employment Insurance on 31 December 1999, unemployment benefits require a minimum 180 days contribution record and one should be insured for minimum 90 to maximum 240 days to be eligible for benefits.



need employment security were ruled out due to the stringent nature of the system. All the amendments made since its first enactment in 1993 to these ends (e.g. the Amendment Act of Employment Insurance on 22 Dec. 1994; 30 Dec. 1996; 28 Aug. 1997; 20 Feb. 1998; 17 Sept. 1998; 31 Dec. 1999). Notwithstanding, employment infrastructure in Korea is relatively underdeveloped. As Table 4.17 shows, one person employed in the employment stabilisation office was in charge of 8,060 persons out of the entire economically active population in Korea, while the figures go down to 4,438 in Japan, 1,946 in the United States, 867 in the United Kingdom and 338 in Germany.

Table 4.17 Comparison of Employment Stabilisation Office (ESO)

	Germany	UK	US	Japan	Korea
Economically active population <sup>1</sup> (a)	29,590 <sup>2</sup>	28,620 <sup>2</sup>	136,297 <sup>2</sup>	67,870 <sup>2</sup>	21,634 <sup>3</sup>
Number of ESO	841	1,159	2,528	619	119
Number of personnel in ESO (b)	87,570	33,000	70,050	15,290	2,684
(a) ÷ (b)	338	867	1,946	4,438	8,060

Notes: 1. In thousands; 2. 1997 data; 3. 1999 data; the rest of the figure is based on 1998 data.

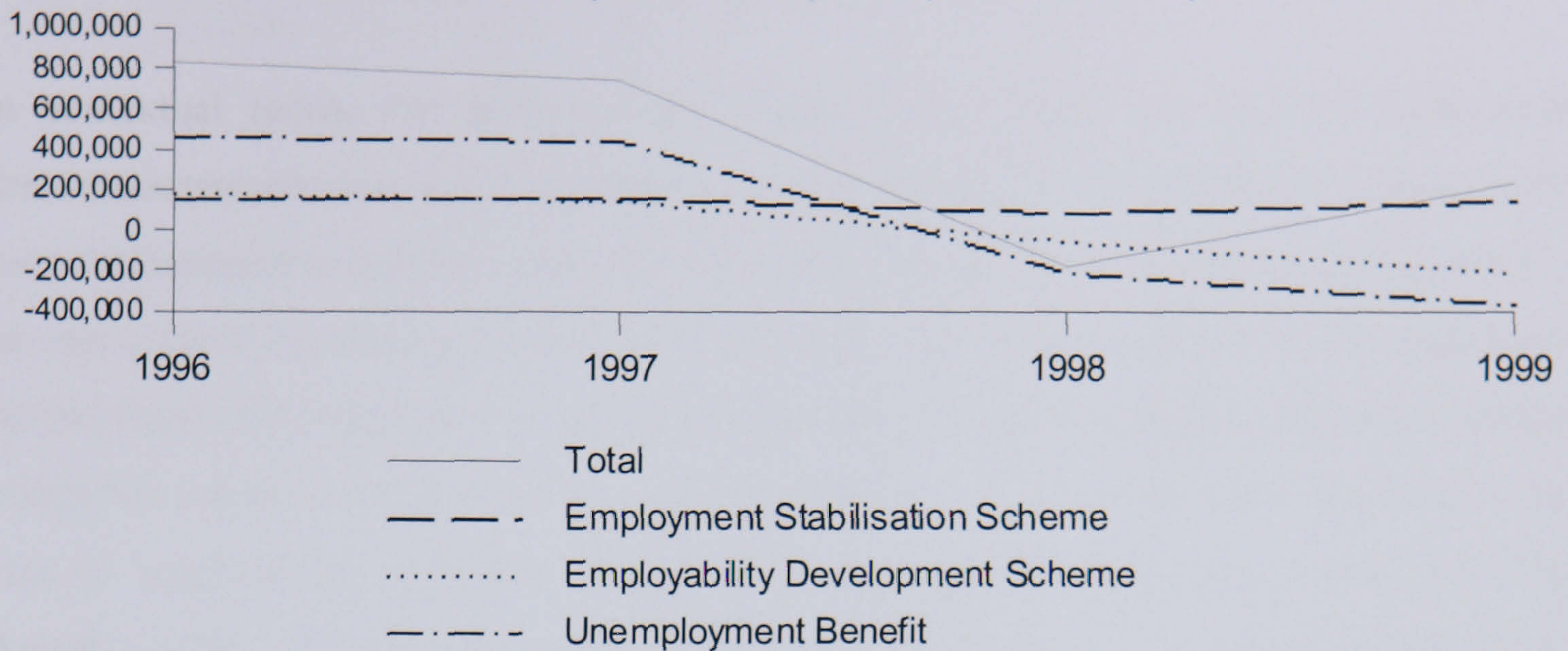
Source: MoL (February 1999).

Despite this overall stress on employment stability and employability, there has been a growing demand for employment benefits. For example, Figure 4.11 demonstrates each sub-scheme's financial balance (i.e. premiums - payments). Through this analysis, it becomes clear that the amount that has been paid both to unemployment benefits and the employability development scheme was much more than the amount that has been collected. This financial loss that employment insurance has undergone requires further reforms to push the figures up. There are two possible options that may keep the balance sustainable. The first option is to increase the premium rate for unemployment benefits. This means that those under employment insurance should pay more contributions in addition to the three other social insurance programmes. The other option requires the government to provide extra resources in order to stabilise the system. If employment insurance is to be seen as an emergency measure against the economic crisis, then the second option is unlikely to take effect because this view parallels with the idea that the public spending would harm the national economy. If the view that takes employment as the completion of a social safety net, the government is still capable of spending more on it. Neither the excessive public spending nor welfare dependency caused the economic crisis.



Figure 4.11 The Trends of Employment Insurance (Unit: in million won)

Sources : KLI (Autumn 1999); MoL (December 1999)



In sum, that employment insurance would be the concern of anyone who may lose a job at any time and that measures against economic recession are to require better social infrastructure came with huge surprise as the economic crisis paved the way for more uncertainties. As a response to this economic crisis, employment insurance has grown faster than any other social programmes while at the same time its financial soundness has been questioned equally fast. The prospects for the answers to this question however may come in a different way from what has been the case in the past because the economic crisis has marked another critical juncture for social policy reform to move forward. The ways in which social policy discourse has changed during this historically significant period is the subject of the next section.

#### 4.5 Conclusion: The Politics of Implementation

Much that has been said so far relates to whether legally-mandated goals and objectives of the policy initiatives are put into place in the structure of social policy. The politics of implementing such initiatives, according to Pressman and Wildavsky (1984: xxiii), may be viewed as ‘a process of interaction between the setting of goals and actions geared to achieving them’. Jenkins (1978:203) also argues that ‘a study of implementation is a study of change: how change occurs, possibly how it may be induced. It is also a study of the micro-structure of political life; how organizations outside and inside the political system conduct their affairs and interact with one another; what motivates them to act in the way they do, and what might motivate them to act differently’. Given this, the remainder of this chapter discusses how the expression of governmental intention is linked with policies that



may or may not fulfil their goals and objectives in the institutional contexts in which they are implemented<sup>18</sup>.

In contextual terms, the period of the working class movement and the subsequent democratic transition were the two major expansionary phases that substantial changes in the state commitment to welfare occurred. However, even through these phases the president's decisions about the orientation of government policy remained intact as the most important, deterministic and influential in the political process. The ways in which to theorise welfare within the extent to which economic growth strategies are prioritised has begun since the idea of 'constructing welfare society' became part of political discourse under the Fifth Republic (1981-1988). But this remained largely as a symbolic action, a specified formation of which was not visualised by any intellectual course of action. It was the Seventh Republic (1993-1998) that made this discourse turn to a pragmatic principle by adding on 'productive' to 'welfare'. Announced first by the then President himself in 1995, in other words, 'productive welfarism' became a principle that led to develop a new welfare paradigm. 'Productive functions of welfare', 'productive welfare policies' and 'productive social security systems' were the vocabularies used by the Planning Team for National Welfare in order to come to this end (KIHSA, 1995). Yet its materialisation was very limited in policy terms due to the ambiguity that productive welfarism brought about.

In structuring a new welfare paradigm, it was the Eighth Republic (1998- present) that made productive welfarism finally materialise into one of the governing principles. On the 44<sup>th</sup> National Memorial Day of 6 June 1999, President Kim Dae-Jung (1999a) said that 'the

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For this reason, this section does not discuss the mainstream analysis of implementation that is to be seen as critical part of the policy making process (Hill, 1993:213). A whole series of classical arguments found in implementation studies deal with top-down and bottom-up division which distinguishes the first (top-down) and second wave (bottom-up) studies of implementation (e.g. Elmore, 1978; Hjerm, 1982; Hogwood and Gunn, 1984; Hudson, 1989; Lipsky, 1971, 1980; Pressman and Wildavsky, 1984; Sabatier, 1986). Sabatier (1986), for example, identifies that where there is a dominant piece of legislation structuring the situation, the top-down approach appears to be comparatively advantageous. In contrast, the bottom-up approach becomes methodologically more effective in situations where a somewhat large numbers of actors become involved. As a definitional issue, this distinction may draw upon a dichotomy between the structural and behavioural centrality (Parsons, 1995) and between a state-centred and society-centred approach (see Skocpol, 1985; Spicker, 2000). In short, top-down approaches tend to be state dominated whereas bottom-up approaches are society centred.



people's government have been developing the trinity that parallels democracy, the market economy and productive welfare...in order not only to break through the economic crisis that has been the worst national crisis since the Korean War...but to achieve the second national foundation'. In turn, a number of intellectual courses of action were taken by individual government ministries and their affiliated think tanks (e.g. the KLI and the KIHSA) as well as academia in order to clarify the meaning of productive welfare. To an extent the term has largely been interpreted in their own discretionary ways because of the lack of clarity made by the President himself. But it has converged upon the point that could solve unprecedented market failure that raised questions surrounding unemployment, growing income disparities and dismantling the middle class. The Policy Planning Advisory Committee for the President began to theorise its meaning. Yet it was the Quality of Life Promotion Committee under the Presidential Secretariat that completed a series of reports, where 'productive welfarism' is defined as:

'A government administrative doctrine that guarantees the basic standard of life in order for all citizens to maintain basic human dignity and self-confidence, promoting the quality of life, as well as pursuing social development by way not only of enhancing opportunities of active and independent participation in socioeconomic activities, but also of reconsidering equality of distribution' (The Quality of Life Promotion Committee, 1999 requoted from Park, Neung-Hu, 2000:38).

At a similar time, however, the Ministry of Labour defined it as 'welfare that enables people to work'. The emphasis was given to the linkage of welfare systems and labour policies as its core (MoL, 1999 cited from Park, Neung-Hu, 2000:38). The uniqueness of its meaning was also addressed by the Ministry of Health and Welfare identifying the difference between the European notion of the third way and its Korean style creation:

'The third way [in European welfare states] suggests that the balance between social welfare and market functions should be taken on board as a solution to the ineffectiveness of state intervention which has failed to reduce the number of those on welfare. By contrast, the concept of 'productive welfare' is based on the assumption that the scale of welfare (provisions) will expand. Yet at the same time, it seeks the ways in which the function and the order of the market are guaranteed at a maximum level...productive welfare is the most active welfare policy and is composed of three pillars; first, primary distribution through market to enhance economically active participation; second, redistribution by the state to guarantee the quality of life; and third, social investment for rehabilitation to secure rights to work in the overlapping areas of the state and market' (MoHW, 2000b:13-14).



Does this productive welfarism differ from previous doctrine that subordinates social policy to economic policy? The answers to this question can be drawn from the analysis that examined the context in which a set of social policy reform has been implemented. Public assistance reform, for example, places a particular emphasis on job-seeking activities when benefit eligibility is considered; employment insurance is centrally structured by the principle of employability and employment stability though there has been a growing demand for unemployment benefits. In other words, employment insurance was designed to provide active labour market policy. Contradictorily however its main function has come close to income maintenance because a growing demand for unemployment benefits requires response. A lack of grand strategy often leads to an incorrect diagnosis of social problem which often results in social segmentation.

For national pensions, it was its unstable financial status that has long been subject to criticisms. Although the economic crisis brought in an emerging consensus of social integrity, national pensions were blocked by the refusal of citizens to participate in reform largely due to inadequate infrastructure that may not correctly scrutinise the income of the self-employed. Universal collectivity as the social basis of national pensions was devalued by this refusal. But the origins of this distrust date back to political reasoning that underpinned the inadequate design of national pensions which in turn caused financial instability. This unstable financial status also applies to national health insurance which brought about severe conflict between different health insurance societies. Evolved in an incremental fashion, a number of separate health funds were set up at each stage of national health expansion and managed separately. At each stage of its development, a government gave concessions to those who were deemed to be opposed to its plans. The idea of integrating health funds was implemented in this context which resulted in another social segmentation. In short, social policy reforms lacked a grand strategy which could have been guided by a correct diagnosis of social problems.

Social policy reforms in this era may well be understood as an emergency measure against the economic crisis or immature materialisation of a Korean style third way. The idea that centres around productive welfarism is to prevent welfare dependency by emphasising work ethics. But it should be remembered that market failure did not result from welfare overloading but from indigenous contradictions of capitalist development. In other words,



there was no sign of welfare overloading that may have undermined the work ethic in Korea. In order not to experience the 'welfare disease' that most Western societies have undergone, productive welfarism aims to solve the double edged problems inherent in social policy: being productive in economic terms while providing rights to welfare in social policy terms. The question is to adjust this pair of scales to new conditions while maintaining the right balanced.

Social programmes in Korea have developed on the basis of principled beliefs which underlie social policies elsewhere. But also they were structured by the process of lesson-drawing that is about the 'diffusion of what was once an innovation elsewhere' (Rose, 1993:25). Inspired by the experiences that many other Western societies have gone through, particular attention has been paid to almost all social programmes not to suffer any negative consequences that Western societies have already undergone. But whichever types of drawing a lesson is taken, it requires contextual adjustment. The conditions under which different sets of norms and rules develop constrain choice that may or may not be utilised by policy makers and policy administrators. The favourable conditions under which systems of welfare were arranged in the past may become obstacles at present. The intent that decision makers have in mind may be rightly placed in the structure of social policy but may also require considerable modification as the context in which they are implemented changes.

All that has been discussed in this chapter relates to social policy outputs that result from the interaction between political contexts, conditions and decision-making points (Box 2 in Figure 1.1 in Chapter 1). These social policy outputs in turn reshape the conditions under which choices are utilised. The conditions that force those in decision-making points to rationalise their decisions resulted in the emergence of 'productive welfarism'. Social policy reforms have been guided by this newly introduced political discourse. The creation of productive welfarism is the result of political acceptance such that economic growth equally requires a settlement of social problems and that the economic crisis verified how vulnerable the existing social safety net was. Restructuring this safety net was preconditioned not only to rebuild the economy but also to rationalise the decision. The period of the late 1990s became another critical juncture.



The analysis of policy formulation and implementation leads us to investigate the ways in which social policies affect citizens. These policy effects on citizens can become causes of further policy change. As Daniel Moynihan's (1969:193) phrase over aspects of the 'War on Poverty' in the United States identifies, '*the role of social science in government lies not in the formulation of social policy but in the measurement of its results*' (italics in original). By evaluating the overall effectiveness and efficiency of state welfare, the next chapter will identify distinctive ideas institutionalised in the Korean welfare state.



## CHAPTER 5

### The Conditions of Possibility

#### 5.1 Introduction

George and Wilding (1984:185) point out that ‘the claims that social policy undermines economic growth have always come to the forefront of public debate when the economy is in difficulties’. But at the same time there is little doubt that ‘social services have always been provided in ways in which the needs of the economy, or rather the needs of private capital, are taken into account as far as possible’. Proponents of the de-industrialisation thesis, the state subsidy theory of strikes or welfare dependency theorists tend to interpret the relationship between social policy and economic development as negative by emphasising the effects of social policy on undermining economic growth. There is no doubt that the provision of social policy would not work without increased economic growth, but as George and Wilding (1984: Ch. 4) argue, the main reason for increased economic growth is to raise the level of people’s living standards. Given this, the purpose of this chapter is to suggest that economic growth has a necessary and important role to play in social policies, but the risk of overemphasis on it can only be kept in check if it is applied within a broad and recognisable infrastructure of social welfare. The conditions under which social policy develops are not necessarily contingent upon economic growth but more on the political processes that reshape these conditions.

This chapter is organised into five sections. The first section examines the conditions under which the national economy has developed. By underscoring the government’s strategy on economic development, we identify historically distinctive developmental patterns. The second section examines the government’s restructuring strategies in response to the economic crisis that has influenced many aspects of social policy in Korea to a great extent. By bringing the issues of poverty and redistribution, the third and the fourth section evaluate the outcomes of social policy by examining the politics of poverty and the redistributive politics of the welfare state. In the final section, we explore a recent debate on health care systems and identify the complexity involved in the process in order to find the contemporary position of social policy in Korea.



## 5.2 The Conditions of Competitive Advantage: Dynamism in the World Economy

According to the World Development Report of 1987 (World Bank, 1987: Ch. 5), the East Asian NICs were seen as a model to be emulated by other developing countries. Their outward-oriented economic development strategies proved to be more effective than the inward-oriented development strategies of their Latin American counterparts. To the developmental case of Korea, for example, the OECD Economic Surveys (OECD, 1994:17-18) point out that a central economic development strategy was guided by an outward policy orientation from 1961 to 1973 (see Appendix 11). Song (1997:88) argues that growth, industry and outward-oriented strategy is the 'only correct development strategy, not only for Korea, but also for any other developing country that wants to sustain economic growth over a long period of time'. For President Park, it was economic growth that all national efforts were to be directed to and that must be achieved at any cost. In order to achieve economic growth, 'exports first' was officially documented in the Second Five-Year Economic Development Plan (1967-1971) and became President Park's favourite maxim that national building could be completed through it<sup>1</sup> (Song, Byung-Nak, 1997:92).

To this end, however, a high risk-taking strategy was required because the first oil crisis of 1973 caused a world wide recession that in turn made it impossible for the military government to fulfil the initial promise of economic growth. Conditionality given by the

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For this export-oriented policy, the currency was devalued by 50 per cent; a sliding-peg mechanism of adjustment was introduced in order to prevent a real appreciation of the Korean currency (i.e. won); a newly introduced single rate exchange system replaced the complicated multiple exchange rate system (i.e. a dual exchange system - the official rate and the 'curb market' exchange rate) (OECD, 1994, 1995). Given the international order of *the Bretton Woods System*\* where fixed rates of exchange were in operation, devaluing the currency may help a country with a fundamental disequilibrium in its balance of payments. It would be able to stimulate its export and to discourage imports, thereby restoring equilibrium to its balance of payments. A number of currency devaluations controlled by the state had enabled the preservation of international competitiveness. But *the floating exchange rate system*\*\* was introduced in 1973 in the international economy. In 1980, the exchange rate system was changed to one of managed floating, with the daily exchange rate movements being limited relative to the market average rate of the previous day in Korea (OECD, 1994:32): \**The Bretton Woods System* was in operation from 1944 to 1971. The system subsequently established both the International Monetary Fund (IMF; established in 1945, South Korea became a member on 26 August 1955) and the International Bank for Reconstruction and Development (IBRD; established in 1946, also known as the World Bank, South Korea participated in the IBRD in 1955): \*\**The floating exchange rate system* is also called freely fluctuating exchange rates. It might be argued that it was introduced in 1973 or even in 1978, depending upon the choice of landmark. In other words, it differs depending on whether the Smithsonian Agreements of December 1971 or the Kingston system of January 1976 was seen to be the end of the Bretton Woods system.

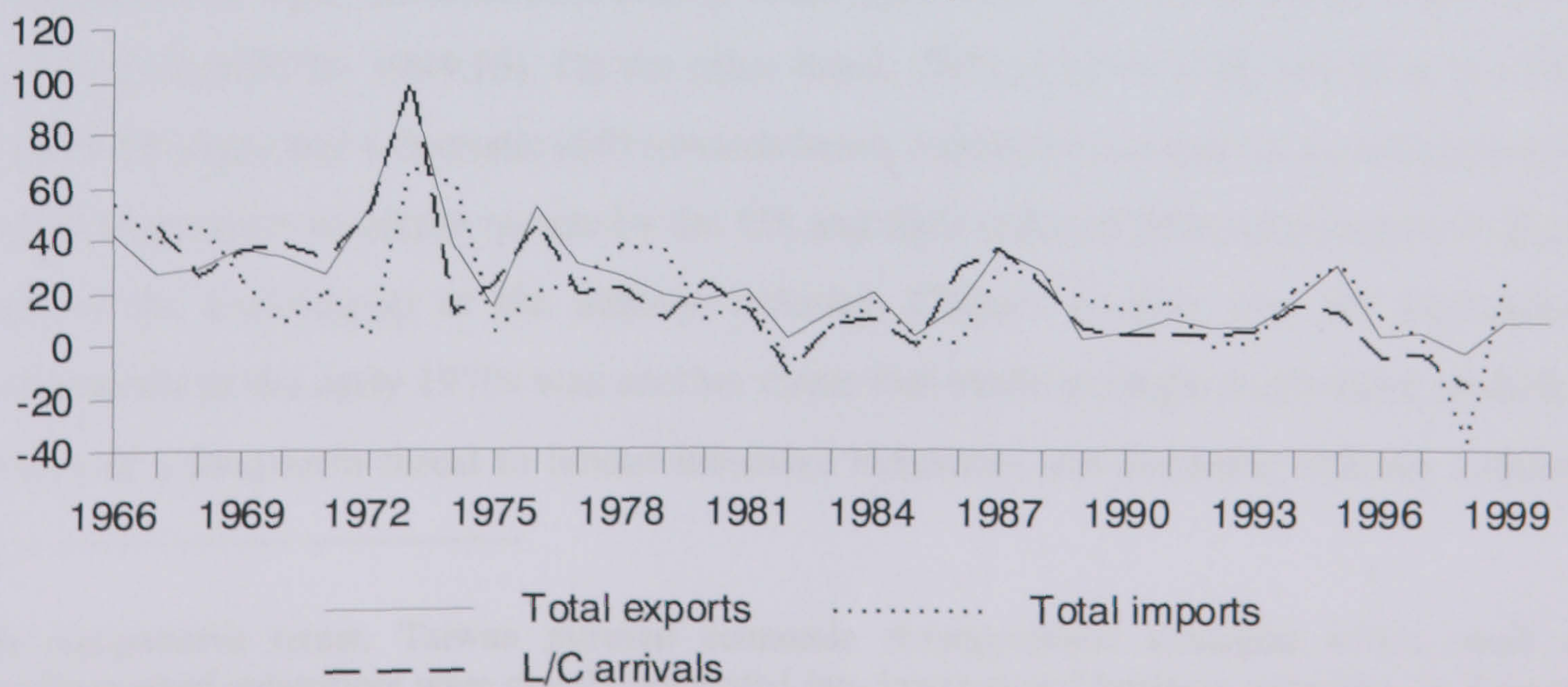


international economic downturn had constrained the optional scenarios available to the government. In other words, whether a decision should be radical or conservative would be strictly contingent upon how far the recession would persist. The continuity of the recession would favour the decision of ever more cautious investment which would not result in the fulfilment of the promise. On the other hand, an aggressive investment would be favoured if the world economy was in short-term recession. If the decision turned out to be mistaken (i.e. an aggressive investment was chosen in the case of long-term recession) the consequence would bring about a major domestic economic crisis as a result.

The decision was made to take risks because on no account could the government fulfil the promise otherwise. Korea appeared to be the major purchaser of industrial commodities, having managed to increase its production capacity at bargain prices. Meanwhile, there were no other countries engaged in such aggressive capital investment in the world market. As the world economy stabilised after 1974, the international demand for goods also became highly necessitated in turn. The high risk-taking strategy brought in substantial growth in exports. The average growth rate in exports in the 1970s was 39.2 per cent compared to 15.8 per cent in the 1980s and 8.3 per cent in the 1990s (Appendix 11). The promise was fulfilled as the total amount in exports reached ten billion US dollars in 1977, even a year before its target year (Cho, Dong-Sung, 1992:52-53). In short, as Figure 5.1 shows, a growth rate in exports, imports and L/C arrivals was higher than ever in 1973 which involved a high risk-taking strategy, exercising a monopsony power.

Figure 5.1 Growth Rate of Exports, Imports and L/C arrivals (1966-1999)

Unit: Per cent; Source: Appendix 11





The government made an important change in a grand economic strategy towards targeting heavy and chemical industries in the 1970s. This strategic shift subsequently changed the overall composition of manufacture towards more labour-intensive products. Nonetheless, there was little change in a previously underpinning doctrine of state interventionism in the market economy but a certain level of persistence in a state-led and export-oriented economic development on the basis of a credit-based financial system through strict control of the banking system (OECD, 1996:2-3). In other words, those involved in exports were not only given a series of state benefits such as tax exemptions, direct subsidies, and other incentives, but also provided guaranteed financial help without taking a serious account of potential incapacity such as the possession of a high debt to equity ratio. This in turn constrained their optional choices within the banking system out of the entire financial institutions. For this reason, it is misleading to argue that this might have provided a variation of fiscal welfare in Titmussian terms (see Titmuss, 1958:Ch. 2). This concessionary measure was targeted to those in relatively better positions in financial terms, thereby undermining the principle of equity.

Change from a general export-led growth strategy to a selective targeting strategy that favoured heavy and chemical industries was a political and economic decision within a grand framework of economic development. Industries were not distinguished within the overarching export-promotion policy. Only large businesses were targeted and given a general trade license. Large scale and risky investments were believed to be the only way to overcome the chronic trade deficits. This strategy enabled an effective response to the exogenous pressures such as the oil crisis of 1973. Furthermore, there had been increasing competition in light manufactures mainly challenged from other developing countries with lower costs (OECD, 1994:18). On the other hand, Clifford (1994:102) and Kim and Hong (2000:76) argue that a dramatic shift towards heavy industries was part of an active response to the imposition of textile quotas by the US and their reduced military presence in Korea, and to the building-up of the defence industry. China's re-entry into the international community in the early 1970s was another cause that made strategic shifts more credible in terms of a long-term threat to labour-intensive industries and domestic defence concerns<sup>2</sup>

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In comparative terms, Taiwan pursued economic developmental strategies where small and medium-sized enterprises were closely integrated into international business networks. In Taiwan, a large scale-based industrialisation, above all heavy industries in particular, was maintained, despite

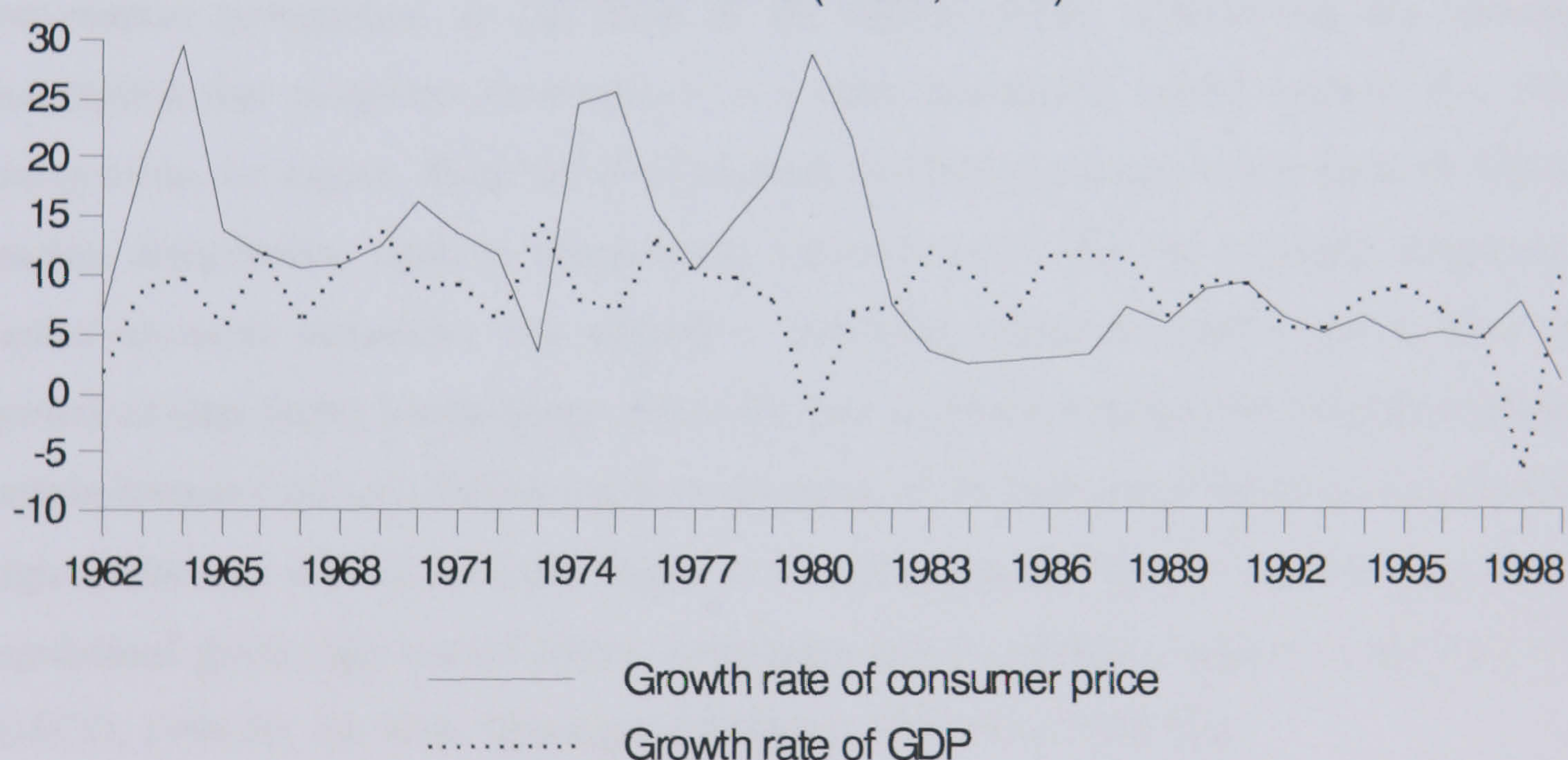


(Gereffi, 1989:518). In short, it was the Park Chung-Hee government (1963-1979) that constructed the overarching structure of economic development that initiated the policy of 'manufacturing first, and financing later'.

By the early 1980s, according to Castells (1998:251), Korea was one of the world's most indebted economies. It was under this financial and fiscal difficulties that financial liberalisation began and conservative fiscal and monetary policies were brought in. As a result, the inflation rate in the wholesale price index was substantially lowered. During the period of two oil crises in 1973 and 1979, for example, it was slightly lower than 42.1 per cent in 1974 and was 38.9 per cent in 1980, but reduced to 4.7 per cent in 1982 and 0.2 per cent in 1983 (Rhee, Sungsup, 1988:230). Therefore, as Figure 5.2 illustrates, although there was a negative growth rate of GDP in 1980, it was the attainment of price stabilisation that deserves credit as one of the most important economic achievements of the 1980s.

Figure 5.2 Growth Rate of GDP and Consumer Price (%)

Sources: NSO (2000e, 2000f)



the oil crisis of 1973 and its consequent world inflation. In order to keep the oil bill down, Taiwan kept its currency fixed, curbed other imports, and deflated the local economy. By contrast, Korea devalued its currency and absorbed the oil price increases. In consequence, foreign currency holdings were exhausted and more money was required to be borrowed abroad (Clifford, 1994:109). Economic concerns became even more important than the 1960s and social policy remained substantially inferior to economic growth.



During the period of the early 1960s to the late 1970s, a strong emphasis on economic growth made any other social and political concerns meaningless. But in the 1980s, economic growth was less favoured than economic stabilisation by the Chun government. The Chun government exercised a monopoly power over financial institutions in order to maintain economic stability. And this monopoly power allowed the state to allocate monetary resources directly to manufacturing industries. In 1981 and 1982, commercial banks were privatised<sup>3</sup>. But not until the authority to appoint all bank presidents that resided in the government was abolished in 1993 had the government's monopoly power been seriously damaged (OECD, 1994:89). In other words, the power to decide to whom to lend had belonged to the government, not the banks. For this reason, the banks had not been allowed to have full managerial autonomy (Kim, Ilpyong J and Hong, Uk Heon, 2000:70; OECD, 1994:98, 1996:43).

In the President's Inaugural Address under the Martial Law on 1 September 1980, the 11<sup>th</sup> President Chun (1980) pinpointed the significance of liberal democracy and principles of free-market competition as the base of the reform, while maintaining the prolonged assumption that economic development is a basic premise of social welfare. For market competition, he argues, financial liberalisation would be pursued in the form of financial market deregulation such as deregulating interest rates<sup>4</sup>. But the strategic emphasis on capital-intensive industries was subject to increasing criticisms partly due to their slow growth of total factor productivity and partly due to excess demand and over-investment in certain favoured sectors. Following the emergence of the heavy and chemical industry drive, high-technology related products began to be given serious consideration by relaxing the regulations governing inward direct investment and technology imports in the late 1980s (OECD, 1994:20, 44; Kim, Ilpyong J. and Hong, Uk Heon, 2000:70).

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3

Commercial banks were once privatised in 1957. They had been nationalised since 1961 which was a year before the EPB launched the First Five-Year Economic Development Plan (1962-1966). There had been six other five-year economic development plans until the Kim Young-Sam government disbanded the EPB and introduced a new five-year economic development plan in 1994.

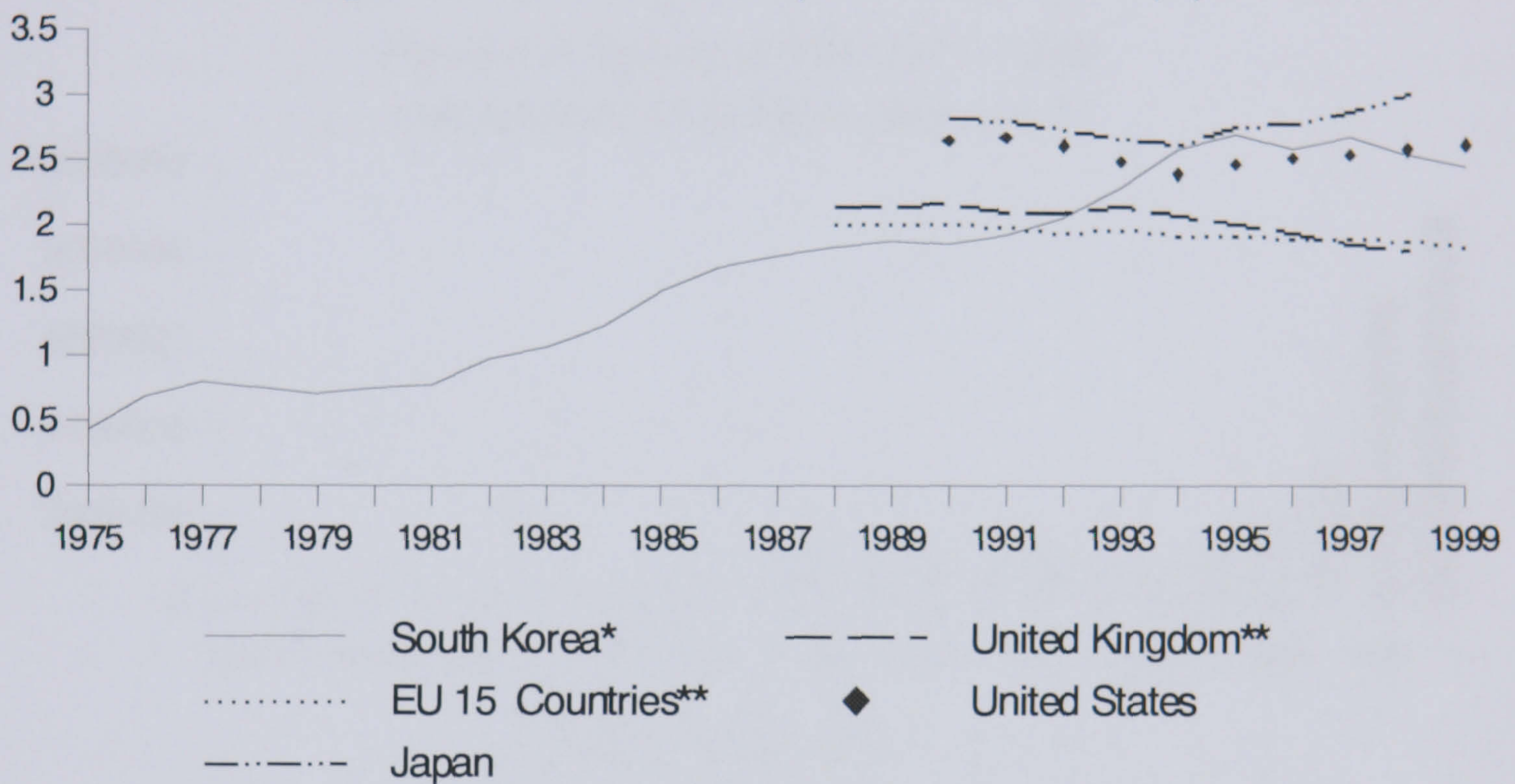
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Yet it was March 1994 that policy loans that had been designated to certain activities as priorities for commercial bank lending were abolished. These policy loans used to be provided by the Bank of Korea at 5 per cent, far below the market rate of between 12 and 15 per cent (OECD, 1996:44-45).



Given this trend, technologically lead industries began to be eligible for preferential treatment in tariff imposition instead of the industry-specific approach. As opposed to the functional approach, Rhee (1988) argues, this industry-specific approach implies that officially designated industries are given strategic advantages regardless of their Research and Development (R&D) activities. As Figure 5.3 shows, and as both Castells (1992:40-55) and Amsden (1990) argue Korea's acquisition of technology in the new international economy was the key to its economic success.

Figure 5.3 Ratio of R&D Expenditures to GDP (%)



Notes: \* R&D (Research and Development) expenditures of social science and humanities were not covered; \*defence was also not covered before 1976; \*1999 data is provisional; \*\* all sectors included.

Sources: Eurostat Yearbook (2000:308); Laafia (March 2001:5); NSO (1998a: 247, 337, 2000c: 351).

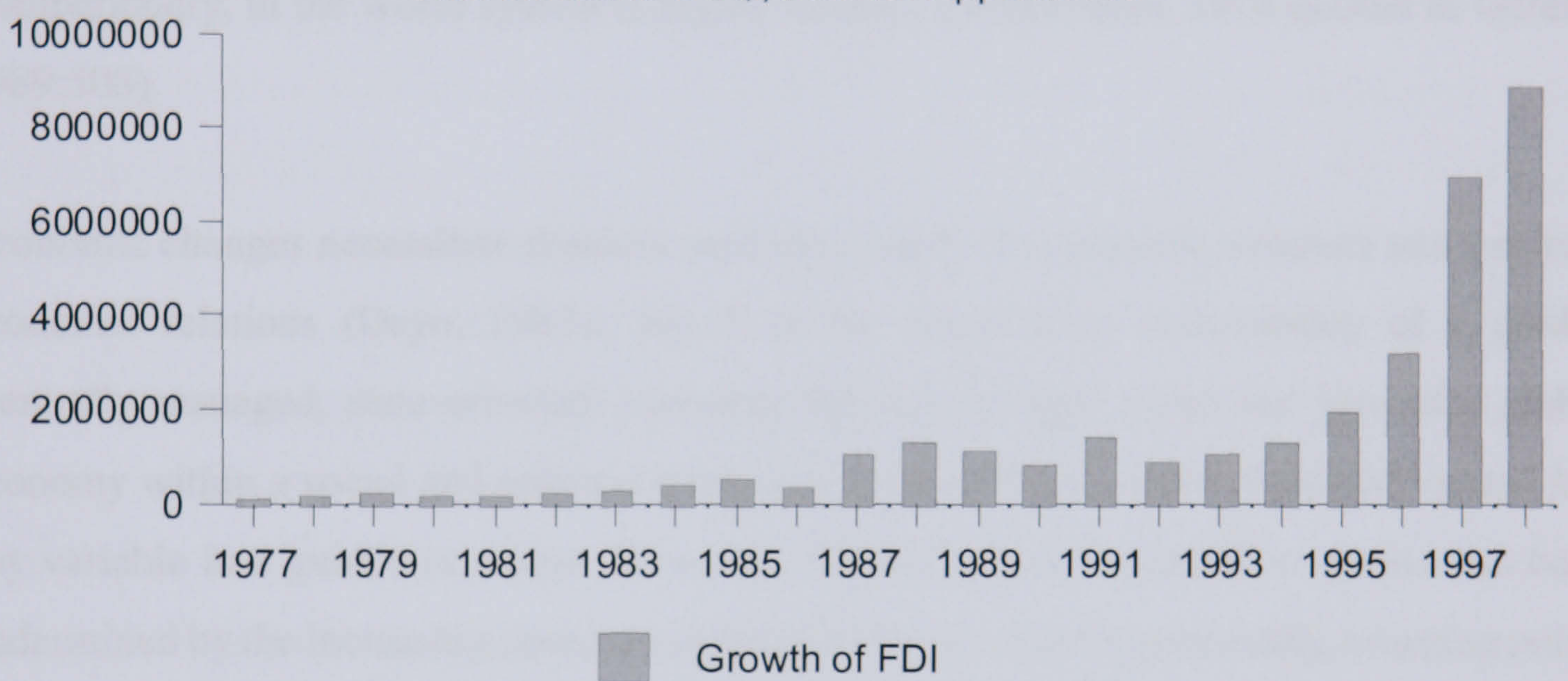
On this technological acquisition, however, Smith (1997) argues that while the economic miracle of South Korea had been achieved by low wages but a relatively well-educated labour force, its 'technological dependence' remains. In other words, Korea's strategic transformation has failed to be developed beyond the strategies of 'reverse engineering' wherein foreign technology is assimilated through imitation with limited progress on new product innovation. Smith (1997:746) further points out that in order to avoid dependence on foreign-based transnational capital, the role of foreign direct investment (FDI) was very limited in Korea. In fact, Evans (1987a: 207) argues that either transnational corporations or a significant role of foreign direct investment had been virtually absent from the scene until as late as the 1960s because the geopolitical risks made both Taiwan and Korea very unattractive investment sites.



Not only did economic development have been an explicit role in the building or rebuilding of national identity but it may also provide the independent capacity to break away from a dependency situation (Castells, 1992:57; Johnson, 1987:140). Since the late 1980s the overarching economic development strategies began to be influenced by the nature of global economic restructuring. Responding to this, for example, a productive capacity of multinational corporations (i.e. foreign direct investment) in Korea began to grow greatly from 1987 and maintain an average 43.08 per cent annual growth rate from 1987 to 1998 (Figure 5.4; Appendix 13).

Figure 5.4 Growth of FDI (1977-1998)

Unit: thousand US \$; Source: Appendix 13



To the developmental case of the Korean economy, Friedman and Friedman (1980:57) argue that its economic growth strategy was highly selective in certain preferential industries and relied on private markets, thereby state intervention in markets was of less significant importance. Johnson (1987:141) also argues that the high-growth economy was created by 'market-conforming' methods of intervention in the economy. For the neoclassical economists, in other words, it was incentive measures of 'market sustaining' rather than 'market repressing' that resulted in economic growth in Korea (Lim, Youngil, 1981:4-8 quoted from Johnson, 1987:141).

While these neoclassical economic accounts provide us little explanation about the ways in which external forces change conditions under which a national economy operates, dependency theories have given rise to the valuable linkage between strategy-directed interpretation and conditions of economic changes in the international economic environment. To the contemporary potential for further development of the economies of the



NICs, dependency theorist or dependency theory revisionists view that peripheral countries are vulnerable to the effects of economic and political decisions made in the metropole (i.e. core). Evans (1987a, 1987b), for example, argues that this vulnerability in turn stimulates the increasing centrality of state intervention in order to avoid the negative consequences of dependence. In comparison, world systems or market systems theorists emphasise the significance of exogenous variables in the international political and economic structures. Cummings (1984a) and Gereffi (1989), for instance, employ the concept of semiperipheral countries as an intermediate stratum that promotes the three-tiered world economy. They argue that semiperipheral countries' downward move can be resisted by their capability but their upward mobility from the semiperiphery to the core, not from the periphery to the semiperiphery, in the world system is highly unlikely (Wallerstein, 1974 quoted in Gereffi, 1989:508).

Economic changes necessitate dramatic and rapid shifts in economic structure and external economic relations (Deyo, 1987a: 16). It is the competitive vulnerability of a guided (centrally managed, state-oriented) economy that has brought about the idea of a global economy within a social and political context of Korea. The domestic financial system is a key variable in a guided economy. However, its international competitive power has been undermined by the increasing openness of the boundaries, thereby generating a turning point. For many (e.g. Castells, 2001; Soros, 2001; Volcker, 2001), this structure of the financial system has been a critical weakness in the economy and a key determinant of the financial crisis in East Asia.

In sum, much that has been discussed acknowledges the importance of conditionality within which epochal changes occur and operate. The 'new international division of labour' thesis accounts for the rapid rise of newly developing industries from the international relocation of low-skilled manufacturing to cheap wage areas in the Third World. The 'production flexibility' thesis or the 'post-Fordist production' thesis on the other hand explains that the knowledge-intensive 'high-technology' industries have attracted particular attention within rapidly shifting conditions in international markets. Nonetheless, the key argument underlying the relationship between international and domestic conditions lies in the significance of the domestic pattern of economic, social and political organisation (Gereffi, 1989:526). These different accounts have commonly been criticised when the significance



of the contextual specificity comes into consideration. Gereffi (1989) argues that this contextual specificity allows distinctive developmental patterns to emerge within particular historical and social situations. Thus, the given conditions and optional choices are likely to operate and even to be manipulated by the government within a strategic capacity. The ways in which domestic politics is restructured in response to changes in international competitiveness are the subject of the next section.

### **5.3 Restructuring Politics in an Age of Globalisation**

Pierson (2001a: 12) argues that societal changes are more than likely to be governed by the powerful force of path dependency. Esping-Andersen (2000:64-66) further points out that breaks in the 'time series' are virtually unidentifiable, thereby only epochal changes are witnessed. This view that social and economic policies develop in a path dependent way is shared by many scholars in conjunction with globalisation (e.g. Giaimo, 2001; Myles and Pierson, 2001; Pierson, 1993, 2000a, 2000b, 2001a, 2001b; Shin, Dong-Myeon, 2000b; Wood, 2001). It is globalisation that has made socioeconomic and political variables embedded in the spheres of society, state, and market become increasingly intertwined. Furthermore, there is little doubt that paths of economic development have important implications for the overarching paradigm of social policy. Ó Riain (2000:191) argues that these paths are determined by mechanisms which reconcile tensions between market, state, and society. These tensions are at the same time inherent dilemmas in a capitalist economy. While social policy is one of the mechanisms that could reconcile these tensions, multiple determinants from different spheres may also shape the structure of social policy. Globalisation provides the conditions under which society, state and market become intermingled in a complex way. This is an epochal, dynamic and path-dependent process which requires an historical analysis of the politics of social policy. For these reasons, this section analyses the ways in which globalisation has impacted on domestic politics and argues that restructuring domestic politics in an era of globalisation makes a difference in the effect of social policy.

#### **5.3.1 Productivity, Globalisation and Social Welfare**

Globalisation parallels with an increasing capital flow at international and transnational levels. In economic terms, it is primarily preoccupied with the openness of the market economy (Castells, 1997; IMF, 2000). Globalisation can be defined as 'a situation where



distinct national economies cease to exist in that they are subsumed and rearticulated into the system by international processes and transactions', while internationalisation may refer to an 'extension of the national' in 'international economic activity' (Mishra, 1999:4). Although these definitions are seen as ideal types in the sense that they are not 'necessarily mutually exclusive', Mishra (1999:4) points out that 'what we have today is more akin to greater internationalization than globalization'. For this reason, globalisation may remain possible as a further development.

In the origins of globalisation, Garrett and Lange (1991) argue that the market becomes beyond control of the nation state power which in turn no longer validates a Keynesian notion of state intervention in the market. The Keynesian welfare state is the typical form of the Fordist state. The key Fordist distinctiveness that features a phase of capital accumulation is transformed by globalisation to post-Fordist welfare arrangements of what Jessop (1993, 1994) calls the 'Schumpeterian workfare state'. In other words, this Schumpeterian workfare state prioritises a productivist notion of international competitiveness over redistributive welfare rights. In Harvey's (1989:141-142) terms, globalisation also reflects the idea of increasing reliance on the demands of 'flexibility' as opposed to 'rigidity' of the inherent contradictions of capitalism. Pierson (1994a: 99) also points out that these demands resulted from the politico-economic crisis of Fordism which manifested itself in the historically unprecedented form of stagflation. In Britain, this transformation changed an existing social policy framework to a more productivist and disciplinary one. Glennerster (1995:160), for example, notes that Conservatives and even Labour in the mid-1970s re-conceptualised social policy to prioritise economic growth over social spending. Many have argued that this re-conceptualised social policy has since been deeply embodied in the British welfare state (e.g. Barr and Coulter, 1991:24; Dean and Taylor-Gooby, 1992:55; Jessop, 1994:24).

This epochal transformation may also evolve from the insistence that state welfare has been provided by deeply and inevitably flawed instruments of large bureaucratic organisations. Wilding (1997:717-724) argues that state welfare has equally been ineffective, inefficient and unresponsive, thereby causing a consumerist social policy to emerge. However, the causes that may have brought about the retrenchment of welfare in Britain were irrelevant to the case of Korea. As Cho (1992), Kwon (1997, 1998b, 1999a) and Shin (2000a, 2000b,



2000c) argue, the state in Korea has never been a major provider of welfare. Nonetheless, the outcomes and effects in which globalisation has impacted on the economy appear to be in a similar direction.

As Kwon (1993b, 1999) argues, the strategies of state building in Korea have been almost exclusively guided by a tight regulation in most areas of government policies. Prioritising economic growth over social policies was part of its growth strategies. However, this view that a tight regulation was a key cause of market failure in 1997 was challenged by many political economists. As Chang (1998), Chang, Park and Yoo (1998) and Wade (1998a, 1998b) argue, for example, it was under-regulation rather than over-regulation that caused the crisis which should also be considered as a financial crisis, not an economic crisis. For them, the first civilian government since 1963 initiated this under-regulation of financial system. In fact, President Kim (1993) made clear in the 14<sup>th</sup> President Inaugural Address on 25 February 1993 that by ‘reinventing new Korea’, an overly close relationship between businesses and government bureaucrats must be liberalised and reformed. In other words, this negative connection between an economy and politics, also known as ‘cronyism’, ‘crony capitalism’, ‘Oriental despotism’, ‘Asiatic absolutism’ or ‘alliance capitalism’ in the literature (e.g. Chang, Palma and Whittaker, 1998:649; Wade, 1998a: 1540), was the result that the Korean developmental state produced.

To this end and to modernise the national economy within the ever more competitive international economy, previously known as the five-year economic development plan since 1962 became the *new* five-year economic development plan (July 1993-July 1997). Given this framework, the central task for the promotion of welfare was to develop a Koreanised social welfare model. Growth and distribution were to be given equal weight while guaranteeing a minimum living standard for all as well as promoting the quality of life. Social policy was interpreted as a mechanism which could link human development and labour motivation with social investment. This linkage was based on the premise that social welfare would be able to contribute to the overall growth potentiality. At the World Summit for Social Development held in Copenhagen in 1995, President Kim said that:



‘The Republic of Korea is now pursuing a policy of...globalization, with the domestic aim of developing our nation into a truly advanced society...based on this policy direction, we will give special consideration to the support of relatively neglected areas of social development which have been so far overshadowed by the pursuit of economic growth’ (Kim, Young-Sam, 1995).

Working in collaboration with economic growth and social development became a fashionable idea. However, the idea of productive welfare was restrained to be abstract in practice. Welfare for all was deemed to be a concomitant of a society dominated by policies of competitive austerity. In conceptual terms, the idea of productivity constrains itself within the limited variations of time and space especially when it is engaged with the idea of welfare and when particularities rather than regularities come into ever more serious consideration (Baldwin, 1992; Castells, 1996, 1997, 1998, 2000; Esping-Andersen, 2000). Esping-Andersen (2000:64) also argues that productivity has long been treated as if it was a static concept. Its fundamental meaning and content were routinely invoked, ‘un-reflected, taken-for-granted luggage’ which was rather weak to be a harbinger of radical reformative actions.

In fact, the then Minister of Health and Welfare emphasised a two-stage developmental strategy that enabled Korea to achieve both economic and social development. Through social insurance and public assistance, he argues, Korea was ranked by the United Nations Development Programme (UNDP) as one of the most improved countries in the human development index. For example, life expectancy at birth increased from 62 years in 1966 to 72 years in 1991. The rate of absolute poverty had dropped sharply from 41 per cent to 4 per cent in 1995 (Suh, Sang-Mok, 1995). He made plain:

‘The first stage, from the early 1960s to the late 1970s, emphasized the ‘trickle-down’ process in which economic growth benefits spilt over to the poor. Successful labor-intensive industrialization created jobs for the poor and helped many unemployed and underemployed to escape poverty...[I]n the second stage, which started in the late 1970s and has continued to the present, social development policies were put into place to assist those who had fallen behind in receiving the benefits of our economic success. Thus various programs were carried out to improve social security through the social insurance system and public assistance programs’ (Suh, Sang-Mok, 1995).

‘...policies should be developed gradually in steps, since economic growth and social development are interdependent and mutually reinforcing. For example, if social development policies were pursued alone, it would be too much of a burden on the potential growth of a nation’s economy’ (Suh, Sang-Mok, 1995).



Working in collaboration with economic growth and social development may fulfil the argument that a level of social development should correspond to an appropriate level of economic development in order to pursue a globally applicable social standard (see Mishra, 1998:496). But, because of the practical policy orientation towards economic supremacy this strategy would be less likely to remain reformative. As Park (1995:99) argues, this collaboration is likely to mean that the possible apex of development is confined within limits which the national wealth may reach.

In sum, Hutton (2001:4) argues that 'globalisation is so powerful an idea because of the sense of there being no escape'. His general view that globalisation influences society seems somewhat pessimistic or middle range while Giddens (2001:10) regards it rather optimistically as 'more resonant with positive possibilities'. These contrasting viewpoints may well also be resonant with the distinction between 'productive welfarism' and what Schumpeter (1954:83) calls 'creative destruction'. He describes 'creative destruction' as destructive capitalism while maintaining the position that capitalism is a creative process with possible improvement (see also Schumpeter, 1947). Productive welfarism, on the other hand, may be a key element of constructive capitalism. As Giddens (2001:10) points out, the constructive qualities of capitalism involve systems of power. Therefore, these systems of power are also an important variable in shaping productive welfarism. For this reason, globalisation may lead social policy to a particular direction that requires restructuring of institutions. The ways in which institutions were restructured and productive welfarism was constructed in a new order are the subject of the next two sections.

### **5.3.2 Restructuring Institutions**

It was its long-standing reformist activists and supporters that eventually enabled the opposition party to be in power for the first time in Korean political history. Since its inception in February 1998, therefore, the Kim Dae-Jung government has been burdened with promulgating the promise of democratic consolidation to these groups. The Kim government and his National Congress for New Politics (NCNP) were initially a coalition government with the United Liberal Democrats (ULD) under the party leadership of Kim Jong-Pil. Having possessed a rather conservative party platform, Kim Jong-Pil's political status no longer remains to be minuscule. As a premier, he could also exercise his influence in one of the most important institutions of core executive decision-making: the



vice-ministers' meeting. In addition, his party was given power of a final 'casting vote' (Jung, Yong-Duck, 1999:13). The reformative actions could not be straightforward for these reasons.

As discussed in Chapter 2, the two most influential institutions where important decisions were configured were the Economic Planning Board (1961-1994) and the Korean Central Intelligence Agency (1961- 1998). Almost all socioeconomic issues were under the control of these two super-power institutions. They were invincible political institutions subject to authoritarian governments. The EPB was the most effective and comprehensive central agency placed under a deputy premier. Johnson (1987:154) and Jung (1999:18) point out that its establishment was a strategic power concentration within all responsible governmental economic powers in order to defuse the crisis that had resulted from the end of foreign aid by the United States. The EPB not only absorbed all economic powers that had previously been dispersed to the Ministry of Reconstruction, the Bureau of the Budget under the Ministry of Finance (MoF) and the Bureau of Statistics under the Ministry of Home Affairs. But also it integrated the budget preparation power of all administrative agencies and the supervisory power of their budget implementation. The creation of the KCIA was, on the other hand, more closely related to the political empowerment of state apparatus as an independent political organisation<sup>5</sup>.

Financial liberalisation or deregulation since the early 1980s had been rather modest and slow both in terms of speed and order (Park, Won-Am, 1996). It was the Kim Young-Sam government (1993-1998) that accelerated the liberalisation process both in financial markets and institutional structure. Not only did infrastructure pressures require a response but also there were external demands for financial market liberalisation from the application for membership of the OECD in 1993 (Chang, Park and Yoo, 1998). The government initiated the administrative rationalisation process (i.e. downsizing) and institutional adjustment for the 'poorly constructed 100-day Plan for the New Economy' (Chang, Park and Yoo,

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The KCIA was established by decree of June 10 1961. The key figures of the Korean politics were director generals of this institution. For example, Kim, Jong-Pil from 1961 to 1963, Kim, Jae-kyu, the assassin of President Park, from 1976-1979, and Chun, Doo-Hwan in 1980. The KCI was then renamed as the Agency for National Security Planning in 1981 and again as the National Intelligence Service in 1999.



1998:739). As part of it, the EPB was merged with the Ministry of Finance in December 1994 which in turn created the Ministry of Finance and Economy (MoFE). By this merger, both functions of economic policymaking and implementation that used to belong to the EPB and to the MoF have begun to reside in the MoFE.

The creation of this super-ministry was criticised because the financial crisis was a resonance of the strategic failure in the MoFE and because functional and structural balance between planning and implementation had no way to be monitored. In 1998, therefore, the Kim Dae-Jung government reformed the role of the MoFE by establishing the Committee for Planning and Budget. By merging it with the Bureau of Budget, the Committee for Planning and Budget became the Ministry of Planning and Budget (MoPB) on 24 March 1999. The rationale behind the establishment of the MoPB was highly strategic both in economic and political terms. The coherent, coordinative and even centralised function that used to reside in the EPB was resurrected in expectation of the cost effective management of budgeting. More importantly, while it is the Premier that is to appoint the deputy premiership of the MoFE the appointment of the Minister of Planning and Budget is to be decided by the President. By bringing back in the power of budget reform, budget-related functions, and both public and administrative sector reform that resides in the MoPB, the MoFE was downgraded and became simply one of the government's ministries. In short, this strategic manoeuvre has eventually enabled both the President and the state to exercise their power in spite of the politically limited capacity.

Much that has been said relates to what happens inside government without being interrupted by much external force. However, institutions like the Financial Supervisory Commission (FSC) established on 1 April 1998 were the result of the agreement empowered by the IMF in order to oversee and facilitate all restructuring, thereby building a sound and strong financial infrastructure for the national economy. The FSC had since been the integrated financial supervisor as a *de facto* single financial regulator. In other words, the FSC had undertaken the overall design of the restructuring programme in financing. This important function however has been taken over by the Committee of the Public Fund Management under the MoFE. Although the financial institutions are still subject to the supervision of a single supervisory body: the Financial Supervisory Services (FSS) and the Fair Trade Commission (FTC) has maintained its power to control overly large businesses



(DDN, 28 January 2001), the overall role of both the FSC and its executive arm, the FSS was downgraded. The MoFE has taken over the functions of designing the restructuring of financial institutions and conglomerates.

In sum, the corporate, financial and public sectors and labour affairs were the four major areas that the government targeted for restructuring the economy. The Kim Dae-Jung government has restructured institutions to the directions in which those ends could be met. It was domestic politics that was given attention in restructuring the economy in an era of globalisation in order to achieve institutional power concentration. In other words, much of these reforms relates to reshaping domestic politics given the framework of three governing principles (i.e. liberal democracy, market economy and productive welfarism), of which productive welfarism provides the ideological basis of social policy reforms<sup>6</sup>. How have these social policy reforms been guided by productive welfarism? What is the meaning of productive welfarism? And what are the social policy implications? These are the questions that we now turn to answer.

### **5.3.3 Productive Welfarism**

Largely drawn from Marxist ideas and subsequently developed by Giddens (1984), Bhaskar (1998:19) argues that ‘historical things are structured and differentiated (more or less unique) ensembles of tendencies, liabilities and powers; and historical events are their transformations’. Principally known as a structure and agency (i.e. social institutions and a human agency) debate or a determinism and choice conflict in the area of public policy, political choices are more likely to be exercised by ideological preferences. Their practical manipulation is conditioned upon the capacity of the social infrastructure or ‘human possibilities’ according to Piven (1995:114). In other words, both political choices and ideological preferences should be given permission to be translated into practice within which the conditions are allowed (Cameron, 1978:1257; Castles, 1981:123).

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For example, the Ministry of Education was renamed to the Ministry of Education and Human Resources Development (MoEHRD), the Minister of which became one of the two deputy premier together with the Minister of Finance and Economy. The former Presidential Commission on Women’s Affairs became upgraded to the Ministry of Gender Equality (MoGE). This MoGE has since taken over gender issues from the MoL and the MoHW. The MoL also passed much of their man-power policy to the MoEHRD. For the MoL, in other words, all the functions surrounding the issues of human development and gender have been taken away (CDN, 28 January 2001; DDN, 28 January 2001; Korea Herald, 30 January 2001).



In addition to the institutional power concentration, the affirmation of both liberal democracy and market economy became the socioeconomic and political bases of the Korean welfare state construction where productive welfarism is given central attention. As Bismarckian social insurance was used as a nation-building strategy in Germany, social policy in Korea became more explicitly an expression of nation-building, so that the welfare state became a political project of nation-building to a large extent. Productivist social policy has become an official dogma in Korea. According to Holliday (2000), East Asian welfare states are a fourth welfare regime that features productivist welfare capitalism within which social policy is subordinated to economic policy. But according to the assistant secretary to the President for health and welfare in the office of the President, the core meaning of productive welfarism lies within the paradigm of the 'complementary relationship between the development of the national economy and systems of welfare rather than a contradiction between the two' (Interview with Noh, Yun-Hong, 10 August 2000, Seoul). He clarifies that the politicisation of welfare ideology has gone through a very radical process. Initiated by the President himself, welfare ideology has become the grand framework of the governing philosophy.

'Productive welfare should not be seen as another political manoeuvre which has simply been worded differently from what it used to be named in order to justify residual welfare...conventional usage of the concept of productivity may have referred to an opposite concept of active welfare policies or of the positive welfare state in which residual welfare is deemed to be desirable especially when it comes to a combination of the concept of welfare and of effectiveness or of productivity. It is evidenced by the expansion of welfare programmes followed by national agendaisation under the current government. It however no longer remains merely a slogan...Welfare is important yet it seems to have been somewhat consumption-oriented, wasteful and unhelpful to enhance work-incentives. For example, when the amount of pocket money for a child is decided, the parents should take account of how it would be spent and how much might be appropriate. This might help him not only to develop his economic awareness, but also to become relatively better-off. Besides, it may not impose a heavy burden on the household economy. On the other hand, if the pocket money is given unplanned - especially when the money is too much, the situation becomes worse - and if the money is not spent on where it is supposed to be, it may spoil the child; it may impose a heavy burden on family finance; and it may fail to develop economic awareness. The former case can be named as productive and the latter is consumption-oriented' (Interview with Noh, Yun-Hong, 10 August 2000, Seoul).

The circumstantial conditions under which welfare became realised and prioritised were the process of democratic politicisation. The political mind of those in power, especially that of the President, turned to take welfare positively to the economy. The financial crisis that brought in the IMF intervention has also been critical in the ideological nation-building



process. The society with the immature social safety net has proven to be very vulnerable to competitive international openness. All these factors enabled welfare policies to become a national agenda without strong opposition. An Assistant Secretary to the President for Health and Welfare in the Office of the President made plain:

‘The decision made by the President had been the key determinant of the introduction of welfare programmes. Especially under the authoritarian political structure, the expansion of welfare programmes within the economic growth priority circle had been determined by what the President had had in his mind about welfare. The introduction of the Health Insurance Programme (1977) and that of the National Pension Programme (1988) were the key examples...Even under the democratic rule, however, the political mind of the President still remains very crucial...Under the current political leadership, whose thoughts on welfare have been ever more profound than anyone else, welfare policies have been comparatively prioritised even under the IMF intervention. Also, the need to develop the social safety net has come to a national consensus. Political decisions have been made under these socially necessitated conditions in order to protect the vulnerable. In this sense, circumstantial conditions behind the radical progress may have similarities with what occurred during the period of the labour movement in the late 1980s’ (Interview with Noh, Yun-Hong, 10 August 2000, Seoul).

Given this ideological framework, productive welfarism has delivered important social policy bearing. Inconsistent policy measures have been criticised by both the public and those in power. This criticism results mainly from the lack of a mechanism inside the government that allows for effective coordination of a series of policies made by different agencies (Korea Herald, 30 January 2001). The Minister of Finance and Economy has now been given the authority to coordinate various economic agencies in the policy-making process. His authority is exercised without being politically influenced by the populist considerations of those in power, thereby guaranteeing the post is politically independent. The overarching functions of the MoFE have thus become increasingly similar to those of the EPB but still substantially less than those of the EPB because it is the MoPB that holds the budgeting power.

Productive welfarism also enabled human resources development to become the central concern of education policy. The creation of the MoEHRD had been envisioned by the President since his inauguration but had been postponed because of his pre-election promise to maintain a small government. In fact, while there was a slight decrease in the number of government employees in 1982 and 1995, the number became substantially reduced in 1998. This negative growth in the number of government employees was maintained in 1999 (see Appendix 14).



Reforms in education are to achieve long-term solutions to the social polarisation of wealth in which productive welfare is to provide social and ideological bases. Educational enthusiasm has long been one of the unique characteristics of Korean society as evidenced by a high rate of continuity at higher level education. For example, while a middle school and high school advance rate reached nearly 100 per cent from the early 1990s, the higher education advance rate has equally increased greatly and recorded 68.0 per cent in 2000 (see Appendix 15). This educational enthusiasm may have resulted from prolonged tradition of Confucian ethics where those who achieve the highest possible scholarly activities are privileged to become higher ranking officials in a societal hierarchy. This may also have derived from the positive co-relation between educational attainment and wage levels. In fact, the income gap between those who have attained higher education and those who have not has been narrowed over time since the late 1980s but still remains substantially high. Wage differentials between males and females also remain substantially unequal. For females, the higher their education level becomes, the closer to the wage levels of their male counterparts. In other words, educational attainment on a higher level seems to provide the only solution for the female labour force to become more equal to their male counterparts (see Appendix 17).

Those who believed that school education was either 'very' or 'moderately' *effective* in knowledge and skill attainment reduced from 52.2 per cent in 1993 to 45.3 per cent in 1996 while those who viewed that school education was either 'very' or 'moderately' *ineffective* in knowledge and skill attainment increased from 9.8 per cent in 1993 to 11.5 per cent in 1996. For character building purposes, 39.4 per cent of respondents answered that school education was either 'very' or 'moderately' *effective* in 1993 but this percentage dropped to 31.4 per cent in 1996. In comparison, those who believed that school education was either 'very' or 'moderately' *ineffective* in character building purposes rose from 17.2 per cent in 1993 to 22.1 per cent in 1996 (NSO, 2000c: 264-265). Government policies on education were seen by the public as policies without any degree of consistency. For example, the Minister of Education was already replaced six times by the 29<sup>th</sup> of January 2001 within 3 years (CDN, 29 January 2001).

In sum, under the guidance of productive welfarism, government institutions have been restructured and education policy has been given particular attention. However, it remains



largely unclear whether a set of policy reforms would result in a solid social basis for further reforms. By restructuring institutions and reforming social policy, the government is seeking to reassure the fears and doubts of the public. The Vice-Minister of Health and Welfare for example said that ‘the government aims to elevate the nation to a world leading welfare state by the year 2010 by eliminating poverty, fostering the middle class and improving the welfare for the lower class...2000 is the year in which we will lay the groundwork for such a welfare state’ (Lee, Jong-Yun, quoted from the interview held with the Korea Herald, 25 February 2000). For this reason, it remains as an important empirical enquiry to examine the ways in which ideational change towards productive welfarism has made a difference in public opinion and attitudes at the crossroads.

#### **5.3.4 Discussion: Changes in Public Opinion and Public Attitudes**

Gunn (1989:262) views public opinion as a ‘political relation of citizen and government in more general social processes’. Taylor-Gooby (1985:22-23) further points out that ‘opinion surveys provide an account of the general structure of political ideas that is difficult to obtain from any other source. Provided the evidence is interpreted with care it may help in assessing issues about the contribution of changes in public ideas to public policy’. By establishing the context within which policy debates are conducted, Moore (1988:75) argues, ideas become influential and create a ‘reason for someone to take action by setting out the public value or necessity of the act and by giving the action a social meaning that is accessible to both the person who takes the action and others who are its audience or object. In this way ideas both motivate and direct action’. For this reason, the sorts of ideas that matter reflect values and attitudes of the public.

Shin and Rose (1998:3-4) argue that for Kim Dae-Jung who has democratic credentials because of his decades-long fight against undemocratic rule, an economy in trouble, uncertainty about how long its recovery may take, and who would be winners and losers were important political questions to be answered. By comparing the level of trust in 1996 and 1997, levels of trust in the majority of people increased from 60 to 70 per cent but at the same time, interestingly, levels of trust in most institutions (e.g. courts, police, military, civil servants, political parties and National Assembly) decreased on average 16.7 per cent. Munro (1998:48) argues that ‘the changes in levels of institutional trust from 1996 reflect the damage caused by the implication of the government in corruption’. This high level of



corruption was however substantially reduced by 1998 when the Kim Dae-Jung government came in power. According to *the 1998 New Korea Barometer Survey* (Shin and Rose, 1998:23), 69 per cent of the public described the level of political corruption of the Kim Dae-Jung government as either 'low' or 'very low' while 85 per cent of the public answered that the level of political corruption of the Kim Young-Sam government was either 'high' or 'very high'.

Despite this result, public attitudes over democratisation were undermined by the financial crisis. In 1997, 69 per cent of a total 1,117 nationwide representative sample agreed most with 'democracy is preferable to any other kind of government' while only 20 per cent said that 'under certain situations, a dictatorship is preferable' (Shin and Rose, 1997:21). According to *the 1999 New Korea Barometer Survey* (Shin and Rose, 2000: 24) undertaken by Gallup Korea between 3 and 15 November 1999, however, 53 per cent out of a total 1,007 nationwide representative sample chose the statement that 'democracy is always preferable to any other kind of government', while 31 per cent answered that 'under certain situations, a dictatorship is preferable'. The remaining 16 per cent answered 'it does not matter whether we have a democratic government or nondemocratic government'. From the same survey, 45 per cent of the public answered that a rule by a dictator like Park Chung-Hee is the best way to sort out the economic problems while 50 per cent said that a democratically elected president is better.

These changes may have been forced by external forces that provided a multi-billion dollar loan in return for substantial restructuring of major business conglomerates and banks, partners with politicians in past economic growth (Shin and Rose, 1998:3). But while the combination of domestic and external factors was responsible for the outbreak of the crisis (Chang, Ha-Joon, 1998), Hayo and Shin (2002:21) conclude that Koreans tend to weigh 'domestic measures much more heavily than international ones' as the particular strategies for economic recovery. In fact, a large majority of the Korean adult population (78 per cent) mentioned the cosy relationship between government and the business conglomerates that contributed most to the economic problems in Korea. Democratic regime replacing military rule was the factor that contributed least to the outbreak of the crisis (Hayo and Shin, 2002:7; Shin and Rose, 1998).



Table 5.1 Public Opinion and Public Attitudes over the Two National Goals (per cent)

	Nov.1993	May 1997	Oct. 1998	Nov. 1999
Economic development	49	54	65	50
Democratisation	26	9	8	14
Equally important	25	37	26	36
Don't Know	0	0	1	0

Note: Respondents were asked to choose one from the following question: Between the two national goals of democratisation and economic development, which do you think is more important?

Sources: (Shin, Doh Chull, 1999:253; Shin and Rose, 1997: 22, 1998: 35, 2000: 26).

Table 5.1 shows how people's attitudes and value orientations in prioritising democratisation as a national development goal in relation to economic development have changed. In 1993, 49 per cent of a total 1,198 nationwide representative sample were in favour of economic development over democratic reform while 26 per cent chose democratisation over economic development. Before the financial crisis in 1997, 54 per cent answered that economic development was more important while only 9 per cent answered vice versa and 37 per cent answered that both were equally important. To this outstanding change, Shin (1999:252) argues that economic development outweighs democratic development by an overwhelming margin which implies that 'a majority of the Korean people would withdraw their support for democratic reforms whenever they saw those reforms interfering with economic development'. The financial crisis made this propensity more explicit. During the financial crisis, for example, 65 per cent of the public prioritised economic development over democratisation, while only 8 per cent answered democratisation was more important. However, after the financial crisis in 1999, 50 per cent favoured economic development over democratisation and 14 per cent answered vice versa. 36 per cent replied that both were equally important. It is therefore interesting to note that the percentage of those who support economic development actually decreased after the financial crisis. For this, one might argue that the public might have seen the national economy back in shape. But in fact, the mean value that the public evaluated for the situation before and after the crisis was not restored by changing from 5.7 to 4.7 on a scale of 1 to 10 (10 represents the country as the best possible place to live) (Shin and Rose, 2000:41).



Further to this, as discussed in Chapter 4 (Section 4.2), the ways in which ordinary citizens view the state's responsibility for individual welfare changed greatly along with the financial crisis (Shin and Rose, 1997:28, 1998:35). This change in value orientations of the public was in fact one of the driving forces that enabled the old public assistance system to be reformed. However, while public attitudes over the state's responsibility for individual's security greatly increased, there was little change in public opinion towards egalitarian values. In 1997, 32 per cent of the respondent answered that incomes should be more equal while 68 per cent said that individual achievement should determine pay (Shin and Rose, 1997:27-28). In 1998, 33 per cent responded that 'incomes should be made more equal so there are no big differences in the standard of living' while 66 per cent said that 'individual achievement should determine pay; more successful people should be paid more' (Shin and Rose, 1998:35). In other words, it remained largely unchanged for Koreans to favour reward for merit rather than equity in determining pay. Given this, the point that should be clarified from the analysis of public opinion is that as Taylor-Gooby (1985:22) points out, public attitudes and their structures may be of considerable instability over time. As public opinion towards economic development shows (Table 5.1), figures representing people's attitudes over the state's responsibility or egalitarian values might have undergone a certain degree of instability over time. Since not all the questions have been asked in a consistent manner, it is hard to analyse how public attitudes have changed over a longer period of time. Nonetheless, it is still fair to conclude that the financial crisis in 1997 brought about a great deal of changes in ideas, policies and institutions.

In sum, the three governing philosophies articulated by the Kim Dae-Jung government might have been correctly addressed in balancing the development of economy, democracy and welfare. Of all it is productive welfarism that leads this balance to be more sustainable by giving due weight to 'productivity' and 'welfare rights'. To this end, the ideas in shaping social policy have been playing a mediating role. All in all, the argument such that restructuring domestic politics at the crossroads makes a difference in the effect of social policy should be seen by the context within which ideas might produce material effects that may act as constraints on policy; and by the conditions under which ideas establish the assumptions, justifications, purposes, and means of public action. By evaluating the politics of poverty under the conditions of uncertainty that the economic crisis has brought in, the outcomes of social policy are the subject of the next two sections.



#### **5.4 The Politics of Poverty: How Does Politics Matter in Protecting the Vulnerable?**

Limited resources in society have always been the greatest obstacle to achieving social justice (Goodin, 1985a: 1). Though the welfare state might not be a perfect instrument for achieving social justice and social equality, its primary goal still remains to relieve the distress of those who are more vulnerable than others (Goodin, 1985c, 1988:Ch.1 and Ch.3). Therefore, the welfare state is the political and principal mechanism which distributes these limited social resources, often already dispersed in the market, to those who need them most (Goodin, 1985b: 145; Ringen, 1987a). Because the value premise of social policy lies in the increasing assumption of collective responsibility, social policy provides the underlying principles behind the operation of the welfare state which is thought of as being explicitly redistributive (Titmuss, 1958:42-43, 1987a: 208). The greatest complexity and uncertainty of the emergence of the welfare state lie where and when systems of welfare fail to protect those who are deemed to be vulnerable. Although not all the social welfare programmes were designed to protect the vulnerable, Bradshaw (1999:12) argues that poverty is still the best symptom of the failure of the welfare state as an outcome measure of welfare state effort. For this reason, the issues of poverty and equality have always been centred around the debate in the welfare state and social policy.

It has legally been required to measure Minimum Living Standards (MLS)<sup>7</sup> every five years in accordance with the previous Public Livelihood Protection Act (Clause 3, Art. 5) and the current National Basic Livelihood Security Act (Clause 3, Art. 6). In addition, another legal requirement has been given to the state to make a public announcement on the basis of the Basic Act for Social Security enacted in 1995 (Clause 2, Art. 10). The Minister of Health and Welfare has been in charge of making a decision on a level of the minimum cost of living and to publicise it by 1 December every year according to the reformed Public Livelihood Protection Act in 1997.

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Minimum Living Standards are defined as 'a minimum cost of living required for citizens to maintain sound and civilised lives' (Public Livelihood Protection Act, Clause 5, Art. 2; National Basic Livelihood Security Act, Clause 6, Art. 2). Minimum Living Standards are used as a basis of the benefit scale levels in Korea. In Britain, however, Minimum Living Standards and Minimum Income Standards seem to be identically used partly because (Governmental) Minimum Income Standards are defined as the 'standards governments use for assessing the adequacy of their income maintenance policies' (Veit-Wilson, 1999:81) and partly because their vulnerability towards political considerations in which scientific criticality sometimes fails to be given full attention.



The think tank of the MoHW, the KIHSA, has conducted research on MLS three times since 1989. The latest results in 1999 however were procedurally different from the previous research results both in 1989 and in 1994 in that they were publicly announced by the Minister of Health and Welfare. A public announcement is now required after the research results have been seen by the Central Committee for Livelihood Protection. This change might have evolved from increasing interests that citizens' groups have manifested and from growing income disparities and poverty since the financial crisis. Kim (2000:6) argues that the significance of MLS may have been increasingly realised by this financial crisis.

The ways in which poverty is measured have always been one of the most controversial issues within the study of social policy because, as many have argued<sup>8</sup>, its theoretically diverse arguments have been highly contentious and because its policy implications tend to contain multiple dimensions. Gordon and Spicker (1999:105) and Kwon (1998:35) argue that Minimum Living Standards are sometimes the poverty threshold to be applied to a criterion of the adequacy of the minimum wage or social security provisions such as the public assistance programme and the benefit level of social insurance. Nonetheless, MLS should not be confused with poverty lines because 'Minimum Income Standards' are based on 'political consideration of acceptability' (Gordon and Spicker, 1999:105). Their primary 'political reflection', Veit-Wilson (1999:83) further argues, is likely to constitute 'government's values, ideology and electoral considerations'. By contrast, poverty lines are meant to be based on scientific measures which in turn require MLS to be measured by a scientific and transparent method. Further to this, because the concept of poverty itself is highly controversial, how it should be measured is equally problematic. Poverty may be variously defined over time to the extent which the objectives, methods, and even a value judgement of those who actually measure it. In other words, political and economic (budgetary) decisions are often incorporated with whether the operational concept of poverty should be based on the notion of MLS (relative) or that of minimum subsistence (absolute).

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For example, see Atkinson (1993); Bradshaw (1996); Bradshaw, Mitchell and Morgan (1987); Donnison (1988); Douglas (1976); Ellison and Thompson (1994); George (1980); Glennerster (2000); Kwon, Soonwon (1993a); McLachlan (1983); Miller and Roby (1970); Novak (1996a); Novak (1995, 1996b); Piachaud (1987, 1993); Ringen (1985, 1987a, 1987b, 1988); Sen (1983, 1985); Townsend (1979, 1983, 1985, 1987, 1993); Veit-Wilson (1987); Walker (1987); Watts (1969); Wright (1995).



In Korea, there has been no generally accepted definition of poverty or poverty standard. The benefit scale poverty line has customarily been accepted as an official poverty line. Yet only five officially conducted studies are available while there have been a number of individual studies separately carried out using different methods. The CSS was the first official institute to undertake research on MLS in 1974. After its second research in 1979, three more official studies were carried out by the KIHSA in 1989, 1994, and 1999. Table 5.2 summarises these studies that employed different methods.

When converted into 2000 prices, their final results on MLS (i.e. poverty threshold or poverty standard) are in great diversity. A comparison however should be made with extreme caution because converted results do not necessarily reflect the living standard of the time being concerned. As clearly demonstrated in Table 5.2, risks are likely to become even higher as the gap between the point in time in comparison becomes wider. For this reason, substantial variations between different results may not be as significant as they first appear. Nonetheless, there is little doubt that the critical gap still clearly exists and the differences are substantial. For example, funded by the Korea Development Institute (KDI), Suh's study (1979) measured the poverty threshold as 240,560 won. But the result was 3,654,317 won measured by the Federation of Korean Trade Unions (FKTU), almost 7 times higher than Suh's result. In interpretative terms, this substantial difference might have resulted from different methods used, different point in time considered, and different regions concerned. However even when these issues are resolved, the FKTU's result is still substantially higher than the KIHSA's.



Table 5.2 Minimum Living Standards in Urban Households (households of five) (Unit: won)

Organisation/ Researcher	(1)	(2)	Method	Minimum living standards	
				Current price	2000 <sup>2</sup>
CSS	1973	1974	Engels	21,739 (whole country)	225,751
Suh, Sang-Mok	1973	1979	Engels	23,165 (urban)	240,560
CSS	1978	1978	Engels	168,240 (metropolitan)	771,365
				126,290 (urban)	566,160
Yoon, Suk-Bum	1980	1980	Leyden	145,105 (urban)	436,393
Chang, Hyeon-Jun	1984	1986	Rowntree	327,724(urban)	717,450
Lee, Joong-Hee	1985	1986	Leyden	214,000 (urban)	457,764
Bai, Moo-Ki <i>et al.</i>	1987	1987	Rowntree	623,811(urban)	1,259,021
KIHSA	1988	1989	Rowntree	348,597 (urban)	656,659
				369,939 (metropolitan)	696,862
Lee, Joung-Woo <i>et al.</i>	1989	1990	Leyden	432,000 (urban)	769,619
Park, Tae-Kyu	1989	1991	Leyden	555,172 (Seoul)	989,053
Ann, Byung-Kun	1991	1991	Rowntree	720,550 (Taeku)	1,082,161
Cha, Heung-Bong <i>et al.</i>	1993	1994	Rowntree	746,627 (Chuncheon)	1,006,828
				763,817 (urban)	969,736
KIHSA	1994	1994	Rowntree	817,401 (metropolitan)	1,037,766
				2,077,619 (urban)	2,637,729
FKTU	1994	1994	Rowntree	2,077,619 (urban)	2,637,729
KLI	1998	1998	Orshansky	1,590,067 (urban)	1,640,010
FKTU	1999	1999	Rowntree	3,573,110 (urban)	3,654,317
KCTU <sup>1</sup>	1999	1999	Rowntree	2,775,661(urban)	2,838,744
KIHSA	1999	1999	Rowntree	1,024,843(urban)	1, 048,135
				1,088,838 (metropolitan)	1,113,584
CCLP <sup>3</sup>	2000	2000	Rowntree	1,055,588 (urban)	1,055,588
				1,121,503 (metropolitan)	1,121,503

Notes: (1) Survey year; (2) Year of publication; 1. Households of four; 2. Constant prices based on the year 2000, 2000 prices are calculated separately by using CPI (1995=100 %); a conversion formula: CPI for 2000 divided by each year's CPI, then multiplied by each year's MSL. For example, CPI in 2000 and in 1999 was 121.5 and 118.8 respectively, when CPI in 1995 was considered to be 100 per cent. Therefore,  $121.5 \div 118.8 \times 1,024,843 = 1,048,135$ ; 3. Estimated results applying 3 per cent anticipated consumer price increase in November 1999; metropolitan cities refer to six major cities including Seoul; urban areas refer to medium and small size cities.

Sources: Reconstructed Table, data adopted and calculated from Kim, Mi-Gon (2000:9, 15-16); Lee, Joung-Woo (1998:124); NSO (1999a, 2001).



There are four significant problems that might have caused this significant difference between the estimates produced by the FKTU and other organisations. First, according to the National Statistical Office (NSO, 2000a, 2000c: 162), the average income of urban wage earners' households was only 2,224,743 won at current price in 1999. In other words, the FKTU's result was rather unrealistic. Second, the FKTU's estimates have been used as a rationale for wage increases during the wage negotiations which may have undermined their neutral position. Third, by limiting its estimation to urban areas, regional differences were ignored. Finally, the estimates were based on those who worked at highly labour intensive sectors, thereby bringing about the issues of generalisation (Park and Kim, 1998:25).

The results published by the KIHSA have been used as an official reference to determine the level of public assistance benefit scale. The minimum cost of living of one person per month in a two-person household rather than a one-person household in small and medium size cities set the standard for this state poverty line. The underlying political rationale might have been that the average number in poor households had been 1.72 persons during the period of 1991 to 1998 (MoHW, 1991-1998). However, because there had been no consistent measures on the minimum cost of living (i.e. MLS), it is very difficult to design a longitudinal frame that enables us to estimate the difference between the official poverty line and the scientific measure of MLS over time. For this reason, Figure 5.5 has been reconstructed by using a number of sources and adjusting the figures to Consumer Price Index (CPI) for relevant years.

Figure 5.5 and Table 5.3 show that the minimum cost of living based on one-person per month in a two-person household almost has corresponded with the benefit scale poverty line since 1994. Further to this, the minimum cost of living based on the one-person household from 1993 to 2001 has been substantially higher than the benefit scale poverty line. This is a logical result because in principle the minimum cost of living (i.e. MLS) for one person per month in a more than one-person household is supposed to be lower than that in a one-person household. For this reason, if the minimum cost of living is measured on the basis of one-person per month in a four-person household, it is logically expected for MLS to be lower than the benefit scale poverty line. But in fact, the minimum cost of living for one person per month in a four-person household was higher than the benefit scale poverty line from 1980 to 1992 (Figure 5.5).



Figure 5.5 Benefit Scale Poverty Line and Monthly MLS

(Unit: won, current prices)

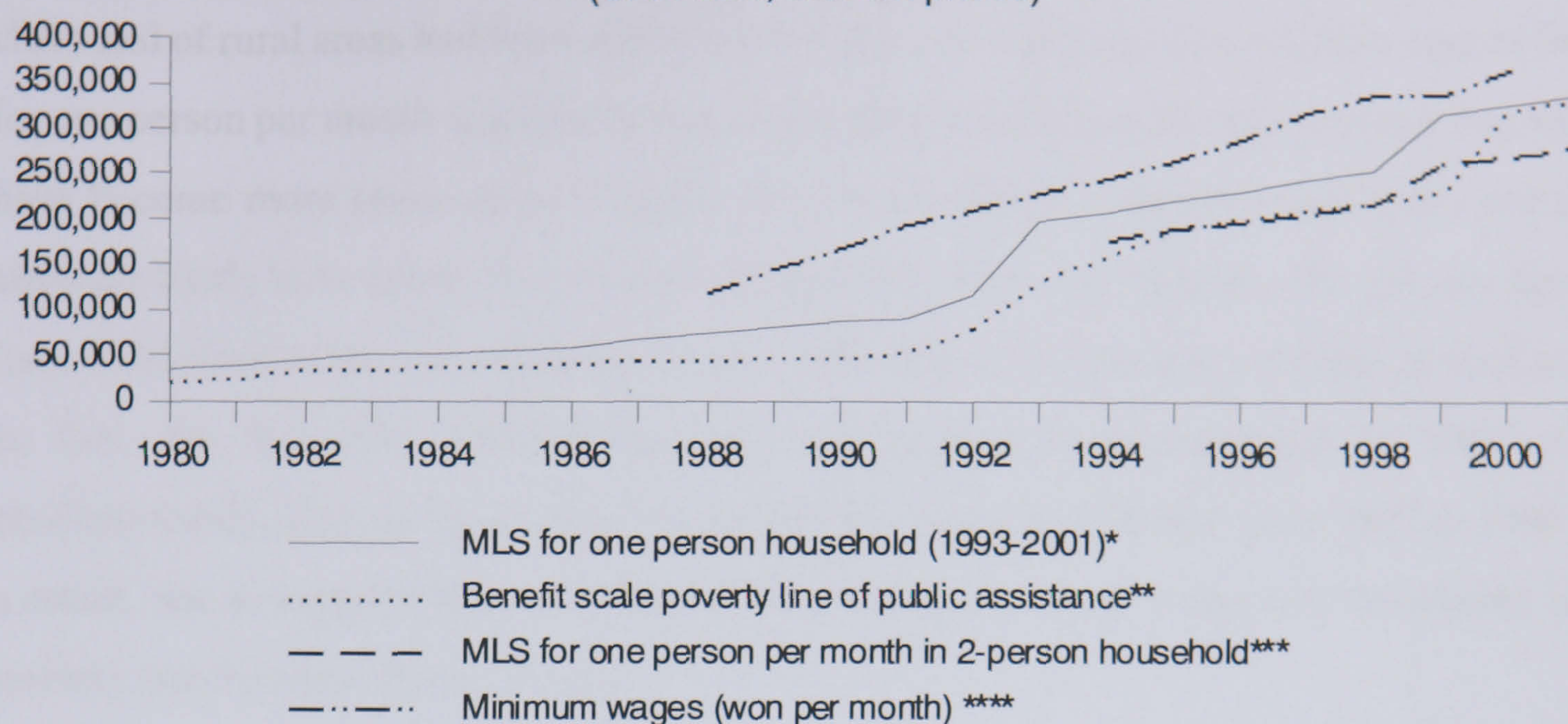


Table 5.3 MLS and IES under the National Basic Livelihood Security Act

Size of household	1	2	3	4	5	6
<i>2000</i>						
MLS	324,011	536,614	738,076	928,398	1,055,588	1,191,134
IES <sup>1</sup>	320,000	540,000	740,000	930,000	1,060,000	1,200,000
<i>2001</i>						
MLS	333,731	552,712	760,218	956,250	1,087,256	1,226,868
IES <sup>1</sup>	330,000	550,000	760,000	960,000	1,090,000	1,230,000

Notes for Figure 5.5 and Table 5.3: 1. Income Estimated Standard as a poverty threshold under public assistance.

\* Data from 1980 to 1992 are based on one person per month in a four-person household. Data for 1993 and 1995 to 1997 are calculated from MLS of medium-small cities (206,141 won) produced by the KIHSA in 1994 (MLS for a one-person household), using CPI for relevant years. Data for 1998 are calculated from MLS of medium-small cities (314,574) produced by the KIHSA in 1999 (MLS for a one-person household), using CPI. Data for 2000 are calculated from the same source using the anticipated consumer price increase of 3 per cent. Data for 2001 are from the public notification made by the MoHW on 1 Dec. 2000.

\*\* Average monthly income per person. Data from 1991 to 1998 are based on the 1<sup>st</sup> category of the public assistant programme where those who belonged to this category were considered to be the poorest of the poor. Since 1999, all categories have been incorporated into a single standard.

\*\*\* Data are calculated from 1994 and 1999 results provided by the KIHSA, using CPI.

\*\*\*\* January to August in 1994. Beginning that year, the minimum wage was revised in September. The figure for 1995, for example, was in effect from September 1994 to August 1995. Until August 1999, the minimum wage applied to firms with 10 or more regular employees. Since September 1999, it has applied to those with five or more regular employees.

Sources for Figure 5.10 and Table 5.3: JDN (25 September 2000); Kim, Mi-Gon (2000:15-16); MoHW (May 2000:19, 2000c); MoHSA/MoHW (various years from 1980 to 2000) *Health and Welfare White Paper*, Seoul: MoHSA/MoHW; OECD (1996:102, 2000:187); Park, Chanyong and Kim Meesook (1998:22-32); Yun, Suk-Bum (1994:109).



The figures for the benefit scale poverty line from 1980 to 1986 were determined by the standard used in metropolitan cities. If the benefit scale poverty line of medium and small cities and of rural areas had been applied, the difference between the minimum cost of living for one person per month in a four-person household and the benefit scale poverty line would have become more pronounced because the poverty line of medium-small cities and rural areas are likely to be lower than that of metropolitan cities. For instance, the poverty line for those who lived in the metropolitan cities in 1986 was 123.5 per cent of those in rural areas. In fact, the fact that different regional standards were incorporated in 1987 made medium-small cities set the standard for the benefit scale poverty line from 1987 to 1990. As a result, the average difference between the minimum cost of living and the benefit scale poverty line became almost doubled.

Both income and assets were the two other criteria in determining the benefit scale poverty line of public assistance, yet different concepts were applied to each. The household was used as a unit of analysis in measuring the monthly income of household while the family was considered as a unit of analysis for the measurement of assets. As a result, as the family size increases from a one-person household to two, three, and four, the poverty standard accordingly arises two, three, and four times. However, the standard level of assets does not change at all as the family size changes (for the discussion of 'equivalence scale analysis', see Whiteford, 1985; Whiteford and Kennedy, 1995: Appendix 1 and Appendix 4). In other words, a one-person household or a four-person household was considered to be the same as far as the means-test of assets was concerned. This two-tiered measurement of poverty was the consequence of administrative expediency. The principle of 'economies of scale' was ignored since the bigger the household becomes, the more benefits they can get. That is, one or two-person households were relatively worse-off in comparison to four or five-person households, which of course undermined the principle of equality.



Table 5.4 MLS estimated by the KIHSA and the Public Assistance Benefit Threshold<sup>1</sup>  
(Unit: won, current prices)

Year	Metropolitan cities	Small and medium size cities (A)	Rural areas	Public assistance benefit level <sup>3</sup> (B)	(B)÷(A) (%)	CPI (%)
1988 <sup>2</sup>	315,076	296,885	268,223	176,000	59.28	7.1
1989	337,446	317,964	287,267	184,000	57.87	5.7
1990	356,680	336,088	303,641	192,000	57.13	8.5
1991	386,998	364,655	329,451	220,000	60.33	9.3
1992	422,989	398,568	360,090	320,000	80.29	6.3
1993	449,637	423,678	382,776	520,000	122.73	4.8
1994 <sup>2</sup>	711,766 (471,220)	665,107 (444,015)	576,414 (401,149)	640,000	96.23 (144.14)	6.2
1995	755,895	706,344	612,152	760,000	107.60	4.5
1996	789,910	738,129	639,699	800,000	108.38	4.9
1997	828,616	774,297	671,044	840,000	108.49	4.5
1998	865,904	809,140	701,241	880,000	108.76	7.5
1999 <sup>2</sup>	957,641 (930,847)	901,357 (869,826)	775,885 (754,478)	920,000	102.07 (105.77)	0.8
2000	965,302	908,568	782,092	930,000	102.36	-

Notes: 1. A four-person household in standard; 2. Year of estimation by the KIHSA; 3. The benefit scale poverty line had not been subdivided into the different size of family until 1996. Data for 1988-1990 are based on the small and medium size cities. Data for 1991-1998 are based on the poverty line for those who belong to the first category of the public assistance programme (i.e. the poorest of the poor). Since 1999, all categories under public assistance have become incorporated into a single category.

Sources: Reconstructed Table, data adopted and calculated from MoHW (various years) *Health and Welfare White Paper*, Seoul: MoHW; Jung, Won-Oh (1998:254); Kim, Mi-Gon (2000:15); NSO (1999a).

The benefit scale poverty line and the minimum cost of living for a person in a four-person household are separately analysed in Table 5.4. In determining the state poverty threshold for a person in a four-person household, the monthly income per person regardless of the family size had been used as a unit of analysis. In other words, the additional members of household were calculated by multiplying the base income (i.e. minimum income per person in a one-person household) by the number of household. Yet 'economies of scale' have begun to be applied to the formula since the reformed public assistance programme began to take effect in 2000. For example, the minimum cost of living per person in a one-person household was 320,000 won but its amount for a four-person household was not 1,280,000 (320,000 × 4) but 930,000 won.



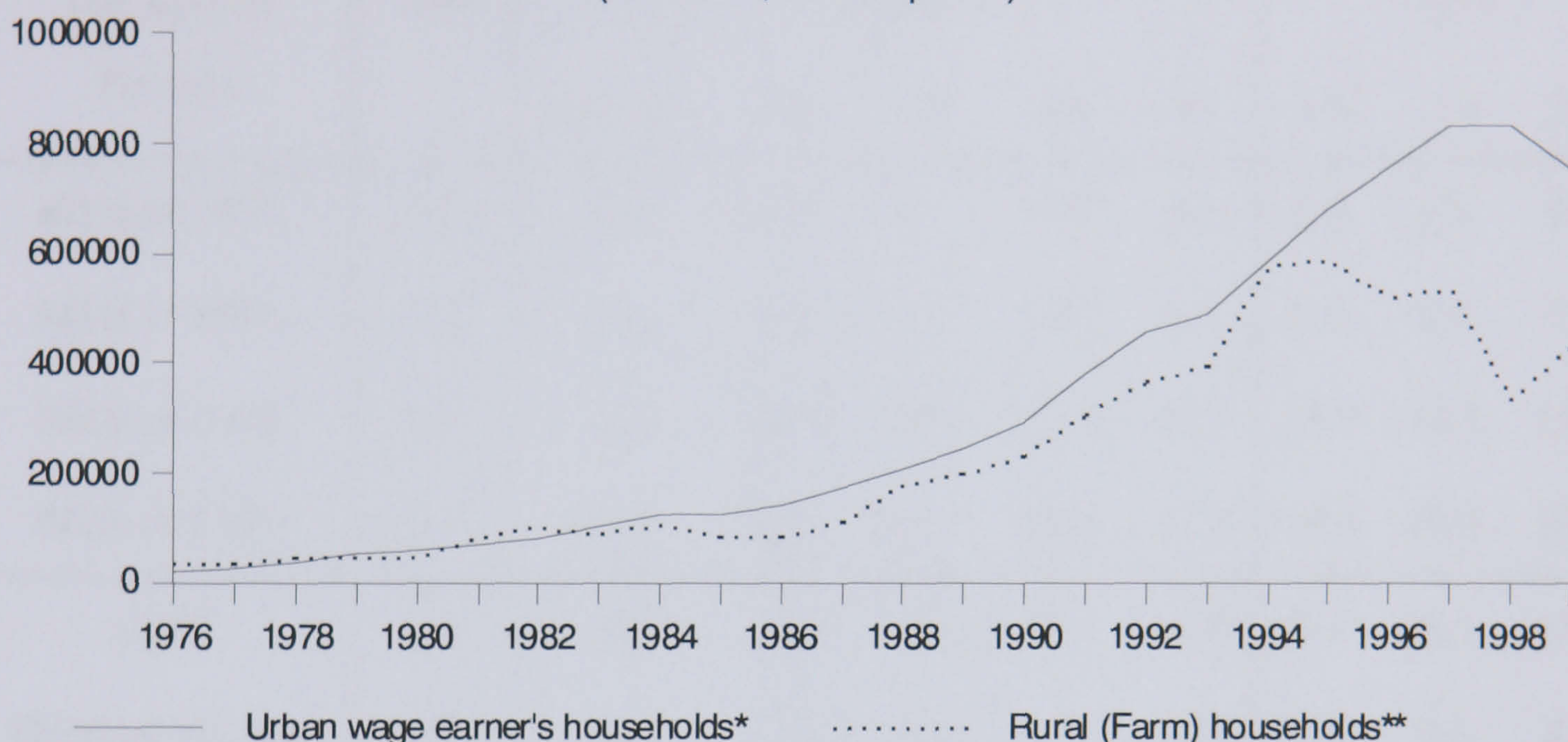
Figures in parentheses refer to the results calculated from the previous year's minimum cost of living by using Consumer Price Index (CPI). These results both in 1994 and 1999 were substantially different from the KIHSA's results because first, the overall living standard may have changed over time which enabled the minimum cost of living to increase along with the changes of social demands. Second, there might have been methodological differences that would reflect the level of social demands at a different point in time. Third, where even the same methods (Rowntree) were used, what constitutes the market basket is more likely to differ dependent upon the cultural and living standards. Therefore, the long-standing theoretical disputes on the measurement of poverty still remains unresolved which in turn proves that the concept of poverty is maintained to be politico-dynamic and ideological.

From 1966 to 1979, urban and rural areas were differentiated when measuring income and assets. By adding metropolitan cities, this two-tier division became three-tiered in 1980. However, this regional differentiation was abolished in 1987. Not until 1999 when public assistance was reformed therefore did an incorporated standard that disregarded regional variations have been applied to the measurement of income and assets. For the abolition of the regional differentiation, Kim (1997:63) argues that in policy terms, it was to control the population transference from rural to urban areas. But in fact, the composition of population in metropolitan areas (especially Seoul, Incheon, and Gyeong-gi) increased from 35.5 per cent in 1980 through 42.8 per cent in 1990 to 45.2 per cent in 1995 (NSO, 1998a: 98-99). First, those who live in rural areas tend to be more vulnerable to poverty. In 1996, for example, a proportion of those who benefited under public assistance in metropolitan cities was 29.5 per cent but it was 23.3 per cent in medium-small size cities and 47.2 per cent in rural areas (Kim, Mi-Gon, 1997:64). Second, since medium and small size cities were considered to set the standard when incomes and assets are measured, those with a relatively lower cost of living in rural areas may be entitled to benefits. By contrast, those in urban areas where costs of living are higher may not be able to fulfil the entitlement requirement.



Figure 5.6 illustrates an increasing surplus gap (monthly income - monthly living expenses) between urban and rural (farm) areas over time. This gap may have motivated those in rural areas, especially those who are relatively young, to transfer to urban areas. By moving to urban areas, they could return home with extra money or they could send the surplus of their earnings to those who remain to live in rural areas, such as their elderly parents.

Figure 5.6 Surplus Gap of Income and Expenses between Rural and Urban Areas  
(Unit: won, current prices)



Notes: formula = \* average monthly income of urban wage earners' households - average consumption expenditure of urban wage earners' households; \*\* average monthly income of rural (farm) households - monthly living expenses of rural (farm) households.

Sources: NSO (1998a: 144, 149, 152, 2000c: 154, 159, 162).

As many commentators have argued, a policy definition of the poverty line can be an effective political harness when the national economy turns out to be vulnerable and when social stability is desperately required (e.g. Sen, 1981; Veit-Wilson, 1999). A case in point can be given by way of comparison between those who fell below the state poverty line before and after the financial crisis. The percentage of population under public assistance (excluding health assistance) was 3.07 in 1997 and 2.53 per cent in 1998. In 1999, it was 2.51 per cent but if the temporary livelihood protection is included, it changes to 3.72 per cent (see Appendix 6). In short, there seems to be little change in the rate of poverty along with the financial crisis. However, Yoo (2000:24-25) argues that if the minimum cost of living (i.e. MLS) of 1999 measured by the KIHS is applied to the same period, the rate of poverty increases greatly up to almost 10.3 per cent of the urban wage workers' households. Table 5.5 shows the variations of poverty rates based on a minimum cost of living both in 1995 and



1999. The results might not be directly compatible with the poverty rate of the entire population because the scope of the analysis is only confined within the urban (wage workers') households. Nonetheless, since those in rural areas tend to be poorer than those in urban areas, it still gives us a rough idea of the proclivity for poverty that seems very different from the rate of poverty based on the state benefit poverty threshold.

Table 5.5 The Rate of Poverty from 1997 to 1999 (Unit: per cent)

The Rate of Poverty	1997	1998					1999		
		Average	1/4	2/4	3/4	4/4	1.4	2/4	3/4
MLS of 1995 <sup>1</sup>	3.0	6.8	6.4	7.1	7.5	6.2	6.9	6.8	5.5
MLS of 1999 <sup>1</sup>	4.2	9.1	8.4	9.2	10.3	8.5	9.6	9.0	7.4
MLS of 1995 <sup>2</sup>	9.5	17.4	16.6	18.4	22.0	12.7	13.9	14.1	14.1
MLS of 1999 <sup>2</sup>	13.7	23.2	22.1	24.2	29.0	17.7	19.4	19.3	19.5
GDP <sup>3</sup>	5.0	-6.7	-4.6	-8.0	-8.1	-5.9	5.4	10.8	12.8
Original Income <sup>4</sup>	6.3	-6.7	-2.8	-5.3	-14.4	-3.8	-0.5	0.4	8.5
Con. Exp. <sup>5</sup>	4.2	-10.7	-8.8	-13.2	-16.8	-4.0	8.9	13.4	17.9

Notes: 1. Based on household income of urban wage workers' households; 2. Based on household expenditure of urban households; MLS stands for Minimum Living Standards; 3. GDP growth rate change over corresponding period of previous year based on constant prices of 1995; 4. Original Income (earnings from employment, occupational pension and income from capital) of salary and wage earners' households. Percentage change over corresponding period of previous year; 5. Consumption Expenditure of salary and wage earners' households. Percentage change over corresponding period of previous year.

Sources: Yoo, Kyung-Jun (2000:24-27); NSO (2000d, November 2000).

From Table 5.5, it is possible to draw three significant interpretations. First, the overall poverty rate worsened as the national economy became unstable. Second, even when the GDP growth rate stabilised, the poverty rate based on household expenditure did not make any progress whilst the rate of poverty based on household income began to fall. Third, the poverty rate based on household expenditure had been much higher than that on household income. This leaves the question of which of the four should be considered to be a valid standard. The minimum cost of living based on 1995 is rather obsolete partly because socioeconomic conditions after the financial crisis have made marked changes and partly because the current public assistance programme has been in operation on the basis of the 1999 standard. Further, it has long been of concern that whether household expenditure or



income should be the best indirect measure of 'command over resources'. There has been a supporting rationale that the expenditure of the poor is likely to be higher than their income. Yet, as Bradshaw (1999:19) argues, the causes of expenditure being higher than income should be read as lack of savings or under-reporting of income rather than excessive borrowing or debt: the result might be exaggerated otherwise. All in all, compared with the poverty rate of benefit scale levels, the actual situation of the incidence of poverty before and after the crisis has been much worse than it first appears. The difference can even be much clearer if the self-employed and non-wage workers are taken on board.

The causes of the increase in poverty were also analysed using the method developed by the World Bank, comparing the third quarter of 1997 to that of 1999. According to Yoo (2000:29-30), the rise in poverty mainly resulted both from economic factors (e.g. income, economic growth rate, etc., 43.8 per cent) and from the deterioration of distribution (49.8 per cent). The remaining 6.4 per cent went to other factors. This result brings us to a very important policy implication that economic growth policy alone can no longer be the best remedy in reducing poverty. The financial crisis of November 1997 has brought about the attenuation of income distribution in Korea. And this polarisation has become the major obstacle to building up the notion of solidarity under the newly introduced welfare ideology of productive welfarism. For this reason, the discussion should move beyond the measurement of poverty that takes account of modernised debate on the polarisation of wealth.

In sum, the relief of poverty is not the only objective of social policy. Nor is poverty the only standard that measures the effectiveness of social policy. Nevertheless, the ways in which poverty is measured can become a technical and arcane smokescreen to the essence of the politics of poverty. The official poverty line in Korea has been based on a 'policy definition' of poverty. For this reason, as Sen (1981:19-21) argues, policy as a 'function of political organisation' is likely to be influenced by the nature of government, the sources of its power, and the forces exerted by other organisations. Therefore, although policy recommendations are considered to be more adequate, the barriers to implementing them often lead to the question of what *can* be done rather than what *ought to* be done. In theory, welfare systems in Korea do not allow anyone to fall below the level of a minimum standard of living (i.e. residual or marginal model of welfare), if not a normal or average standard of living (i.e.



universal or institutional model of welfare). In practice, the poverty standard set by the government used to be too low to maintain even a minimum standard of living. However, the ways in which poverty is measured has become much more transparent and realistic. The introduction of minimum wage in 1988 was partly an important contributor to this end and the reform of public assistance in 1999 was a landmark that made this possible. Those below the official poverty line now have rights to benefit from public assistance regardless of their ability to work. The state provides benefits to them up to the point that fulfils the difference in amount between their own earnings and the minimum cost of living. Its adequacy thereby is ever more important.

### **5.5 The Strategy of Redistribution**

The distribution of income in Korea was among the best in the developing countries between 1964 and 1970 (Adelman, 1974:284-285; Adelman and Robinson, 1978:45). Adelman and Robinson (1978:Ch.3) carried out the time-series analysis of 1964 to 1970 both in urban and rural areas. They concluded that there had been few changes in overall income distribution during the period of remarkable economic growth. However, the poorest 20 per cent of the households had achieved almost 333 per cent increase in their money income and their real income had also more than doubled. In addition, while the relative share of property income and wage and salary income had greatly increased up to 33 and 40 per cent respectively, the share of agricultural income had equally decreased up to 32 per cent. From their analysis, they made two important conclusions. First, the key changes in wage structure which had occurred during the period of 1964 to 1970 were the result of market forces. The crucial role that could have been played by the unionisation of labour was largely absent from the scene. However, the rise of income in agriculture was possible partly due to a high price for rice policy controlled by the government. Second, they concluded that a development process during this particular period of time had benefited not only upper and middle income groups, but also the welfare of the poorest members of the society (Adelman and Robinson, 1978:37-47).

A great many attempts to evaluate the trend of income distribution in Korea was also made at the indigenous level especially by those at the KDI throughout the 1980s and the early 1990s. The pioneering as well as the most well-known study was carried out by a researcher at the KDI. In his study, Choo (1979, 1982) first criticised Adelman and Robinson's study in that they had underestimated or had even failed to include both the lowest income group in



farm households and the income of the top decile of urban households (1979:78-79). His conclusion nonetheless was similar to Adelman and Robinson's though he had made a great effort to rectify the methodological faults. According to Choo's research, the distribution of income worsened in the late 1960s but became better in the early 1970s only to again become unequal later. Income distribution in farm households (Gini-coefficient was 0.295 in 1970) had been relatively lower than that in non-farm households (0.346 in 1970). The urban self-employed and employers had been the most unequal category (0.449 in 1976) especially after the mid-1970s (Choo, Hakchung, 1979:91-96).

Table 5.6 summarises the trend of income distribution in Korea. It follows Kuznets' inverted-U hypothesis where income distribution is likely to improve during the phase of industrialisation and then follows more unequal distribution during the period of early economic development. The overall trend of income distribution became more equal since 1980 after the rise of income disparity from 1970 to 1980. This was largely due to increasing disparity between wage-income and property income earners and between small and large firms. The original emergence of these large firms dated back to the early 1960s when an export-oriented industrialisation strategy was newly introduced. In turn, the reduction of income disparity in different income groups became the main reason for the relatively equal distribution of income since 1980 (Song, Byung-Nak, 1997:175). However, Kwon (1993a: 70-72) argues that the trend should be more carefully and rigorously analysed. He argues that it might have been of less importance to interpret that the more equal distribution of income had been due to the mitigation of income differential between farm households and non-farm households. The ratio of urban households income to rural households income had in fact increased in the early 1980s. It might have also been of more significance to regain the vitality in the overall macro-economic condition with reasonably stable prices and employment.

Table 5.6 The Trend of Income Inequality in Korea, 1965-1996

Gini-coefficient	1965	1970	1976	1980	1985	1988	1993	1996
Whole country	0.344	0.332	0.391	0.389	0.344	0.335	0.309	0.295
Urban areas	0.417	0.346	0.412	0.405	0.369	0.349	0.306	0.289
Rural areas	0.285	0.295	0.327	0.355	0.296	0.289	0.310	0.308

Sources: Reconstructed Table from Choo, Hakchung (1979:91, 93, 94); EPB (1986); NSO (1998a).



The most comprehensive and latest research was also carried out by those at the KDI analysing not only income distribution but also wealth distribution (Kwon, Soonwon *et al.*, 1992). Table 5.7 compares the results produced by Kwon *et al.* and Choo, both of which used different data sources. Choo's study was estimated from the 'yearbook of the urban household income and expenditure' and the 'farm household economy survey' for income distribution. Choo also used the 'survey report of the national wealth statistics' published by the EPB in 1977 for wealth distribution (see also Choo, Hakchung *et al.*, 1996). On the other hand, Kwon *et al.*'s study was estimated from the 'survey of national living standard and economic consciousness' conducted by the KDI in 1988. The survey report of the national wealth statistics comprises a large number of samples including 9,883 households, while the survey of national living standard and economic consciousness constitutes samples of 5,000 households nationwide.

Table 5.7 The Distribution of Wealth in Korea (Gini-coefficient)

Research by Choo (1982:104)					
	Whole country	Non-farm households	Wage earners	Self-employed	Farm areas
RC <sup>1</sup>	0.414	0.482	0.467	0.488	0.239
RV <sup>2</sup>	0.523	0.542	0.534	0.551	0.443
Research by Kwon <i>et al.</i> (1992:172)					
	Income <sup>3</sup>	Nominal assets <sup>4</sup>	Financial assets <sup>5</sup>	Real assets <sup>6</sup>	
Whole country	0.404	0.579	0.770	0.596	
Urban areas	0.373	0.584	0.738	0.604	
Rural areas	0.445	0.549	0.835	0.557	

Notes: 1. Replacement cost (the cost of replacing a piece of capital at the current price); 2. Realisation value (the value of a piece of capital when it is sold at the market); 3. Labour income (wages and salaries) plus property income (income from rent, interest and dividends); 4. Financial assets plus real assets; 5. The sum of savings, shares (stocks), bonds, insurance, and debentures (corporate bonds); 6. The sum of housing, land, automobiles and others assets.

Sources: Choo, Hakchung (1982); Kwon, Soonwon *et al.* (1992).

However, the validity of Choo's research raises the question of what constitutes household assets in measuring wealth distribution. The survey report of the national wealth statistics



comprises housing and durable consumer goods, yet excludes land and financial assets. Therefore, the substantial difference between non-farm households and farm households may have resulted from the relatively high housing supply rate in rural areas. In fact, the proportion of those occupying their own houses in rural areas was 80.8 per cent compared to 43.0 per cent in urban areas, and 58.7 per cent in whole country in 1980 (NSO, 1998a: 307). In the same year, the overall housing supply rate was 71.2 per cent (EPB, 1990: 65; NSO, 1998a: 305).

On the other hand, the research by Kwon *et al.* consisted of almost all assets and shows that financial assets were the major factor causing inequality. Nonetheless, its overall reliability was challenged by those at the World Bank (Leipziger *et al.*, 1992). Leipziger *et al.* argued that the assets on interest and dividend income had not even captured one quarter of the reality. However, they concluded that the overall distribution of wealth in Korea was either similar or better than that in advanced industrialised countries of the 1960s.

The most significant difficulty underlying the measurement of poverty and inequality has been a lack of reliable and consistent data (Kwon, Soonwon, 1993a: 70). For example, the ‘yearbook of urban household income and expenditure’ and the ‘farm household economic survey’ exclude more than 20 per cent of the entire households. This exclusion may be a substantial proportion of the bottom and the top deciles of income distribution. These data sets also exclude income of the urban employer and of the self-employed which may generate a downward bias towards the degree of inequality. In addition, the ‘yearbook of national tax statistics’ may not be a valid source of income measure as might be the case of other countries. This is because income in the yearbook is likely to be under-reported in general. Those in both extremes such as the upper income group and the lowest income group are least likely to be correctly reported. Hence, a rather simplistic adaptation of these sources is likely to be misleading.

Political decisions and policy designs in Korea have long been influenced by the way in which the criticality of robust empiricism has been belittled. According to policy experts<sup>9</sup>,

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The director of the welfare policy division at the Ministry of Health and Welfare (Interview with Lee, Young-Chan, 24 July 2000, Seoul). And the former researcher at the Korea Development Institute (Interview with Kwon, Soonwon, 31 July 2000, Seoul).



the most significant problem which Korean social policy has confronted has been a lack of basic raw material, especially reliable longitudinal data sets and a lack of a consistent series of research. They argue that this overall underdevelopment has given rise to the long-standing scepticism about the nature of social policy making in Korea. The making of social policy has always been based on short-term plans which often ignores long-term consequences. The intended outcomes or effects have not been empirically and cautiously examined before a new policy is introduced. In short, new policies have been introduced not because of their socioeconomic necessities but because of their potential politicality which often fades away along with their political life-span.

However, progress has been made such as the survey of Minimum Living Standards undertaken by the KIHSA every five years since 1988. Another marked progress has been made to the first comprehensive household income survey, the 'National Survey of Family Income and Expenditure'. This survey is based on a sample of 30,000 households, representing the entire population. In other words, it is much larger than the 'Family Income and Expenditure Survey' which has been carried out on a monthly basis since 1993 but conducted only in urban areas with a sample size of 5,200 households. The National Survey was carried out in 1991 and published in 1993. The second survey was undertaken in 1996 and published in 1998, and will thereafter be repeated every five years.

Table 5.8 shows the changes of income distribution that occurred between 1991 and 1996 based on the 'National Survey of Family Income and Expenditure'. These data sets enable us to analyse the detailed composition of income distribution of all households in Korea. The analysis is estimated on the basis of yearly income by yearly income decile groups instead of monthly income by monthly income decile groups. The rationale behind it is that income of those in rural areas is more likely to be seasonal. Indirect transfers such as charities to those in bottom decile groups are also likely to be of seasonal fluctuation. But also are monthly income data for the entire households unavailable.

Atkinson (1975:36-40) also points out why yearly income is more favoured than monthly income. He argues that when income is measured over a longer period, it becomes less unequal. The observed degree of dispersion is likely to be reduced by taking a longer period of assessment. Different periods of assessment can be applied to different income groups for different purposes. On the one hand, averaging of income is difficult for low income groups.



especially to measure the number of people in poverty. On the other hand, however, the use of scope over a year for the distribution of income among the population as a whole is more appropriate than that over a week. The reason for this is that it is possible to average income for the majority of the population, in addition to the fact that it would be misleading to take a shorter period for those at the upper end of the scale (Atkinson, 1975:37).

Table 5.8 Income Distribution in Korea<sup>1</sup> (per cent)

	I	II	III	IV	V	VI	VII	VIII	IX	X	Com. <sup>2</sup>
<i>1991<sup>3</sup></i>											
H	3.12	5.99	7.37	8.73	8.40	10.82	10.98	12.15	14.85	17.59	64.04
B	1.94	3.77	4.86	5.07	8.96	6.93	10.30	13.04	14.38	30.75	28.82
P	4.23	3.65	3.29	4.29	3.99	5.95	8.01	10.46	15.41	40.72	3.70
D	9.75	6.59	6.72	5.40	3.95	6.85	7.64	8.30	25.56	19.24	0.53
I	18.62	9.76	7.76	7.00	7.97	6.36	7.33	8.71	9.78	16.71	2.91
G	3.31	5.38	6.51	7.44	8.36	9.37	10.55	12.22	14.64	22.22	100.00
<i>1996<sup>4</sup></i>											
H	2.64	5.80	7.49	8.34	9.88	9.45	12.34	12.55	13.87	17.64	59.45
B	1.23	2.81	3.97	5.97	6.20	9.95	8.50	12.55	17.12	31.70	31.17
P	3.98	4.08	4.09	3.66	4.83	6.45	6.78	8.48	14.46	43.19	4.94
D	6.69	10.75	9.61	8.03	6.35	10.32	12.22	6.54	12.26	17.23	0.77
I	20.41	11.31	8.00	6.77	6.82	8.32	6.44	11.49	9.57	10.87	3.67
G	2.95	5.03	6.26	7.31	8.34	9.42	10.65	12.27	14.74	23.03	100.00
<i>P</i>	3.41	10.94	0.08	6.18	5.01	11.15	14.55	7.16	12.76	19.76	0.64

Notes: 1. Yearly income per household by yearly income decile groups and types of income; 2. Composition: Percentage of total income; 3. Sample size: 20,765 households of two persons and more, nationwide; 4. Sample size: 21,103 households of two persons and more, nationwide; H. Household Earnings: wage and salaries, and bonus, including breadwinner's, spouse's, and other household member's earnings; B. Business Income: agriculture, forestry and fishery income, subsidiary work, and other business income, including breadwinner's, spouse's and other household member's income; P. Property Income, i.e. returns from assets: interest, dividend, and rents received; D. Direct Transfers: social security benefits, including pensions and benefits from public assistance; I. Indirect Transfers: gifts and assistance, subsidies from other households, and others (indirect transfers often refer to taxes in contrast to social security benefits in the literature, see for example Shanahan and Tuma, 1994:734); G. Gross Income: Earnings plus business income plus returns from assets plus direct transfers plus indirect transfers; *P*. Pension: benefits from the National Pension Programme.

Sources: Reconstructed Table, data adopted and calculated from NSO (1993b: 510,511,1998d: 66,67).



Table 5.8 also elucidates that property income was not only more unequally distributed than business income but also substantially unevenly distributed between the poorest and the richest. These incomes are often underestimated within the measurement of income inequality. Further it was indirect transfers, not direct transfers both in 1991 and 1996 that made a relatively sizable impact on income distribution. Their share of gross income is also considerably higher than direct transfers, contributing 2.91 and 3.67 per cent in 1991 and in 1996. In contrast, direct transfers accounted for only 0.53 and 0.77 per cent of gross income both in 1991 and 1996 respectively. Compared with the result of 1991, distribution of gross income in 1996 did not make much progress. The contribution of direct transfers on income distribution had made a slight increase, yet indirect transfers still remained to be more crucial. In fact, the poorest decile groups received an even lower proportion of direct transfers, the overall percentage of which became slightly lower in 1996.

The final row of Table 5.8 elucidates the profile of pensions, which was included in the profile of direct transfers but was separately shown for the purpose of analysis. As seen in Chapter 3 and Chapter 4, the pension system in Korea contains an explicit redistribution component. However, the overall redistributive impact in 1996 was very limited. Those in the top income decile received the highest returns perhaps because, as its share of gross income shows, the system itself was too immature to be highly redistributive.

As a whole, neither direct transfers nor indirect transfers had made any significant modifications on income distribution. As Piachaud clearly points out (1991:217), social security might be an effective instrument of social justice able to mitigate the effects of social and economic change. Yet social security is more or less of no use to mitigate increasing inequality of original incomes which comprised more than 95 per cent of gross income both in 1991 and in 1996. What is required is not to pick up the pieces but to place them all in socioeconomic and political order.

The impact of taxation and social security contributions on income distribution is analysed separately in Table 5.9. This analytic separation is made because available data sets for taxes and social security contributions only cover wage workers' households on a monthly basis. This is because though both monthly and yearly income data are collected by the 'National Survey of Family Income and Expenditure', monthly income data are released only for wage



workers' households. Also, taxes and social security contributions are considered as expenditures instead of income, such that they are only available monthly (for more detailed characteristics of the data, see Jacobs, 2000).

The comparison made between workers' households in 1991 and 1996 shows that the percentage of either direct tax or of social security contributions to gross income was less than 3 per cent. The overall profile of the level of social security contributions in 1991 was also very similar to that of gross income. This may mean that no considerable vertical redistribution took place. Nonetheless, the degree of dispersion of the level of social security contributions in 1996 made a slight change. This is so in that those in lower income groups contributed less than their relative level of gross income but those in upper income groups paid more than their relative gross income. Further, whereas the level of gross income and that of disposable income (after direct taxes and social security contributions) were not very different in 1991, they became more equal in 1996.

Table 5.9 The Impact of Tax and Social Security Contribution to Income Distribution<sup>1</sup>

(Unit: per cent)

	<i>1991</i> <sup>2</sup>										
	I	II	III	IV	V	VI	VII	VIII	IX	X	Com. <sup>4</sup>
GI	3.44	5.42	6.52	7.52	8.49	9.44	10.79	12.46	14.81	21.11	100.00
DT	1.65	2.79	3.53	4.40	5.54	7.05	8.90	12.63	17.13	36.38	2.77
SSC	3.98	5.81	6.86	7.76	8.90	9.50	10.68	12.31	14.83	19.37	2.29
DI	3.48	5.49	6.60	7.60	8.57	9.51	10.85	12.46	14.74	20.70	94.95
	<i>1996</i> <sup>3</sup>										
GI	4.35	5.65	6.92	7.86	8.52	9.91	10.66	12.70	14.09	19.34	100.00
DT	1.94	2.56	3.39	4.15	6.58	8.27	10.13	12.74	17.07	33.17	1.60
SSC	3.12	4.94	5.81	7.26	8.18	9.52	10.84	12.82	14.59	22.92	1.33
DI	4.41	5.71	7.00	7.93	8.55	9.94	10.66	12.70	14.04	19.06	97.06

Notes: 1. Decile groups of wage workers' households by monthly income decile groups; 2. Sample size: 14,114 households of two persons or more; 3. Sample size: 13,158 households of two persons or more; 4. Composition: Percentage of gross income; GI. Gross Income: earnings plus direct and indirect transfers plus returns from assets plus business income; DT. Direct Taxes; SSC. Social Security Contributions including pensions and social insurance contributions; DI. Disposable Income: gross income minus direct taxes and social security contributions.

Sources: Reconstructed Table, data adopted and calculated from NSO (1993a: 82-85, 1998c: 94-97).



In Table 5.9 the impact of tax structure is not clearly revealed in the analysis. Nor does the analysis include the impact of indirect taxes which would be more regressive in nature than direct taxes. As Table 5.10 shows, tax systems had become less progressive over time. In other words, it was indirect taxes that became more proportioned in a tax system. In international comparison, only Germany and France have a higher rate of indirect taxes than direct taxes.

Table 5.10 Ratio of Direct and Indirect Tax (per cent)

		<i>Korea (1995-1999)</i>				
Classification		1995	1996	1997	1998	1999
Internal Taxes	Direct	53.4	52.1	49.9	57.9	49.2
	Indirect	46.6	47.9	50.1	42.1	50.8
National Taxes	Direct	46.8	44.4	41.4	48.0	40.5
	Indirect	53.2	55.6	58.6	52.0	59.5
Tax	Direct	54.7	52.9	50.5	55.3	49.5
	Indirect	45.3	47.1	49.5	44.7	50.5

*Selected Industrialised Countries (National Taxes Basis)*

Classification	Japan (1998)	The US (1998)	The UK (1997)	Germany (1998)	Italy (1997)	France (1998)
Direct	59.3	93.2	56.9	45.4	56.7	39.6
Indirect	40.7	6.8	43.1	54.6	43.3	60.4

Sources: MoFE (May 2000); NTS (2000).

All in all, overall policy intervention for income redistribution in Korea has been rather modest. Substantial changes have not occurred either through taxes or social security. Only unpretentious changes have taken place by the mechanism of indirect transfers. This may imply that the role of the state has been limited in reducing inequality. Figure 5.7 illustrates that the income gap between the bottom decile group and the top decile group of urban wage workers' households has not greatly been moderated even during the period of economic growth since 1979. Instead, it has worsened seriously during the period of economic downturn since 1997. More rigorous policy intervention is required precisely because social problems cannot solely be solved by a mere measurement of economic growth which may even exacerbate the polarisation of society in turn.



that would reflect the principle of need and the principle of equality. As Titmuss' preferred model of social policy outlines, the institutional-redistributive model shaped by social, fiscal and occupational welfare becomes more likely to be an effective means to this end (Titmuss, 1958, 1974, 1987a).

## **5.6 The Conditions of Possibility: Principle and Practice**

The conditions under which ideas are filtered through the institutional process have changed greatly over time. But the changes that have occurred do not necessarily assure a balanced development of principle and practice. Although there is little doubt that institutional configurations of rules and procedures are primary determinants to set the terms for political conflicts (Immergut, 1992a, 1992b), this leaves the question of why and how principled ideas turn to make negative impact in practice largely unanswered. In other words, the idea of rightness and wrongness depends on the context within which rules and norms are exercised. The recent policy decision that has enabled medical and pharmaceutical practices to be separated within overall health care systems provides an example of how complex social policy issues may become in practice.

The principled idea that separated medical and pharmaceutical practices first appeared in the Pharmaceutical Affairs Act of 1963. The precise rationale behind its introduction was not clear yet it might have resulted from the fact that many other industrialised countries had already put this principle into effect. Nevertheless, materialising this principled idea into legislation was postponed for another 20 years mainly due to immature infrastructure that deferred successive reforms after the military government transferred to an elected one. The idea reappeared in 1976 when national health insurance was introduced. For most pharmacists, the introduction of national health insurance could weaken the management of their pharmacies. In subsequence, the idea's reappearance led to an experimental project in a city of southern Korea during 1982 to 1985. The three-stage implementation project was proposed by the Committee for National Health Policy right before national health insurance was expanded to rural areas in 1988. Yet, both physicians and pharmacists failed to come to terms because the former argued for a complete separation but the latter argued for a partial separation within the health insurance programme, thereby the project being dissipated (Lee, Du-Ho *et al.*, 1992: 317-357). In 1994, the idea became more specified within the Pharmaceutical Affairs Amendment Act which ended the dispute on Korean traditional and



Western medicine (the historical origins of this dispute date back to the early 1950s, for the detailed analysis on this subject, see Cho, Hyo-Je, 1999). This time, there was a special emphasis on the misuse and abuse of medical supplies such as antibiotics. In 1997, the Defined Daily Dose (DDD) of antibiotics was 33.2 per cent which was much higher than the average 21.3 per cent in OECD countries (MoHW, 2001a). According to an additional clause to the Act, the separation of medical and pharmaceutical practices would take effect from July 1999.

In December 1997, the Committee for Medical Reform (CMR), the advisory committee for the Prime Minister, made a proposal for a 'staged plan for the separation of dispensary from medical practice'. This plan was three-staged to build up the framework for the separation. This staged plan later in May 1998 constructed the Promotion Council for the Separation of Dispensary from Medical Practice. The Promotion Council reinforced the CMR's proposal to take effect from 1 July 1999 as planned. The proposal itself however was not agreed by both physicians and pharmacists. Both the KMA and the KPA presented a petition to the National Assembly in order to postpone its implementation one year due to a lack of overall preparation. In two months, they also suggested, they would build up a new framework for the separation but would agree to the government's proposal otherwise (MoHW, 2000b: 37). Mediated by a number of citizens' groups, the KMA and the KPA suggested a new proposal to the government in May 1999. In order to design a better enforcement measure, the responsible ministry (MoHW) organised an executive committee in June 1999, 25 representatives of which were from civic groups, the press, academia, medical and pharmaceutical groups and civil servants. On 27 December 1999, the Pharmaceutical Affairs Act was finally amended. However, despite this amendment, medical practitioners went on their third-time strike against the proposed reform plan arguing that it would bankrupt many of the nation's medical clinics by depriving their major source of income (Korea Herald, 26 June 2000).

The representative of medical specialists who participated in the executive committee refused to accept the item in the proposal that allows pharmacists to have a discretionary power of prescription because physicians would lose their power over the supply of medication as a result. By replacing the president of the KMA who made an agreement for the revision, physicians exercised their dramatic 'exit' from the activity of medical treatment



in the form of their third collective action by strike at the expense of the public from 20 June to 25 June 2000 (see Hirschman, 1970). This dramatic exit eventually led to another revision of the medical reform plan due in July 2000 (CDN, 25 June 2000). The dispute continued however since pharmacists refused to participate in the agreement in turn by denouncing the government for:

‘bowing to the collective pressure of doctors who are simply pursuing their own interests...from now on, we will reject all discussions on ways of implementing the reform program, whose principles have been seriously undermined by this illicit compromise between the government and doctors’ (quoted from the Korea Herald, 26 June 2000)<sup>10</sup>.

Three possible scenarios had been addressed to minimise further disputes. First and foremost, the government may enforce the divided medical service delivery system as planned while promising to reconsider the subsequent problems. This first scenario accorded with the policy line of ‘implementation first, rectification later’ which the government had consistently pursued as opposed to physicians’ view of ‘rectification first, implementation later’. Second, there may be another delay. But this option would be very unrealistic partly because the government had maintained the hard line policy to implement it in time and partly because even pharmacists had been opposed to the government’s potential concession to physicians or the delay of the implementation. The third option was to follow the first proposal of the plan made in January 1999. This proposal would allow hospitals to have dispensaries within their facilities in contrast to the abolition of dispensaries within hospitals endorsed by both pharmacists and civic groups.

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Interest group influence of medical professions depends on the institutional context of political decision making (Immergut, 1992a, 1992b; Ham, 1992). For example, the decision making in increasing the charge for medical treatment in July 2000 was a political compromise between those in the Ministry of Health and Welfare, the Ministry of Finance and Economy, and the Ministry of Planning and Budget, and those in medical and pharmaceutical professions. The compromise made in September 2000 and January 2001 was also a political decision made by the Prime Minister. The executive authority has been dependent on those who have direct interests which has even influenced the supposedly highly professionalised posts of those either in the Food and Drugs Administration or in the Health Promotion Bureau under the jurisdiction of the Ministry of Health and Welfare. The director of the Health Promotion Bureau where medical and pharmaceutical affairs are exclusively dealt with could be allocated to a specialist regardless of the status of bureaucratic hierarchy of the civil service. Nonetheless, the professional nature of the post could not be taken on board because of potential misconceptions with partiality for a particular side of interests.



In the end, the first scenario has more or less been adopted but at the same time there have been a number of subsequent problems. First, the key issue on the public surface has been discretionary and alternative power for having prescriptions filled by pharmacists. Yet, the essential component behind a series of disputes has been centrally located in the low rate of charge for medical treatment for over 20 years. The rate of charge for medical treatment was first enacted on 8 June 1977 and implemented from 1 July 1977. It started with a relatively modest level which accounted only for 50 to 55 per cent of ordinary charge for the medical treatment at that time (CDN, 24 June 2000). This initial rate was one of the lowest in the world. In consequence, incomes of physicians have customarily been met by an expedient way of three-tiered medical treatment: margins on the price of medicine; extra charges for the non-insured medical treatment; and additional charges for the utilisation of the patients' ward. This three-tiered medical treatment has been the well-known yet tacitly tolerated channels of making extra earnings. One of these channels however has been legally blocked by the introduction of the real price for medical supplies since late 1999 in addition to an increasing number of medical specialists since 1995.

Second, those who belong to the KMA and those in the government have failed to build up their mutual trust for the last 20 years. The hard policy line of 'implementation first, rectification later' reinforced by the government had not been accepted by the KMA for two reasons. First, there had been no attempt to fulfil the promise that would initiate policy for making the price of medical treatment more realistic for over 20 years since 1977. This nonfulfillment was precisely because of the weak financial conditions of health insurance societies. Second, there had been no fulfilment of the promise to provide 50 per cent state subsidies to the health insurance for regional members when it was introduced in 1987 (Korea Herald, 24 June 2000). For these reasons, the collective actions exercised by medical specialists have been solved by the way in which the government has increased the price for medical treatment three times from July 2000 to January 2001 of 22.8 per cent in total (CDN, 17 March 2001). A subsequent increase up to another 20 per cent may have to follow sooner rather than later in order to minimise the potential impact on the health insurance fund.

In sum, the professional roles of doctors and pharmacists largely overlapped for decades. Pharmacists were allowed to write prescriptions while doctors were free to dispense medications to their patients. Since 1 July 2000, hospitals are prohibited from dispensing



medications to outpatients while pharmacists are banned from prescribing medical remedies. The purpose of this revision was to reduce high rates of drug-overuse. For the basic principle of separating medical and pharmaceutical practices, the White Paper for Health and Welfare (MoHW, 2000b: 39) says that ‘doctors can prescribe special and general medical supplies, while pharmacists should dispense those supplies to a prescription. Pharmacists cannot sell special medical supplies except having doctor’s prescription filled but can sell general medical suppliers without doctor’s written order’. The principle is simple but why was it so difficult to make it work? The answer should be sought by the overall structure of health care systems. The separation of medical and pharmaceutical practices has to a certain degree made doctors’ and pharmacists’ tax evasion more transparent since most of their incomes would be exclusively revealed by this reform. In spite of its justifiable necessity, it has by and large been considered to have caused social distrust and disintegration. In addition to the integration of health insurance societies, the separation has enabled both physicians and pharmacists to make more profits at the expense of the public on the one hand. Intended outcomes of reduction in drug misuse and abuse have not yet been achieved on the other. The MoHW has recently announced that health insurance transfers to pharmacies have risen almost 13 times and that its transfers to clinics have also risen by 52.2 per cent since its implementation in July 2000 (CDN, 16 March 2001). The only solution to stabilise the health insurance fund seems to be either the sharp increase of insurance premiums or additional support from the national subvention, either of which would inevitably result in the increase of the overall burden on the public. In short, the conditions that made this separation so difficult resulted from the interplay between ideological and infra-structural policy frameworks.

## **5.7 Conclusion**

Much that has been discussed in this chapter relates to the contemporary potential for further development of the welfare state in Korea. By examining changes that occurred in the policy environment over time and policy effects that had an important impact on citizens, it acknowledges the argument that ‘policies have a major influence on mass publics, generating patterns of behavior (lock-in effects) and interpretive efforts (attempts to identify policy effects and trace those effects to government decisions) that have significant political repercussions’ (Pierson, 1993:625-626). It was these policies under epochal changes that not only made changes in public attitudes and opinion towards economy, democracy, and



welfare possible. But also did they transform the politics of poverty and the strategy of redistribution that previously underplayed a right to welfare into a more dynamic and provocative one. The recent debate on the separation of medical and pharmaceutical practices also demonstrates that the interest aggregation between the two groups and their prolonged distrust of the government were the result of what happened in the past that in turn affects what happens some time later. Physicians and pharmacists are two of the most well known interest groups. But their ever-stronger interest aggregation was possible because policies generated interests and alliances that subsequently act to protect these interests within the policy network. In short, not only do these policy feedback effects constrain policy options, they also reshape the conditions under which the state transforms its nature (Box 3 in Figure 1.1 in Chapter 1).

A developmental pattern of economic growth in Korea presumed the redistribution through growth thesis which sees progress towards equality and other social aims possible only if economic growth is sustained. When this growth state paradigm was challenged by a static economy or the impact of recession, however, the rationale that presupposed greater equality through the pursuit of growth required a radical revision. The retention of the collectivist welfare aspirations that regarded welfare as residual was thereby turning to a universal form of welfare arrangements. In part, the financial crisis combined with a new democratic order enabled this transformation to occur. In other words, this financial crisis that brought in the IMF's 21 billion US dollars bailout package, entailing conditions on opening up the economy to foreign competition and increasing labour flexibility (4 Dec. 1997) coincided with a period when the opposition candidate, Kim Dae-Jung, won for the first time in the history of Korean politics (18 Dec. 1997). Because economic stabilisation preconditions a stable political system, not only did the newly elected 'people's government' embark on the restructuring in order to lead the nation out of the crisis but also it reshaped the 'redistribution through growth' strategy into a more productive and more redistributive one (i.e. productive welfarism). Restructuring politics by reshaping institutions was the key measure the people's government took to this end. As Gough (1996:25) argues, therefore, the effect of social welfare systems on an ever more competitive economy is greatly influenced by the institutional reformation and its practice.



This linkage between social welfare and competitiveness under a new global order, Jessop (1994) and Penna and O'Brien (1996) argue, may have created the conditions that are deemed to promote economic competitiveness rather than ameliorating social problems. By linking these ideas, the emphasis goes onto that a new global order has impacted upon the strategic implication in the social regulation of the new growth regime, not the political process or the rationale behind the goals of politics. In other words, as Penna (2001:153) points out, the 'emphasis accorded to each [i.e. anti-and modernist politics, e.g. universalism and means-testing, social welfare and competitiveness] oscillates in different historical periods, but the politics surrounding them are firmly linked to social actors engaged in political struggle'.

The path that reflects this oscillation is contingent on who is deciding what under what conditions and in what context. A distinctive path to social and economic development should be identified in relation to the context within which the welfare state is formed differently. This context varies to the extent which different assumptions, different strategies, and different objectives base the formation of the welfare state. For all these reasons, we argue, the welfare state in Korea emerged and developed not as part of the strategic political performance against what might have ideally been achieved but as the strategic political manoeuvre against the complexity and uncertainty of political forces. It was this complexity and uncertainty that brought in the discussion of new ideas, new institutions, and new norms and rules.

By underscoring the changes of contextual dimensions, the role of ideas in shaping social policy and the uncertainties that frequently condition choices for political actors, this chapter seeks to ascertain the 'conditions of possibility'. The 'conditions' is that through a distinctive historical trajectory, a particular set of conditions influence the acceptance of one set of ideas rather than another, which in turn determine when change might be possible. This process is certainly path dependent whereby the trajectory of change that has constructed a current social, political and economic setting conditions the trajectory that follows. It is this path that shapes and reshapes the context within which the persuasiveness of ideas depends on the way those ideas relate to political forces of the time and that differentiate the setting where the interpretation of the same set of ideas diverge. In the concluding chapter that follows, we shall explore the logic that underpins this historically distinctive trajectory in shaping social policy.



## CHAPTER 6

### Conclusions: The Logic of Possibility

#### 6.1 Introduction

'[T]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas...soon or late, it is ideas, not vested interests, which are dangerous for good or evil' (Keynes, 1973:383-384).

By taking this assertion seriously, Hall (1989b: 362) argues that 'if we want to accord ideas an explanatory role in analyses of policy making, we need to know much more about the conditions that lend force to one set of ideas rather than another in a particular historical setting'. Indeed, Keynesian ideas greatly influenced the emergence of the welfare state but, as Hall clearly points out, not in every national setting and certainly not in uniformity. By focussing on the role of ideas, this research set out the framework to explain the development of social policy in post-war Korea. Instead of emphasising the influence of economic ideas alone, we have examined the sorts of ideas, a series of laws, and a framework of legislation that matter greatly in shaping social policy within a society (i.e. South Korea) at a different stage of industrialisation to Western counterparts, which has begun its economic development from different initial levels and cultural traditions and has undergone authoritarian governments and military regimes. This research has clearly seen that in Korea two social values were becoming predominant and in constant conflict: economic growth for the sake of high levels of living, and social policy development for the same purpose. We have been concerned with the relationships between these values as they were embodied in institutional forms and with the impediments to their realisation in identifying the conditions of welfare.

The purpose of this concluding chapter is to develop a broad view of the factors that conditioned the progress of these values from policy configuration through policy implementation to policy outcomes and to identify the historical elements that rendered one



rather than the other value more influential at one particular time in history than another. The analysis proceeds in three stages. The section that follows is designed to summarise and integrate the most important points made in the preceding chapters. In the next section, we argue that examining the role of ideas in shaping social policy enables us to discern why a similar political discourse and set of ideas can produce quite different images of welfare in different historical settings. In the concluding section, we demonstrate the value added in this research as a whole by underlining the significance of our analysis, pointing out the limitations in our material, and suggesting the possibilities of further research.

## **6.2 The Logic That Guides the World of Ideas in the World of Political Forces**

The principal theme of this research has been its insistence that we must consider the ways in which ideas are formed through a political process if we are to understand why social policy is configured in a particular way and why this configuration changes to a certain direction over time. In tracing the role of ideas in a historical context, however, the impact of ideas on policy change is not always neatly identifiable. In other words, it is difficult not only to pin down when ideas actually influence and how they impact on policy-making, but, it is also difficult to point to the decisive point at which ideas shape policy because the political motivations of those in the decision-making point and the context within which policy is being framed make it difficult to prise apart interests and ideas in practice. In order to discover any logical sequence of any institutional change that results from the influence of ideas, it is necessary to count other influences that go along with it. By identifying these factors that may make or mar the progress of ideas, this research has attempted to find the logic that underpins the role of ideas in shaping social policy. Four categories of factors (e.g. ideas, decisions, conditions, and contexts) seem to have affected the influence of ideas in a closely interrelated way.

Ideas matter because they establish assumptions, justifications, strategies, purposes, and means of the course that action takes. By setting out these rules and norms, ideas render particular sets of activities coherent and meaningful. Once expressed and articulated, Moore (1988) argues, ideas become powerful in favouring one line of activity rather than another. As these ideas change, the locus and nature of activities change too. The images that conjured up visions of the past formed into a specific set of policy ideas during the period of industrialisation in Korea. The images of mass poverty, for example, enabled the military



government (1961-1979) to develop the idea that economic growth is the only and the best way to achieve the resolution of mass poverty, the construction of the welfare state, and the promotion of higher living standards. This historically outflanked threat of poverty and risk framed the overarching images that economic growth related efforts *inter alia* would provide the social and political basis of the nation-building strategy. Within this framework, as part of nation-building strategies, the organising theme of state welfare was to combine the idea of relief and labour, thereby preventing welfare dependency. For example, the principle of less-eligibility was the central focus around which public assistance was built. A series of laws enacted during this period were guided by these ideas and an institutional framework for welfare legislation was set to fulfil the minimum requirements in order to come to this end.

To this end, political actors were seeking welfare programmes that could reduce possible resistance and legitimate their military nature. As a carrier of ideas, a network of knowledge-based communities was created by the key political actors. The primary role of these early epistemic communities was to design state welfare programmes that could enhance the growth of the national economy. As a late comer to an already well-established world of welfare states, Korea had a comparative advantage to learn from what has been innovated elsewhere. In the 1960s and the 1970s, most welfare programmes were modelled on those of other industrialised countries partly to legitimate them and partly due to lack of expertise. However, the existing institutional structure conditioned the ways in which early borrowing was shaped. For example, political decision-makers ignored a growing demand for unemployment insurance in favour of industrial accident insurance, the underlying rationale of which was its relatively advantageous economic and administrative viability (see Hall, 1989b). Through the political process, the original ideas were often metamorphosed to policies which could meet economic ends. The final decision made by the SCNR against the principle of compulsory health insurance in 1963 epitomised the case taken because the principle of compulsory participation would be more likely to impose a financial burden on both businesses and the government. Epistemic communities were only allowed to be influential if their political values were consistent with the overall political values of those searching for advice.



As a think-tank of the EPB, the KDI played a more practical role than the CSS by relating their ideas to the economic and political problems of the day, thereby attracting the attention of those who made a final decision. For example, the KDI's idea to introduce national pensions was to encourage cooperative responsibilities for employers and employees without the government being part of them. For Park's government, national pensions could be an important source of capital mobilisation, the accumulated fund of which could be diverted to enhance economic development. Nevertheless, President Park's decision to postpone their implementation at the last minute indicates that even the supreme Presidential power is constrained by economic conditions. On the contrary, exogenous pressures may also give an impetus to social policy over and above economic considerations. For example, while the oil crisis of 1973 might have blocked the successful implementation of national pensions, international relations between South and North Korea enabled national health insurance to become compulsory in the late 1970s. The ideas that previously blocked social welfare development on the grounds of economic development was replaced by a more positive view on the grounds that welfare would be able to substantiate the social basis behind the concept of national security against communism. This idea coincided President Park's determination and his subsequent action made compulsory national health insurance possible. In short, by examining the particular policy networks or communities involved in the process of how an idea has impacted or not impacted on policy, we have found that the success of these communities in getting their ideas adopted depends on a successful alliance between the political values underpinning their ideas and the dominant political coalition. In order for a set of ideas to become a policy, they had to fit in with the given political pattern and the given socio-economic paradigm.

From the late 1980s to the mid-1990s, growing labour power and the emerging citizens' movement transformed the existing authoritarian rules to a new order. Authoritarian military regimes that persisted for almost 25 years were about to undergo a dramatic transition to a democratic one. It is argued that policy change during this point of crisis was a reaction to changes in demand mobilisation, interest articulation and political perception to them. Yet these changes were very unstable and unfixed, often sporadic in appearance, fluctuating in intensity, ambivalent in composition. There was no clear pattern and structure nor any degree of consistency. National pensions that epitomised the developmental state paradigm and minimum wages that reflected the contemporary socio-political unrest and social demands



were materialised into legislation on the same day in 1986. The political motivations of decision-makers in introducing these social programmes became a growing subject of public criticisms. But political regime change did not immediately bring about a radical change in the overarching developmental paradigm. The exercising of the presidential veto power at the last moment on health insurance integration, for example, showed that the ultimate source of power to prioritise political and economic interests remained unchanged.

Given this, the most important point that we can single out is that the greater the institutional changes attempted, the greater are their unintended and largely unexpected repercussions, forcing upon those in power the expedient of piecemeal improvisation. Much of the literature that emphasised the impact of democratisation tends to ignore the point at which democratisation enabled social demands to become the point at issue in a political spectrum. Though this effect may not be in hand immediately after institutional and policy change occurs, change at one time point influenced what would come next. Change occurred because the essential components that maintained the old rules were already rearranged by different sets of challenges. During this transitional period, ideas about normative values or moral bases of social policy were shaped and propelled forward by previously inactive social movements. Through this new source of participation, a prevailing view that used to legitimate virtually all the state activities to an economic end was revised and re-conceptualised to the view that economic growth is not necessarily a fulfilling condition for social policy development.

Despite this important social policy bearing at this critical juncture, the neo-classical economic ideas that underpinned the authoritarian military regimes did not undergo a dramatic change. The first civilian government since 1961, the Kim Young-Sam government (1993-1997) embraced the idea of globalisation, and attempted to implement a liberalisation process in financial markets and institutional structures. Under this political discourse of globalisation, growth and distribution were given equal weight in constructing a 'Korean-style welfare model' while guaranteeing a minimum living standard for all and promoting the quality of life. Social policy was interpreted as a mechanism that could reconcile human development and labour motivation with social investment, thereby able to contribute to overall growth potentiality. Even so, the whole idea of globalisation and a 'Korean-style welfare model' was to reinforce the urgent necessity of structural adjustment



of industry in order to strengthen national competitiveness. Instead of making systems of welfare more comprehensive and responsive to a growing social demand, globalisation referred that systems of welfare should correspond to an appropriate level of economic development in order to pursue a globally applicable social standard.

Under the Kim Dae-Jung government (1998-present), this linkage has been further developed and modified by articulating the idea of 'productive welfarism' in which productivity and social rights are balanced in a sustainable way. Greatly influenced by the financial crisis, the Kim government not only liberalised the market in return for the IMF's loan, but it also restructured domestic politics by reforming institutions. It is this productive welfarism that made possible public assistance reform (the most symbolic event in the history of Korean welfare systems), the integration of health insurance, the integration of the self-employed in urban areas into the public pension, and the separation of medical and pharmaceutical practices. In the field of economic policy, the Kim government favoured neo-liberal underpinnings that provided an ideological justification for a small government, activation of the market, and privatisation. In the field of social policy, the state's responsibility for welfare reforms was strengthened, and the joined-up solutions such that both the state and society must be in charge of social problems underlay all the reform measures. The active role of the state in social policy has finally been brought in. For the public, the financial crisis changed their value orientations in supporting economic development more than democratisation, while at the same time their belief in the state's responsibility for individual's security greatly increased. As the most democratised government since the nation state was established in 1948, and as the first opposition party that became a governing one, the Kim government generated the idea of productive welfare that does not necessarily share neo-liberal underpinnings behind economic policy. Productive welfarism strengthened the state's responsibility for people's welfare and emphasised redistribution, not only through a just market order but also through the state's active intervention. Originated from one of the most powerful bearers of ideas (i.e. President Kim himself), and theorised by a network of knowledge-based communities, this idea connected itself to the most powerful political force, reflecting the economic and political problems of the time.



Much that has been discussed supports the argument that ideas become powerful in shaping social policy, not just because they are autonomous following a logic of their own but because they are mediated, modified and sometimes metamorphosed by political contexts, conditions and decisions. It is this framework that imposes specific constraints on the choice of policy strategies that in turn creates a particular path and reshapes optional choices in conflict. For this reason, the ideas that only relate to normative conceptions of what can be ideally achieved are less influential than the ideas that identify the historically complex and uncertain settings of political forces. By analysing these ideas that accommodate and challenge social policy to uncertainty and that differentiate it from other policy areas, we can better explain why policy changes occur. In short, ideas are not necessarily a thrall subjected to political forces, they can have a good deal of independent force over circumstances (Hall, 1989b: 369). But, when they connect to the balance of those political forces, they are likely to become more powerful than otherwise. It is under this logic that ideas can become powerful in reshaping the politics of social policy and it is this ideational logic that can offer us the opportunity to analyse institutional possibilities instead of impossibilities, and to fuse the politics of change and the politics of possibility. This is because policy-making is a process that not only faces constraints but is also a process that requires creativity. For the underlying continuity and discontinuity in policy, and policy innovation and change, we must recognise that 'the knowledge basis of state action, as well as the processes by which the state itself influences the development and application of social knowledge, are indeed research issues of central importance (Evans, Rueschemeyer, and Skocpol, 1985b: 357-358).

### **6.3 When Ideas Become Influential: Continuities and Changes in the Idea of Welfare**

From the analysis of historical continuity and discontinuity in the development of social policy, we have found that 'political regime change' occurred when there were changes in policy instruments, their institutional settings, and the hierarchy of goals behind policy. In Hall's term (1993), changes in all these three components of policy cause change in 'policy paradigms'. Policy paradigms suggest that the 'policymaking process can be structured by a particular set of ideas, just as it can be structured by a set of institutions' (Hall, 1993:290). But as he also clearly points out, paradigm change is likely to take place when the process is initiated by a specific kind of event that proved anomalous within the terms of the prevailing paradigm and when there is a shift in the locus of authority over policy.



In Korea, this paradigm change occurred in the form of 'political regime change' accompanied by an identifiable historical event. Changes that occurred in the setting of the basic policy instrument at frequent intervals without any clear regularity often took place with a given paradigm. The content of social policy, for example, has been incrementally structured and readjusted in the light of past experience as well as new conditions. But most dramatic changes that altered the setting of policy and the hierarchy of goals and set of instruments employed to guide policy were accompanied by 'critical junctures' that often resulted in political regime change. For example, when the military junta of 1961 to 1963 changed to an elected government, it shifted towards greater emphasis on economic strength and expansion in the general goal orientations of the ruling elite. By creating the multiplicity of agencies and the launch of the first five-year economic development plan (1962-1966), the major emphasis of the bureaucracy shifted from a control and coordination focus to a goal-attainment function. Further, it was after the democratisation movement in the late 1980s to the early 1990s that the first civilian government (1993-1997) replaced the existing economic development plan to the new one not only by dismantling the most prominent old policy instrument, the EPB, but also by introducing the idea of a Korean-style welfare model. The growth state paradigm began to shift towards a welfare state paradigm that fused the ideas of 'productivity' and 'welfare'. An even more radical shift took place following the financial crisis of the late 1990s when the people's government (1998-present) materialised the previously less systematised idea of 'productive welfare', 'market economy' and 'liberal democracy' into a policy agenda that in turn restructured the existing political institutions. The state paradigm no longer remained to be seen as only growth-oriented. For example, the state became an active actor in providing a social safety net by reforming the pre-existing rules of demographic criteria embedded in public assistance.

In all of these cases, the settings of a new order and the design of alternative strategies built on past experiences. More importantly, the most powerful and decisive factor that shifted policy paradigms seems to have been the radical change in the point of decision-making, otherwise known as the 'locus of authority'. All the critical junctures identified in this research reshaped the composition of this decision-making point. In other words, changes that occurred only in policy instruments, or their settings, did not necessarily involve the appearance of anomalies but change in their goals and orientations were geared by an identifiable point of crisis. The financial crisis, for example, was one of the impetuses that



enabled the opposition candidate to win the presidential election for the first time. Compositional changes in a decision-making point are highly important in understanding policy changes not just because these reshape the relations between a set of policy networks in the policy process but also because those in this point are the primary actors that can empower the idea that may matter most. If an idea originates from this point, it is highly likely to be influential by guiding the overall orientation of the government. The ideas such as 'national security and anti-communism', 'economic growth and trickle-down', 'stabilisation and liberalisation', 'globalisation and competitiveness', and 'market economy, liberal democracy and productive welfare' originated from the top decision-maker: the President. It was these ideas that dominated their times, corresponded to the overarching policy orientation, and guided policy shifts from one paradigm to another. In short, these points of crises that marked critical junctures in the policy process provide us these contextual paradigms. The period of continuity can occasionally be punctuated by this disjunctive experience of political regime change.

As most historical institutionalists and proponents of the policy-learning approach argue, there is little doubt that changes in policy at time-0 affect policy at time-1. By 1995, for example, all major social programmes were completed and this completion of the big framework has led to a stage of state welfare consolidation. Remaining policy agendas for social policy were not to introduce a new innovative policy but to modify and consolidate those existing social programmes. The citizens' involvement in social programmes was therefore oriented towards state welfare reforms, the quintessential example of which was the reform of public assistance. The previous role of epistemic communities was gradually infiltrated into these citizens' organisations. In many ways, citizens' groups played a coordinating role when there were conflicts between vested interests and principled ideas.

At the same time, we have found that what has failed to become a policy agenda equally contributed to shape the images that greatly influenced what would come next. In other words, not only *policy made* but also *policy not made* at time-0 influenced changes in policy at time-1 directly or indirectly. In 1987, for example, President Rho exercised his veto power in order to block the integration of health insurance funds. Prevailing policy ideas thereby failed to materialise into policy initiatives for another decade, even though at that time, there was a broad consensus for the idea of their integration. But, when it reappeared in the late



1990s, the idea was strongly opposed by the health insurance societies at workplaces. Also, decades of mutual distrust between the government and medical professions culminated in and influenced the developmental path of separating medical and pharmaceutical practices in 1999. For national pensions, President Park's decision to postpone their implementation in 1973 made the political intention of capital mobilisation through national pensions subject to societal debate, which later in turn became the EPB's major consideration in redesigning national pensions of 1986. These episodes of non-decisions that resulted in the 'suppression or thwarting of a latent or manifest challenge to the values and interests of the decision maker' (Bachrach and Baratz, 1970: 7) suggest not only that policy-makers with power have a capacity to keep issues off the agenda which they control but also that policies *not made* have an important impact on later policies. What is left by the policy in the past, whether changed or unchanged, often has a selective effect on the strategies for renewal but in unpredictable ways.

All that has been discussed relates to the argument that the inheritance of past policies appears to be the single most important element in determining what is feasible at any given moment in time. The proponents of the prevailing model of social learning regard this argument as one of the principal factors that affect policy change. In Korea, this process of social learning became greatly meaningful in two ways. First, social learning effects took place in designing the strategies of welfare between social groups. Citizens' organisations have learned from past experience that social problems should be tackled more comprehensively by legally granted methods of procedure which in turn could achieve social cohesion and participation. The process of decision-making became the subject of a form of collective resolution on society's behalf that in turn resulted in social solidarity.

Second, not only are prevailing ideas of the time likely to reflect the ideological construction of political goals, they are also likely to construct prevailing images of society at the time. The idea of economic supremacy constructed the societal belief that economic development would have 'trickle-down' effects. For decades, this belief of economic development prevailed while there was a de-prioritising other important social issues. As public opinion surveys have shown, Korean publics believed that it was individuals that should be responsible for their own welfare. This particular set of images of welfare was the result of established ideas that were central to policymaking and dominated the institutional settings.

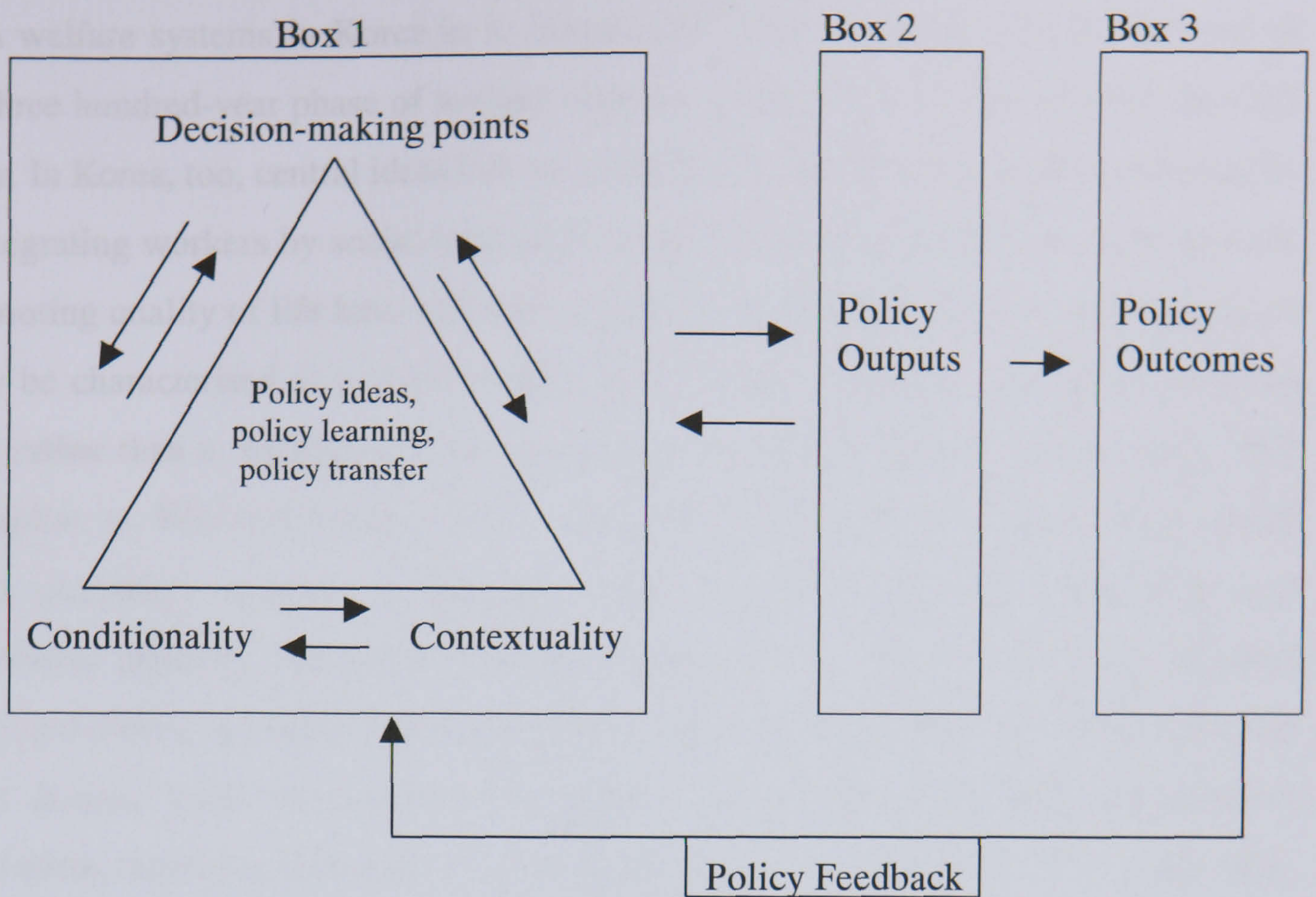


These images also set the standard for the public to decide what to tolerate and what to resist. For instance, there was no powerful questioning or challenging debate on whether the benefit level of public assistance was adequate for those in great need to maintain their living standard. Poverty was perceived as an individual shortcoming, and support was given only in combination with tight controls. Nor was there any doubt about the vulnerability that the distributional structure of income was exposed to unprecedented impacts. The strategy of redistribution constructed and reflected the societal belief of meritocracy over equity in determining pay. In short, a distinctive trajectory that national institutions have followed became significantly important by shaping images and beliefs of society. These ideas, once institutionally embedded, are likely to shape people's ideas, beliefs and interests.

All these findings support the model we have developed in the beginning of this research, where the ways in which social policy is configured are not in a linear continuum. It is therefore worthy to revisit the model which is represented in Figure 6.1. Political decision-makers are undoubtedly primary actors in shaping social policy but their decisions are greatly constrained or empowered by a set of conditions that are often contextually bound. State policies are not only an input measure but also an output and outcome measure. The structure and content of state policy, and their impact on citizens provide both incentives and resources to individuals, social groups, and state elites. Through this learning effect, policies affect the resultant flow of ideas. Images constructed by policy inputs often come full circle through resetting prevailing ideas that in turn reshape institutional settings. A different set of images is thereby created. Critical junctures are certainly an important component that brings about paradigm shift. Yet they are not necessarily a fulfilling condition for policy change. Even change in policy paradigm can leave important structural and administrative elements unchanged which are likely to become a new source of conditions that constrain policy options.



Figure 6.1 A Systematic Model for the Social Policy Process



For all these reasons, the relationship between economic policy and social policy is in essence double-edged. The state's very success in building its role as an autonomous actor in economic development may undercut its ability to remain autonomous in social policy development. Normative values embedded in social policy are not easily brought out by the emphasis on economic policy alone because though economic and social policy may share the same purpose of attaining high levels of living, their dominant methods to come to this end differ greatly. Economic policy aims to increase the overall size of the pie while social policy points to the question of how to divide the pie. The ways in which these two values were combined and balanced were contingent on dominant images in society that ideas were formed into. As Weber (1991:280) argues, 'very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest'. Because the combination of these two values provides the impetus for the emergence of the welfare state, the ways in which these values are combined may enable us to locate the welfare state in Korea in a distinctive regime position.



As many of the arguments in this research proclaimed, one of the most distinctive features found in welfare systems in Korea is its historically unique pathway that compressed an almost three hundred-year phase of welfare state development in Western Europe into half a century. In Korea, too, central ideas behind welfare state development such as policing the poor, integrating workers by social insurance, social services as an element of citizenship, and promoting quality of life have undergone political modifications in historical sequence that may be characterised as piecemeal and what Lindblom (1959) terms as a 'muddling through' rather than a 'fundamental departure to new policy horizons' (Alber, 1988: 454, 464). Similar to Western Europe, there was a general sequence of introducing social insurance (security) systems in Korea, where industrial accidents came first and unemployment insurance came last, with sickness (and invalidity) as well as old age (and invalidity, survivors) in between (Flora and Alber, 1981:50). Within this relatively short path taken in Korea, there were decisive moments of societal crisis and revolutionary transformation, thereby a particular set of discontinuities was witnessed. At the same time, more frequent changes in policy instruments and their institutional settings tend to have preserved the *status quo*. In both cases, the present choice can be deeply embedded in antecedent conditions to a varying degree of continuities and changes. But when continuity prevails over discontinuity as is often the case during the normal period, this present choice is likely to be more deeply embedded in preceding conditions.

For this reason, to identify the conditioning effects of institutional legacy is the key element to recognise the pattern of path dependency in which politically strategic attempts to bring about change are conditioned by the institutional legacy. In other words, institutions matter not just once but twice (Torfing, 2001:291). Past policy determines how policy problems are defined and solved in and through informed learning processes. From the findings of this research, it is clear that even paradigm shifts that brought about political regime change did not necessarily negate the old policy path. This old policy path often reproduced traditional dichotomies between social and economic policy and their purposes. At the same time, when the institutional framework became destabilised and the institutional barriers to change became weakened, most comprehensive yet intensive reforms occurred. This dislocation of the policy path was the prime condition that made political regime transformation possible. As our central argument proclaimed, institutional change is facilitated by a complex interplay of internal sources that hold decision-making power, and both internal and external



sources of instability that condition decisions of political incumbents, and historical events that dislocate the established continuity of the existing policy path. This argument also acknowledges that historical institutionalism provides us with powerful explanatory variables in explaining the unique institutional and historical settings characterised by an unequal distribution of power and its strong dependence on the institutional structure. But equally importantly, these variables require more explicit applications to the context within which political actors' power and learning processes embedded in social policy have been of great significance. We have also emphasised the need for further explanatory modifications that could embrace these rational and normative values. Through these modifications, we can have a better grip of not only the impossibility but also the possibility of social policy that are likely to be conditioned on the continuity and discontinuity of the previous policy path. It is this path dependency that centrally features in the welfare regime approach in which different regimes generated a specific pattern of path dependent development (Esping-Andersen, 1990). As Gough (2000: 9) made plain, a 'central tenet of the welfare regime approach is that social welfare systems generate interests and alliances which subsequently act to protect these interests, imparting to the regime a path of development which attains a momentum of its own'.

#### **6.4 Conclusion: Pathway to a Society of Positive Welfare**

Studies of the role of ideas on policy are by no means a new trajectory. Hall (1989c), for example, controls for knowledge of Keynesian ideas of macroeconomic management in many countries and accounts for the variety of outcomes on the basis of other variables. Goldstein and Keohane (1993b) also explore a variety of issue areas by seeking to show the ways in which variations in the ideas available affected policy outcomes. But the research design here differs from these studies. While all share the central point of the role of ideas, we point to the sources as well as effects of ideas. We also focus on the procedural dynamics of the ways in which ideas are formed into shape on the basis of other variables, such as the composition of decision-making point, socio-economic and political conditions, institutional structures, historical legacies and critical junctures.

In the context of social policy development in Korea, our contribution to knowledge becomes more pronounced since very little contribution has been made within the tradition of historical institutional analysis to solving the puzzles of how ideas matter questioning



their origins, formulation, diffusion and adoption. By setting out the new framework that embraces the constellations defined by the intersection of three dimensions of variables – decisions, conditions, and contexts, we have made an original synthesis that could answer why one particular idea mattered and why it made a difference. In our model, ideas are important because they play a role in mediating the expectations that are necessary for political actors to sustain their preferences in historically specific contextual conditions. In order to identify these conditions, we have conducted several original case studies using primary material as well as already known material but with a new interpretation. Not only by emphasising the role of ideas in shaping and reshaping social policy, that in turn influences overall images of welfare embedded in society, but also by taking the means-ends equation where policy is seen to be more than the intended course of action, our research has proposed that we could open the way to developing a greater theoretical synthesis that could be considerably relevant for the explanation of real-world social policy processes.

For many years, scholars have pointed to the importance of the Korean democratisation movement in the late 1980s but few of them argued that this period made a contribution to shaping social policy due to the absence of visible participation by the labour movement in social policy issues. We have, however, argued that this critical juncture should not simply be seen as an incremental process. It entailed periods of dramatic reorientation and empowered a new source of civic participation in politics. The idea of ‘participatory democracy’ embedded in the social movement of the mid-1990s was carried through when the Kim Dae-Jung government established the Tripartite Commission in 1998. By embracing the voices of employees, employers, and government, its establishment was initially designed to encourage a tripartite consultation mechanism to overcome the economic crisis. The Commission, in fact, not only brought two major trade unions together to make one voice representing diverse views of labour, but also strengthened the voice of labour meaning it is more likely to be heard. But, at the same time, while there were occasions that the Commission played an active role in revising and recommending labour market reforms, the more progressive of two trade unions refused to take part in meetings of the Commission many times. Further, the empowered voice of labour sometimes became the major source that blocked social policy reforms when their interests were not safeguarded as seen in the case of health insurance funds integration. In short, there is little doubt that the idea of ‘participatory democracy’ not only reshaped the relations between a set of policy



networks in the policy process but also marked an important critical momentum. But equally importantly, this change does not necessarily mean that there is an increasing viability of the welfare state option towards societal corporatist arrangements.

This means-ends equation between the true intentions of state policies and their political outcomes also enables us to make careful interpretation of policy outputs. For example, it is easy to overemphasise the extended role of the state in social protection largely drawn from the claim that Korea has shown the paradoxical hypothesis whereby the role of the state in social protection would be retrenched in the era of globalisation. In fact, many policy responses to the financial crisis in the late 1990s were formed into shape under severe conditional constraints. In part, economic policy reforms were carried out due to the pressure from the largest financial commitment in IMF history. But, the most intentional catalyst for those reforms was to enhance long-term international competitiveness through promoting favourable conditions for international capital so that either direct foreign investment or even a speculative influx to the money market could come back to Korea (Appendix 13). In other words, the financial crisis was often seen as a failure for economic policy under the Kim Young-Sam government (1993-1997) to monitor and control financial flows in the international market, thereby being the outcome of its naïve efforts for globalisation. Given this economic framework, there might have not been many policy options left for the current minority government (1998-present) but to increase its commitment to welfare in response to this crisis. For this reason, social policy reforms in the era of financial crisis that might have been introduced as an emergency measure resulted in the strengthening of the state's role in social protection. The meaning of this equation, as our research has illustrated, becomes valuable not simply because it produced a different mode of state intervention but because it would be likely to unfold this process of political development further over time that is theoretically central.

In order to better understand how this means-ends equation works, therefore, it is necessary to examine the flow of ideas. The creation and recreation of these ideas define and redefine the relationship between how policies are configured, implemented, and impact on citizens. Because ideas require a set of institutional mechanisms that could translate them into reality and that could embody a normative system in order to define what is good and bad for society, identifying the interaction between ideas and institutions can enable us to discern



normative values that are embodied and perpetuated in the mechanisms of state welfare. The evaluations of such ideas that impacted on citizens in Korea are currently very limited largely due partly to the immature settlement of its institutional root and partly to inconsistent longitudinal data sets available. Yet, as we have attempted in the preceding chapters, there has been an increasing sign of improvement that further development will be possible sooner rather than later.

For a new democracy, the possibilities for social policy depend heavily on the 'implicit social contract and the development strategies inherited from prior authoritarian periods'. For this reason, 'the success of reform requires a new politics, with politicians and parties less beholden to the status quo' (Haggard, 2000:141). By identifying continuities and changes in a historical path taken in Korea, we have explored the ways in which democratic progress has created pressures for greater attention to social policy in Korea that has later in turn been accelerated by the financial crisis. In the analysis of social policy for the newly emerging democracies, it is vitally important to examine the effect of the critical juncture intertwined with other processes of change. The outcomes during this period of significant transition are likely to establish distinct trajectories within which one policy change follows another.

Korea is in the stage to transform the state from being simply a regulator to more of an active provider in welfare provisions. But, this transformation period might confuse the idea that a welfare society and a welfare state are inseparable in essence. This is in part because a restructuring of the conventional welfare state schemes is to 'move from the welfare state to the welfare society, with a new and better mix of public and private provision' (Alber, 1988:465). This is also in part because this welfare-mix constitutes a society of positive welfare to which 'individuals themselves and other agencies besides government contribute-and which is functional for wealth creation' (Giddens, 1998:117). It should be remembered however that in order for what the (welfare) state does to be legitimatised, the ways in which people perceive welfare (i.e. welfare society) must be thought through first (Robson, 1976:174).

The main features that sustained a claim to be a welfare society in Korea were its sustained growth and egalitarian income distributions. The basic premise of this claim was that household economies have the capacity to save and 'Confucian family welfare remains an



effective functional equivalent to welfare statism' (Esping-Andersen, 1996:23). Yet, as a unit that represents culture-embodiment social structure and that equally signifies family values of Confucian ethics, the pro-family arrangement (and the solidaristic family structure of welfare) which would encourage the traditional family values, the increasing financial capacities of private households and the self-help potential in social networks has lost its preconditions. There has been a continuous decline in total fertility rates, a mounting aged dependency ratio and decrease in the average number of household members. In a nutshell, there is ample evidence that long-term social trends make the potential for self-help in private or social networks appear much more likely to decline than to grow.

Alber (1998:467) argues that the arrival of a welfare society will not replace the welfare state because 'private means are sufficient only to supplement public provisions, not to substitute for them'. In Korea, as Jacobs (2000) argues, public expenditures on welfare are bound to rise. The level of protection will also grow much beyond the level of minimum subsistence. Given the structurally advantageous position to become potential vanguards in terms of stressing a 'social investment strategy' (Esping-Andersen, 1996:24), Korea might turn from its growth-oriented developmental state to the social investment state in the positive welfare society. As Giddens (1998:127-128) argues, this is the state that 'expenditure on welfare, understood as positive welfare, will be generated and distributed not whole through the state, but by the state working in combination with other agencies, including businesses. The welfare society here is not just the nation, but stretches above and below it'. By equating the idea of 'productivity' and 'social rights', Korea is in the stage of becoming the productive welfare state that no longer maintains the hierarchical nature of the relationship between economic and social policies but recognises that the dynamic of economic development is only manifested within pronounced articulation of social policy. Social policy can help the national economy to grow that in turn requires further social policy reforms. In this equation, a society of positive welfare is the value premise that constructs the productive welfare state. Here, politics will play a key role in attaining as well as maintaining this equation. Given this equation, it remains to be seen whether cumulative legacies and additions culminate in a further paradigm shift or in a restructuring of the stature of paradigms within social policy.



There also remain questions of global convergence in welfare states whereby productive welfare is to be the guiding light of what is also known as a 'new convergence thesis', or a 'second coming of the end of ideology thesis'. Different from the old convergence thesis that predicted the emergence and expansion of welfare state along similar patterns in different countries, this new convergence thesis foresees a convergence towards welfare state retrenchment that in turn brings about fusing the idea of productivity and social rights. For Western welfare states, this stage has followed many developmental stages from the birth of the welfare state, its consolidation and development, through its golden age, to the crisis of the welfare state. In Korea, this similar pattern of 'productive welfare state development' is not the procedural outcome that has undergone the identical stages of development to Western counterparts. There have been a few stages missing in the development of the welfare state in Korea. It is therefore interesting to see the ways in which productive welfare states are manifested in different context with different historical trajectories of social policy development. For this analysis too, it will be critical to examine the 'possibility of social policy' that gives due weight to the ways in which ideas pass through the screen of political opportunity and political possibility in shaping social policy.



# APPENDICES

## Appendix 1 Main Social Policy Legislation from 1960 to 1999

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Year	Legislation
1960	Pension Act for Civil Servants
1961	Law on Support Responsibility for Orphans in Residential Care
1961	Special Case Act for Adoption
1961	Veterans Compensation Act
1961	Prostitution Prohibition Act
1961	Children's Welfare Act
1961	Public Livelihood Protection Act
1962	Disaster Relief Act
1963	Pension Act for Military Personnel
1963	Social Security Related Law
1963	Industrial Accident Compensation Insurance Act
1963	Health Insurance Act
1963	Pharmaceutical Affairs Act
1968	Temporary Measurement Act for Self-Support Guidance Services
1970	Social Welfare Services Act
1973	Mothers' Health Act
1973	National Welfare Pension Act
1976	Health Insurance Amendment Act
1977	Pension Act for Private School Personnel
1977	Health Assistance Act
1977	Health Insurance Act for Civil Servants and Private School Personnel
1980	Act for Social Welfare Services Fund
1981	Children's Welfare Act
1981	Industrial Safety Health Act
1981	Welfare Act for the Elderly
1981	Welfare Act for the Disabled
1982	Livelihood Protection Amendment Act
1983	Social Welfare Services Amendment Act
1983	Livelihood Protection Amendment Act
1986	Minimum Wage Act
1986	National Pension Act
1986	Health Act for Mothers and their Children
1987	Industrial Accident Compensation Insurance Amendment Act
1990	Act for Employment Promotion of the Disabled
1991	Act for Welfare Fund within the Firm
1993	Employment Insurance Act
1994	Basic Act for Social Security
1998	National Pension Reform Act
1999	National Basic Livelihood Security Act
1999	Pharmaceutical Affairs Amendment Act

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## Appendix 2 Chronology of the Korean Political Party System

Politics	The Ruling Party	The Major Opposition Parties
The First Republic (August 1948 - April 1960)	The Liberal Party (December 1951 - May 1961)	The Korean Democratic Party (February 1949)
		The Democratic Party (September 1955)
The Second Republic (April 1960 - May 1961)		The Democratic Party (the new faction of the Democratic Party - May 1961)
		The New Democratic Party (the old faction of the Democratic Party) (February 1961 - May 1961)
The Military Junta (May 1961 - December 1963)	The Democratic Republican Party (May 1963 - October 1980)	
The Third and Fourth Republic (December 1963 - December 1979)		The Democratic Justice Party (DJP) (June 1963)
		The Democratic Party (DP) (August 1963)
		The People's Party (Amalgam of DJP and DP, May 1965)
The Pre-Fifth Republic (interim period) (October 1979 - March 1981)	The Democratic Justice Party (DJP) (January 1981)	The New Democratic Party (February 1967 - October 1980)
The Fifth Republic (March 1981 - February 1988)		The Democratic Korean Party (DKP) (January 1981)
		The New Korean Democratic Party (NKDP) (January 1985)
		The Reunification and Democratic Party (RDP)(May 1985)



Politics	The Ruling Party	The Major Opposition Parties
The Sixth Republic (February 1988 - February 1993)	The Democratic Liberal Party (UDP + NDRP + DJP) (February 1990)	<p>The Party for Peace and Democracy (PPD) (November 1987)</p> <p>The New Democratic Republican Party (NDRP) (October 1987)</p> <p>The New Democratic Coalition Party (NDCP) (April 1991)</p> <p>The Democratic Party (DP) (June 1990)</p> <p>The Democratic Party (DP) (September 1991) (NDCP + DP)</p>
The Seventh Republic (February 1993 - February 1998)	The New Korean Party (former DLP) (December 1995)	<p>The United Liberal Democrats (ULD) (March 1995)</p> <p>The National Congress for New Politics (NCNP) (September 1995)</p>
The Eighth Republic (February 1998 onwards)	The Millennium Democratic Party (MDP)	<p>The Grand National Party (GNP)</p> <p>The United Liberal Democrats (ULD) (March 1995)</p>



### Appendix 3 Union Membership and Industrial Disputes

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1957	-	-	572	-	-	-	-	242*	-
1958	-	-	634	-	-	-	-	249*	-
1959	-	-	547	-	-	-	-	280*	-
1960	-	-	-	-	-	-	-	-	-
1961	-	-	-	-	-	-	-	-	-
1962	-	-	-	-	-	-	-	-	-
1963	16	313	1,820	2,383	9.42	2.97	-	224,420	-
1964	16	341	2,105	2,363	11.49	3.53	47	271,579	-
1965	16	362	2,255	2,609	11.56	3.72	31	301,523	-
1966	16	359	2,359	2,780	12.12	4.04	35	336,974	-
1967	16	386	2,619	3,040	12.42	4.38	41	377,576	6
1968	16	385	2,732	3,400	12.14	4.56	35	412,906	-2
1969	16	417	2,939	3,547	12.54	4.79	32	444,783	-10
1970	17	419	3,063	3,746	12.63	4.92	28	473,259	-2
1971	17	446	3,061	2,923	12.67	5.00	24	497,221	6
1972	17	430	2,961	4,005	12.87	4.96	18	515,292	-
1973	17	403	2,865	4,153	13.20	5.00	33	548,054	-
1974	17	432	3,352	4,444	14.76	5.74	108	655,785	-
1975	17	488	3,585	4,751	15.79	6.42	94	750,235	-6
1976	17	517	3,854	5,140	16.45	6.81	96	845,630	-3
1977	17	538	4,042	5,714	16.71	7.45	110	954,727	9
1978	17	552	4,305	6,242	16.90	7.86	99	1,054,608	44
1979	17	553	4,394	6,479	16.79	8.00	33	1,088,061	3
1980	16	2,618	-	6,464	14.67	6.93	-140	948,134	101
1981	16	2,141	-	6,605	14.64	6.89	19	966,738	-20
1982	16	2,194	-	6,839	14.39	6.84	17	984,136	-98
1983	16	2,238	-	7,170	14.08	6.96	26	1,009,881	10
1984	16	2,365	-	7,631	13.24	7.00	1	1,010,522	16
1985	16	2,534	-	8,104	12.39	6.70	-7	1,004,398	151
1986	16	2,658	-	8,433	12.28	6.68	32	1,035,890	11
1987	16	4,086	-	9,191	13.79	7.75	231	1,267,457	3,341
1988	21	6,142	-	9,610	17.77	10.12	440	1,707,456	-1,744
1989	22	7,861	-	10,389	18.60	11.00	225	1,932,415	-257
1990	22	7,698	-	10,950	17.23	10.43	-45	1,886,884	-1,294
1991	22	7,656	-	11,405	15.81	9.66	-84	1,803,408	-88
1992	22	7,527	-	11,618	14.93	9.11	-68	1,734,598	1
1993	27	7,147	-	11,794	14.14	8.63	-68	1,667,373	-91
1994	27	7,025	-	12,325	13.46	8.33	-8	1,659,011	-23



(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1995	27	6,606	-	12,784	12.63	7.90	-44	1,614,800	-33
1996	27	6,424	-	13,065	12.24	7.68	-16	1,598,558	-3
1997	41	5,733	-	13,226	11.22	7.03	-115	1,484,194	-7
1998	43	5,560	-	12,191	11.50	7.01	-82	1,401,940	51
1999	45	5,637	-	12,522	11.82	7.30	79	1,480,666	69

Notes: According to the revised Trade Union Act on December 31 1980, previous branches and offices were upgraded to unit level trade unions; \* in thousands.

(1) Year.

(2) Union by industry.

(3) The number of trade unions (local chapters, unit union).

(4) Branch.

(5) Total number of employees (in thousands).

(6) The rate of unionisation calculated by (union membership ÷ total number of employees) × 100.

(7) The rate of unionisation calculated by (union membership ÷ total employed); the number of total employed is available in Appendix 12.

(8) The increase or decrease of the number of trade union members = union membership of current years - union membership of previous years.

(9) The Union Membership (Number of union members), see also Chapter 2, Figure 2.2.

(10) The increase or decrease of strikes and lock-outs, see also Chapter 2, Figure 2.2.

Sources: FKTU (1979) Table 6.1. in p.431 and Table 7.1 in p. 495; ILO (various years); MoL (1971 and various years from 1973 to 2000); NSO (1998b:98, 100, 1998e:211, 2000c:182,226).



**Appendix 4 The Structure of Social Policy in Korea (1998)**

Social Security Systems		Competent Ministries (Organisations)	Source of Fund	
1	2	Civil Servants	MoGAHA (CSPC)	Civil Servants and Gov't
		Military Personnel	MoND	Military Personnel and Gov't
		Private School Teachers	MoE (PSTPC)	Teachers, Gov't, and Schools
		National Pension	MoHW (NPC)	Employees and Employers
	3	Industrial Employees	MoHW (NFMI)	Employees and Employers
		Self-Employed	MoHW (NFMI)	Insured Persons and Gov't
		Civil Servants and Private School Teachers	MoHW (NHIC)	Civil Servants and Gov't; and Teachers, Gov't and Schools
	Industrial Accident	MoL	Employers	
	Employment	MoL (KWLC)	Employers and Employees	
	Social Assistance	Relief for the Livelihood Health Assistance	MoHW	Government
Disaster Relief		MoGAHA		
Grain Support for Disaster Relief		MoAF		
Veterans Programme		PVAA		
Training Programme for the Poor		MoL		
Public Housing		MoCT		
Educational Support		MoE		
Social Welfare Services	Senior Citizens Unfortunate Women Children in Need Handicapped Vagrants	MoHW	Government	
	Health Care for those in Correctional Institution	MoJ		



Social Security Systems		Competent Ministries (Organisations)	Source of Fund
Social Welfare Services	Health Care for Military Personnel	MoND	Government
	Employment Services	MoL (KMA, KEPAD)	
	Special Schools for the Disabled	MoE	

Notes: 1. Social Insurance; 2. Pension; 3. Health.

Abbreviations:

MoHW: Ministry of Health and Welfare

MoL: Ministry of Labour

MoJ: Ministry of Justice

MoAF: Ministry of Agriculture and Forestry

MoND: Ministry of National Defence

MoCT: Ministry of Construction and Transportation

KMA: Korea Manpower Agency

PVAA: Patriots and Veterans Administration Agency

KEPAD: Korea Employment Promotion Agency for the Disabled

MoGAHA: Ministry of Government Administration and Home Affairs

NTS: National Tax Service

CSPC: Civil Servants Pension Corporation

PSTPC: Private School Teachers Pension Corporation

NPC: National Pension Corporation

NFMI: National Federation of Medical Insurance

KWLC: Korea Welfare Labour Corporation

LPA: Livelihood Protection Act

HAA: Health Assistance Act

DRA: Disaster Relief Act



**Appendix 5 Results of Legislative Bills in the National Assembly of 1948 - 2000**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1 <sup>st</sup>	234	89	145	149	43	106	48.3	73.1
•		38.0	62.0	63.7	28.9	71.1		
2 <sup>nd</sup>	398	182	216	214	77	137	42.3	63.4
•		45.7	54.3	53.8	36.0	64.0		
3 <sup>rd</sup>	410	169	241	157	72	85	42.6	35.3
•		41.2	58.8	38.3	45.9	54.1		
4 <sup>th</sup>	322	120	202	75	31	44	25.8	21.8
•		37.3	62.7	32.3	41.3	58.7		
Sum.	1364	560	804	595	223	372	39.8	46.3
•		41.1	58.9		37.5	62.5		
5 <sup>th</sup>	280	121	159	59	20	39	16.5	24.5
•		43.2	56.8	21.1	33.9	66.1		
6 <sup>th</sup>	658	416	242	332	178	154	42.8	63.6
•		63.3	36.7	50.5	53.6	46.4		
7 <sup>th</sup>	535	244	291	357	123	234	50.4	80.4
•		45.6	54.4	66.7	34.5	65.5		
8 <sup>th</sup>	138	43	95	39	6	33	14.0	34.7
•		31.2	68.8	28.3	15.4	84.6		
Sum.	1611	824	787	787	327	460	39.7	58.4
•		51.1	48.9		41.6	58.4		
9 <sup>th</sup>	633	154	479	544	84	460	54.5	96.0
•		24.3	75.7	85.9	15.4	84.6		
10 <sup>th</sup>	129	5	124	100	3	97	60.0	78.2
•		3.9	96.1	77.5	3.0	97.0		
Sum.	762	159	603	644	87	557	54.7	92.4
•		20.9	79.1		13.5	86.5		
11 <sup>th</sup>	489	202	287	340	83	257	41.1	89.5
•		41.3	58.7	69.5	24.4	75.6		
12 <sup>th</sup>	379	211	168	222	66	156	31.3	92.9
•		55.7	44.3	58.5	29.7	70.3		
Sum.	868	413	455	562	149	413	36.1	90.8
•		47.6	52.4		26.5	73.5		



	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
13 <sup>th</sup>	938	570	368	492	171	321	30.0	87.2
•		60.8	39.2	52.5	34.8	65.2		
14 <sup>th</sup>	902	321	581	656	119	537	37.1	92.4
•		35.6	64.4	72.7	18.1	81.9		
Sum.	1,840	891	949	1,148	290	858	37.1	90.4
•		48.4	51.6		25.3	74.7		
15 <sup>th</sup>	1,951	1,144	807	1,120	561	659	49.0	81.7
•		58.6	41.4	57.4	50.1	58.8		
T. S.	8,412	4,007	4,405	6,017	1,648	3,321	41.1	75.4
•		47.6	52.4		27.4	55.2		

Notes:

The Constituent National Assembly: 31 May 1948 - 30 May 1950;

The 2<sup>nd</sup> National Assembly: 31 May 1950- 30 May 1954;

The 3<sup>rd</sup> National Assembly: 31 May 1954 - 30 May 1958;

The 4<sup>th</sup> National Assembly: 31 May 1958 - 28 July 1960;

The 5<sup>th</sup> National Assembly: 29 July 1960 - 16 May 1961;

The 6<sup>th</sup> National Assembly: 17 December 1963 - 30 June 1967;

The 7<sup>th</sup> National Assembly: 1 July 1967 - 30 June 1971;

The 8<sup>th</sup> National Assembly: 1 July 1971 - 17 October 1972;

The 9<sup>th</sup> National Assembly: 12 March 1973 - 11 March 1979;

The 10<sup>th</sup> National Assembly: 12 March 1979 - 27 October 1980;

The 11<sup>th</sup> National Assembly: 11 April 1981 - 10 April 1985;

The 12<sup>th</sup> National Assembly: 11 April 1985 - 29 May 1988;

The 13<sup>th</sup> National Assembly: 30 May 1988 - 29 May 1992;

The 14<sup>th</sup> National Assembly: 30 May 1992 - 29 May 1996;

The 15<sup>th</sup> National Assembly: 30 May 1996 - 29 May 2000.

• : Percentage of legislative bills in each category.

(1) The number of total legislative bills.

(2) The number of legislative bills initiated by National Assemblymen.

(3) The number of legislative bills submitted by the government.

(4) The number of total approved legislative bills.

(5) The number of legislative bills amongst (2) category.

(6) The number of legislative bills amongst (3) category.

(7) Passage rate of legislative bills initiated by National Assemblymen (5) ÷ (2).

(8) Passage rate of legislative bills submitted by the government (6) ÷ (3).

Sources: SoNA (1950:98, 134, 1971:46, 1972:63, 1975:73,92, 1979:68, 1980:53, 1982:113, 1985:97, 1986:70, 1988:93, 1992:144, 1997:171,173, 2000:227, 230, 382).



## Appendix 6 The Number of People covered by the Public Assistance Programme

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup> Category		% of Total Pop. <sup>1</sup>	% of Total Pop. <sup>2</sup>
				Class I	Class II		
1971	283,000	67,501	957,859	-	-	3.98	-
1972	283,000	60,702	824,138	-	-	3.49	-
1973	283,000	56,177	765,651	-	-	3.24	-
1974	283,000	55,491	706,015	-	-	3.01	-
1975	330,000	55,838	903,872	-	-	3.66	-
1976	330,987	54,151	1,631,561	-	-	4.70	-
1977	318,204	52,476	1,726,968	369,204	1,726,047	5.76	5.75
1978	289,013	50,200	1,654,622	440,725	1,654,526	5.39	5.67
1979	318,204	47,287	1,623,898	510,447	1,623,675	5.30	5.69
1980	282,000	47,000	1,500,056	641,732	1,499,958	4.80	5.62
1981	282,000	47,000	1,760,519	642,434	3,085,451	5.40	9.63
1982	282,000	52,300	3,085,566	642,434	3,086,000	8.70	9.48
1983	282,000	55,605	2,616,335	642,434	3,085,566	7.40	9.34
1984	282,000	59,558	2,214,101	642,434	2,616,335	6.32	8.07
1985	282,000	63,150	1,928,000	642,434	2,616,335	5.57	7.99
1986	283,650	70,900	1,819,000	643,000	1,819,000 (1,924,000)	5.27	5.97 (10.64)*
1987	295,000	74,650	1,984,000	650,000	1,984,000 (1,752,000)	5.65	6.33 (10.54)*
1988	318,294	65,020	1,916,757	648,243	1,916,757 (1,725,000)	5.47	6.10 (10.20)*
1989	340,595	79,000	1,932,935	677,000	1,844,000 (1,725,000)	5.54	5.94 (10.00)*
1990	339,423	81,383	1,835,385	695,000	1,958,920 (1,276,469)	5.26	6.19 (9.17)*
1991	338,168	81,556	1,826,421	692,260	1,826,421 (360,003)	5.19	5.82 (6.65)*
1992	338,168	83,279	1,755,000	692,260	1,755,000 (240,000)	4.97	5.59 (6.14)*



	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>		% of Total Pop. <sup>1</sup>	% of Total Pop. <sup>2</sup>
				Class I	Class II		
1993	338,168	82,875	1,580,000	666,000	1,580,000 (120,000)	4.53	5.08 (5.35)*
1994	320,414	81,448	1,501,000	634,843	1,501,000	4.26	4.78
1995	307,401	77,671	1,369,832	619,753	1,369,832	3.89	4.41
1996	295,767	76,001	1,134,242	606,181	1,134,242	3.31	3.82
1997	296,988	76,769	1,039,908	602,217	1,039,908	3.07	3.57
1998	300,902	76,265	798,020	648,461	674,235	2.53	2.85
1999	330,745	78,422	766,020	742,844	893,785	2.51 (3.72) <sup>3</sup>	3.49

Notes: 1. Percentage of beneficiary (1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> categories) to total population; 2. Percentage of beneficiary (4<sup>th</sup> category) to total population; 3. when temporary livelihood protection is included (1,745,187+46,858,463); Figures in parentheses refers to medical protection. The first category is subsidised 100 per cent, the second, 50 per cent, and the third (medical protection), 33-66 per cent from the government expenditure. The medical protection scheme was only in operation from 1986 to 1993; Under the 2<sup>nd</sup> Category, those accommodated in national and public institutes are excluded: \* percentage of beneficiaries including those under medical protection to the total population.

Sources: MoHSA (1980:42, 43, 150, 151, 1984:178, 179, 180, 1988:175,220-223, 1990:173, 210-213); MoHW (1996:170, 240-243, 1999b: 263, 280, 281, 2000a: 263); NSO (1999b).



**Appendix 7 Industrial Accident, 1964-1999**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1964	7,698	9,323	64	-	81,798	123,123	1,489
1965	8,112	-	289	-	161,150	-	9,470
1966	8,325	10,433	594	563,016	222,456	-	13,096
1967	8,624	-	1,142	-	336,159	-	18,207
1968	9,061	-	2,389	-	488,628	-	22,959
1969	9,285	-	3,696	-	683,377	-	31,705
1970	9,617	15,469	5,583	1,084,063	779,053	35,389	37,752
1971	9,946	25,367	7,799	1,251,503	833,441	42,090	44,545
1972	10,379	25,714	9,375	1,222,962	987,856	45,673	46,603
1973	10,942	26,870	13,924	1,485,854	1,166,650	58,485	59,367
1974	11,421	21,528	17,551	1,606,045	1,353,167	70,864	72,000
1975	11,692	17,108	21,369	1,513,337	1,836,209	79,819	80,570
1976	12,412	43,416	28,445	2,158,064	2,269,796	94,847	95,289
1977	12,812	54,806	38,829	2,846,340	2,646,542	117,077	118,011
1978	13,412	62,217	49,957	3,105,320	3,105,757	138,182	139,242
1979	13,602	68,785	55,763	3,345,904	3,607,595	128,457	130,307
1980	13,683	74,090	63,100	3,219,442	3,752,975	112,111	113,375
1981	14,023	72,070	59,029	3,139,272	3,456,746	116,698	117,938
1982	14,379	81,136	54,159	3,383,651	3,464,977	136,952	167,816
1983	14,505	92,093	60,213	3,642,170	3,941,152	157,985	156,972
1984	14,429	100,061	64,704	4,022,696	4,384,589	156,479	159,306
1985	14,970	103,747	66,803	4,106,845	4,495,185	140,218	141,809
1986	15,505	107,412	70,865	4,461,250	4,749,342	140,404	142,088
1987	16,354	110,316	83,536	4,795,346	5,356,546	141,495	142,596
1988	16,869	116,728	101,445	5,127,972	5,743,970	141,517	142,329
1989	17,560	123,618	118,894	5,273,169	6,687,821	128,138	134,127
1990	18,085	128,668	129,687	5,365,613	7,542,752	126,966	132,893
1991	18,677	137,001	146,284	5,460,794	7,922,704	125,755	128,169



	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1992	19,033	147,915	154,820	5,882,773	7,058,704	105,330	107,435
1993	19,328	153,554	163,152	5,733,837	6,942,527	88,817	90,288
1994	19,905	167,403	182,871	6,085,354	7,273,132	84,480	85,948
1995	20,432	178,051	186,021	6,167,596	7,893,727	76,388	78,034
1996	20,817	186,903	210,226	6,236,261	8,156,894	70,188	71,548
1997	21,106	202,095	227,564	6,342,071	8,236,641	65,732	66,770
1998	19,994	199,272	215,539	5,785,664	7,582,479	50,561	51,514
1999	20,281	-	249,405	-	7,441,160	54,534	55,405

Notes:

The expansion of coverage: workplaces with 500 employees and more in 1964; 200 and more in 1965; 150 and more in 1966; 100 and more in 1967; 50 and more in 1968; 30 and more in 1972; 16 and more in 1973; workplaces of mining, five special areas of manufacturing industry such as chemical, oil, coal, rubber, and plastic with 5 employees and more in 1976; 10 and more in 1982; since 1986, gradually workplaces with 5 employees and more in different types of occupation have been included.

(1) Total employed persons (in thousands): According to the National Statistical Office, Republic of Korea, as well as, ILO, 'employed persons' include those who work more than 1 hour a week in order to gain income during the survey period (in the case of unpaid family workers, 18 hours), and those who are in employment but temporarily out of work due partly to vacation, temporary disease, labour disputes and other reasons (NSO, 1998a: 582).

(2) Total establishments: establishment employing 10 workers and over until 1975, 5 workers and over after 1976.

(3) Number of workplaces covered by the Industrial Accident Insurance Programme: Analysis on Industrial Accidents.

(4) Total number of workers in establishment employing 10 workers and over until 1975, 5 workers and over after 1976.

(5) Number of workers covered by the Industrial Accident Insurance Programme.

(6) Number of accidents.

(7) Number of victims (number affected by accident); in the case of (6) and (7) agriculture, forestry and fishing industries were added since 1991.

Sources: MoL (1971:224, 230, 1973:280, 281, 1982:326, 1983:345, 1990b: 27, 1991:385, 1998:17, 1999a, 1999b: 394, 395, 410, 2000b: 222); NSO (1998a: 166, 1999b, 2000b: 42, 2000c: 182); OLA (1964:2-5, 1966:34).



## Appendix 8 Coverage of the National Health Insurance Programme 1977 - 1999

	(1)	(2)	(3)	(3-1)	(4)	(5)	(6)	(7)
1977	3,140 (59.30)	-	-	-	-	60 (1.13)	3,200 (60.43)	2,095 (39.57)
1978	3,820 (63.96)	-	-	-	-	58 (0.97)	3,878 (64.93)	2,095 (35.07)
1979	4,852 (48.08)	3,044 (30.17)	-	-	-	61 (0.60)	7,957 (78.85)	2,134 (21.15)
1980	5,381 (47.34)	3,780 (33.25)	-	-	-	65 (0.57)	9,226 (81.16)	2,142 (18.84)
1981	7,241 (47.56)	3,977 (26.12)	182 (1.19)	-	24 (0.16)	73 (0.48)	11,497 (75.51)	3,728 (24.49)
1982	8,998 (51.33)	3,924 (22.38)	310 (1.77)	125 (0.71)	324 (1.85)	122 (0.69)	13,803 (78.73)	3,728 (21.27)
1983	10,572 (54.48)	4,010 (20.66)	298 (1.54)	114 (0.59)	513 (2.64)	171 (0.88)	15,678 (80.79)	3,728 (19.21)
1984	11,646 (57.02)	4,095 (20.05)	285 (1.40)	106 (0.52)	820 (4.01)	213 (1.04)	17,165 (84.04)	3,259 (15.96)
1985	12,215 (57.47)	4,210 (19.81)	274 (1.29)	101 (0.48)	954 (4.49)	241 (1.13)	17,995 (84.67)	3,259 (15.33)
1986	13,294 (55.98)	4,329 (18.23)	241 (1.02)	98 (0.41)	1,130 (4.76)	269 (1.13)	19,361 (81.53)	4,386 (18.47)
1987	14,971 (58.38)	4,364 (17.02)	227 (0.89)	89 (0.35)	1,320 (5.15)	286 (1.11)	21,257 (82.90)	4,386 (17.10)
1988	16,269 (49.01)	4,508 (13.58)	6,654 (20.05)	123 (0.37)	1,082 (3.26)	270 (0.81)	28,906 (87.08)	4,290 (12.92)
1989	16,511 (37.38)	4,471 (10.12)	6,361 (14.40)	12,579 (28.48)	-	-	39,922 (90.38)	4,246 (9.62)
1990	16,155 (36.62)	4,603 (10.44)	6,180 (14.01)	13,242 (30.02)	-	-	40,180 (91.09)	3,930 (8.91)
1991	16,241 (37.18)	4,616 (10.57)	5,739 (13.14)	14,203 (32.52)	-	-	40,799 (93.41)	2,879 (6.59)
1992	16,140 (36.67)	4,662 (10.59)	5,548 (12.61)	14,979 (34.03)	-	-	41,329 (93.90)	2,687 (6.10)
1993	16,166 (36.26)	4,729 (10.61)	5,584 (12.52)	15,738 (35.30)	-	-	42,217 (94.69)	2,366 (5.31)



	(1)	(2)	(3)	(3-1)	(4)	(5)	(6)	(7)
1994	16,416 (36.16)	4,784 (10.54)	5,571 (12.27)	16,487 (36.32)	-	-	43,258 (95.29)	2,136 (4.71)
1995	16,744 (36.39)	4,815 (10.46)	3,877 (8.43)	18,580 (40.39)	-	-	44,016 (95.67)	1,990 (4.33)
1996	17,035 (36.76)	4,881 (10.53)	3,419 (7.38)	19,269 (41.58)	-	-	44,604 (96.25)	1,740 (3.75)
1997	17,101 (36.72)	4,938 (10.60)	3,477 (7.47)	19,409 (41.68)	-	-	44,925 (96.47)	1,642 (3.53)
1998	15,853 (34.62)	4,954 (10.82)	3,387 (7.39)	20,278 (44.28)	-	-	44,472 (97.11)	1,323 (2.89)
1999	16,857 (36.00)	4,860 (10.38)	23,467 (50.12)		-	-	45,184 (96.50)	1,637 (3.50)

Notes:

Unit: In thousands, per cent.

(1) Industrial workers.

(2) Government employees and private school teachers

(3) Regional members (for rural residents; (3-1) regional members (for urban self-employed)).

(4) Occupational members.

(5) Voluntary regional members.

(6) Coverage of health insurance.

(7) Coverage of health assistance; coverage of (1)-(7) refers to as percentage of the sum of (6) and (7).

The occupational members and voluntary regional members were integrated with the regional members in 1989.

Before 1988, the regional members' health funds were still experimental projects.

(2) and (3) are under the management of the National Health Insurance Corporation.

Since 1 October 1998, (2), (3) and (3-1) have been integrated into national health insurance.

Sources: KMIC (1990:33); MoHW (1999b, 1999c, 2000a, 2000b); NHIC (1999:36, 37).



## Appendix 9 An Overview of Principles: The National Pension Programme

	The National Welfare Pension Act of 1973	The National Pension Act of 1986	The National Pension Reform Act of 1998
(1)	One tier system: equalised part + earnings-related part		
	Citizens aged 18-60 except for those covered by particular occupational pensions;		The entire population including the self-employed in both rural and urban areas except for the particular occupation pension participants and their spouse with no income; those aged 18-23 with no income such as students and soldiers; those under class 1 and 2 categories of public assistance
(2)	Class 1 (compulsory) - those in workplaces with more than 30 employees; class 2 (voluntary) - those in agriculture and fishery sectors, and the self-employed	Class 1 (workplaces participants): class 1-1 (compulsory) participants in workplaces with more than 10 employees; class 1-2 (voluntary) participants in workplaces with less than 10 employees; Class 2 (regional participants) class 2-1(compulsory) those with the state-authorised certificate (e.g. doctors, lawyers etc.); class 2-2 (voluntary) - the rest of the population	
(3)	MoHSA, NTS	MoHSA, NPC	MoHW, NPC
(4)	Partial or full costs of administration Those in class 1 and whose monthly income is less than 15,000 is supported by 1 per cent The contributions are tax-free	The full support of the NPC's administrative costs The exemption of the income tax for the participants The contributions are tax free	Administrative costs of the NPC. One third (2,200won) of the contributions for those in rural areas until 2010.
(5)	Incomplete Funded Scheme		
(6)	Class 1: percentage of their standard monthly income <ul style="list-style-type: none"> <li>• Employers: 3 - 4 %</li> <li>• Employees: 2 - 3 %</li> <li>• Total: 5 - 7 %</li> </ul> Class 2: monthly fixed rate (900 won), self-contribution	Class 1 (those in workplaces): percentage of their standard monthly income <ul style="list-style-type: none"> <li>• Employees and employers: 1.5 (1988-1992); 2.0 (1993-1997); 3.0 (1998); 4.5 (1999 onwards) each</li> <li>• Retirement funds reserved within companies 2.0 (1993-1997); 3.0 (1998)</li> <li>• Total: 3.0 (1988-1992); 6.0 (1993-1997); 9.0 (1998 onwards)</li> </ul> Class 2: 3.0 (1988-1992); 6.0 (1993-1997); 9.0 (1998 onwards)	Retirement funds reserved within companies are abolished 9 % of the standard monthly income is applied until 2009 but it will increase 10.85 (2010-2014) 12.65 (2015-2019) 14.45 (2020-2024) 16.25 (2025 onwards)
(7)	60		



	The National Welfare Pension Act of 1973	The National Pension Act of 1986	The National Pension Reform Act of 1998
(8)		20	10
(9)	45 % of the basic pension	70 % of average income decile groups	60 % of average income decile groups

Notes:

(1) Image of system.

(2) Coverage.

(3) Organisations.

(4) Government subsidies.

(5) Financing.

(6) Contribution rate (pay roll tax rate shared equally by both employees and employers in the case of those in workplaces) In the case of the self employed in both rural and urban areas, the contribution rate was scheduled to increase by 3 per cent in every 5 years maintaining 3 per cent until June 2000 when it reaches 9 per cent in 2010 but according to the Reform Act it maintains 3 per cent until June 2000 and from July it starts from 4 per cent and increases by 1 per cent every year until it becomes 9 per cent in July 2005.

(7) Age of first award; but in the case of 1998 reform, the minimum age of the first award will increase by 1 year in every 5 years from the year 2013.

(8) Minimum period of contributions.

(7) and (8) are only applied to the full old-age pension.

(9) Average gross replacement rate.



## Appendix 10 Type of Benefit and Eligibility in the National Pension Programme in 1999

Eligibility rules			Level of benefit
The compulsory participation period	The eligibility begins from the age of:		
1	20 years or more	60; but 55 for miners and sailors	100 % of BPA+APA
2	10 - 19 years	60; but 55 for miners and sailors	47.5 % - 92.5 % of BPA +APA
3	20 years or more	60 to 64; but 55 for miners and sailors	Varies from 50 % of 47.5% of BPA to 90 % of 92.5 % of BPA
4	10 years or more	55 to 59	75% of 47.5% of BPA+APA
5	5 years or more	60 (or from 45 to 59 as of the year of the programme implementation 1988 or 1995); from 50 to 59 as of 1 April 1999	25 - 70 % of BPA + APA
6	Those who become disabled during the period of insurance	A degree of disability; 1 to 4; is decided two years after the first treatment	1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> degree: 100, 80 and 60 % of BPA+APA respectively 4 <sup>th</sup> degree: lump-sum payment (2.25 × BPA)
7	Paid to survivors of (a) the insured who had died; (b) the insured who had been insured for 10 years or more; (c) the insured who had been entitled to the old-age pension or the disability pension of the 2 <sup>nd</sup> or higher degree		Less than 10 years: 40% of BPA+APA 10 to 19 years: 50% of BPA+APA 20 years or more: 60% of BPA+APA
8	Paid to survivors of (a) the insured who had died at the age of 60 or more; (b) the insured who had been insured for less than 10 years; (c) the insured who had been insured for less than 10 years and had lost his/her nationality or emigrated from Korea		Contributions + legally fixed interest
9	Paid to relatives of the deceased whose eligibility for the survivors pension or the lump-sum refund is not valid		Equivalent to the lump-sum refund within four times as much as the insured's standard monthly income
10	Paid to those who have been qualified for disability pension and their invalidity is the 4 <sup>th</sup> degree		225% of BPA



Notes:

Old age pensions (1) - (5)

- (1) Full old-age pension.
- (2) Reduced old-age pension.
- (3) Old-age pension for those at paid work.
- (4) Early old-age pension for those without income.
- (5) Special old-age pension
- (6) Disability pension.
- (7) Survivors pension.
- (8) Lump-sum refund.
- (9) Lump-sum death payment.
- (10) Lump-sum disability compensation.

BPA stands for Basic Pension Amount which comprises the average amount of the Standard Monthly Income of all who are insured and the average amount of Standard Monthly Income of an individual insured.

APA stands for Additional Pension Amount which is similar to family allowances, covering dependants of an insured such as spouse, children (within two) aged less than 18 or with disability of the 2<sup>nd</sup> degree or higher, and parents (including spouse's parents) aged 60 or more or with disability of the 2<sup>nd</sup> degree or higher.

Source: MoHW (2000b: 487).



**Appendix 11 Exports, Imports and Amount of L/C (Letter of Credit) arrivals**

(Unit: Million US \$)

	Total Exports	(1)	Total Imports	(2)	Excess of Exports and Imports	L/C arrivals	
						Total	Increase Rate
1965	175.1	-	463.4	-	-288.3	-	-
1966	250.3	42.9	716.4	54.6	-466.1	-	-
1967	320.2	27.9	996.2	39.1	-676.0	389.6	45.4
1968	455.4	29.7	1,462.9	46.8	-1,007.5	497.1	27.6
1969	622.5	36.7	1,823.6	24.7	-1,201.1	682.2	37.2
1970	835.2	34.2	1,984.0	8.8	-1,148.8	948.3	39.0
1971	1,067.6	27.8	2,394.3	20.7	-1,326.7	1,273.0	34.2
1972	1,624.1	52.1	2,522.0	5.3	-897.9	1,935.8	52.1
1973	3,225.0	98.6	4,240.3	68.1	-1,015.3	3,911.8	102.1
1974	4,460.4	38.3	6,851.8	61.6	-2,391.5	4,391.5	12.3
1975	5,081.0	13.9	7,274.4	6.2	-2,193.4	5,437.5	23.8
1976	7,715.3	51.8	8,773.6	20.6	-1,058.3	7,957.8	46.4
1977	10,046.5	30.2	10,810.5	23.2	-764.1	9,527.4	19.7
1978	12,710.6	26.4	14,971.9	38.5	-2,261.3	11,594.8	21.7
1979	15,055.5	18.5	20,338.6	35.8	-5,283.2	12,731.7	9.8
1980	17,504.9	16.3	22,291.7	9.6	-4,786.8	15,836.4	24.4
1981	21,253.8	21.4	26,131.4	17.2	-4,877.7	17,896.1	13.0
1982	21,853.4	2.8	24,250.8	-7.2	-2397.4	16,096.1	-10.1
1983	24,445.1	11.9	26,192.2	8.0	-1747.2	17,581.7	9.2
1984	29,244.9	19.6	30,631.4	16.9	-1,386.6	19,383.9	10.3
1985	30,283.1	3.6	31,135.7	3.3	-852.5	19,558.2	0.9
1986	34,714.5	14.6	31,583.9	1.4	3,130.6	25,358.9	29.7
1987	47,280.9	36.2	41,019.8	29.9	6,261.1	34,784.7	37.2
1988	60,696.4	28.4	51,810.6	26.3	8,885.8	42,786.9	23.0
1989	62,377.2	2.8	61,464.8	18.6	912.4	45,533.8	6.4



	Total Exports	(1)	Total Imports	(2)	Excess of Exports and Imports	L/C arrivals	
						Total	Increase Rate
1990	65,015.7	4.2	69,843.7	13.6	-4,827.9	47,519.7	4.4
1991	71,870.1	10.5	81,524.9	16.7	-9,654.7	50,005.1	5.2
1992	76,631.5	6.6	81,775.3	0.3	-5,143.7	52,352.3	4.7
1993	82,235.9	7.3	83,800.1	2.5	-1,564.3	55,594.7	6.2
1994	96,013.2	16.8	102,348.2	22.1	-6,334.9	64,314.1	15.7
1995	125,058.0	30.3	135,118.9	32.0	-10,060.9	72,926.3	13.4
1996	129,715.1	3.7	150,339.1	11.3	-20,624.0	69,732.7	-4.4
1997	136,164.2	5.0	144,616.4	3.8	-8,452.2	67,615.4	-3.0
1998	132,313.1	-2.8	93,281.8	-35.5	39,031.3	57,455.9	-15.0
1999	143,685.5	8.6	119,752.3	28.4	23,933.2	-	-

Notes:

Letter of Credit: A document authorising a bank to pay the bearer a specified sum of money, it provides a useful means of settlement for a foreign trade transaction, the purchaser establishing a credit in favour of his creditor at a bank. Payment by means of a Letter of Credit involves action between two banks, one in the importer's country and one in the exporter's country, and has an advantage over a foreign bill of exchange, the acceptor of which may be unknown in the exporter's country.

(1) Growth rate of exports (%) = calculated by  $\{(a \text{ total amount of exports in a specific year} - a \text{ total amount of exports in a previous year}) \div a \text{ total amount of exports in a previous year}\} \times 100$ ;

(2) Growth rate of imports (%) =  $\{(a \text{ total amount of imports in a specific year} - a \text{ total amount of imports in a previous year}) \div a \text{ total amount of imports in a previous year}\} \times 100$ .

Sources: NSO (1999a), MoL (2000b: 2-3).



## Appendix 12 The Change of Industrial Structure (1957-1999)

	Total Employed Persons <sup>1</sup>	Primary Industries <sup>2</sup>	Secondary Industries <sup>2</sup>	Tertiary Industries <sup>2</sup>
1957	7,874	76.8	2.0	21.2
1963	7,662	63.1	8.7	28.2
1965	-	58.7	10.3	31.0
1967	-	55.2	12.8	32.0
1968	9,155	52.4	14.0	33.6
1969	-	51.3	14.3	34.4
1970	9,745	50.5	14.3	35.2
1972	10,559	50.6	14.2	35.2
1973	11,139	50.0	16.3	33.7
1976	12,412	44.4	21.8	33.8
1977	12,812	41.7	22.4	35.9
1978	13,412	38.4	23.1	38.5
1979	13,602	35.8	23.6	40.6
1980	13,683	34.0	22.5	43.5
1981	14,023	34.2	21.3	44.5
1982	14,379	21.1	21.9	46.1
1983	14,505	29.7	23.3	47.0
1984	14,429	27.1	24.2	48.7
1985	14,970	24.9	24.4	50.6
1986	15,505	23.6	25.9	50.5
1987	16,354	21.9	28.1	50.0
1988	16,869	20.6	28.5	50.9
1989	17,560	19.6	28.3	52.1
1990	18,677	17.9	27.6	54.5
1991	19,033	16.5	27.2	56.3
1992	19,328	15.8	25.9	58.4
1993	19,905	14.7	24.5	60.8
1994	20,432	13.7	23.9	62.4
1995	20,817	12.4	23.6	64.0
1996	21,106	11.7	22.6	65.7
1997	21,048	11.3	21.4	67.3
1998	19,994	12.4	19.6	68.0
1999	20,281	11.6	19.9	68.6

Notes: 1. Thousands; 2. Percent; Primary Industries refer to agriculture, forestry and fisheries; Secondary Industries refer to mining and manufacturing; Tertiary Industries refer to service and others.

Sources: Choi, Jang-Jip (1989:44); Lee, Sang-Young (1997); NSO (1998a: 163, 1999c:175, 2000c:179).



### Appendix 13 Foreign Direct Investment by Country (Notification cases) 1977-1999

(Unit: per cent / thousand US dollars)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1977	23.39	47.99	4.93	0.63	5.67	4.46	1.30	1.49	10.14	83,626
1978	26.26	50.86	2.28	4.55	1.78	2.29	-	6.84	5.14	149,426
1979	24.41	54.62	2.74	2.73	4.16	0.57	1.31	2.43	7.03	191,300
1980	49.34	29.71	0.35	6.00	1.60	-	1.25	1.49	10.26	143,136
1981	38.88	24.62	22.11	2.29	-	0.73	0.86	8.26	2.25	153,161
1982	53.45	21.31	14.35	2.07	0.93	-	2.71	1.70	3.48	189,026
1983	20.09	62.41	2.56	0.93	0.29	0.58	3.53	2.18	7.43	269,424
1984	45.77	39.04	0.99	0.86	0.97	5.25	-	4.35	2.77	422,346
1985	20.29	68.44	2.53	2.12	2.31	0.95	0.09	1.31	1.96	532,197
1986	35.27	39.09	3.61	1.63	4.34	0.06	1.23	8.88	5.89	354,736
1987	23.99	46.45	4.32	3.90	4.55	1.06	4.31	5.23	6.19	1,063,327
1988	22.15	54.23	1.08	5.77	1.70	3.69	3.81	1.90	5.67	1,283,757
1989	30.16	43.33	3.15	4.04	4.23	3.61	1.79	4.29	6.40	1,090,279
1990	39.59	29.35	0.37	7.77	5.59	2.80	4.52	2.36	7.65	802,635
1991	21.25	16.18	0.70	4.87	1.35	2.06	42.94	5.32	5.33	1,395,996
1992	42.39	17.35	1.07	13.47	2.65	3.26	4.89	4.10	10.82	894,476
1993	32.62	27.38	7.18	3.44	6.78	3.80	12.57	0.68	5.55	1,044,274
1994	23.62	32.54	3.28	4.57	1.90	4.28	5.11	0.83	23.87	1,316,505
1995	33.22	21.55	2.98	2.30	4.47	1.81	8.76	0.51	24.40	1,941,423
1996	27.35	7.95	7.14	2.96	2.47	2.82	6.40	5.06	37.85	3,202,646
1997	45.76	3.81	1.21	5.71	3.71	5.89	11.92	1.48	20.51	6,970,915
1998	33.60	5.70	0.43	8.89	0.68	4.15	14.94	0.86	30.75	8,852,356
1999	17.57	4.86	5.45	8.41	2.04	5.52	30.52	1.98	23.65	6,542,891

Notes: 1999 figures are added up from January to June only; (1) The United States; (2) Japan; (3) Hong Kong; (4) Germany; (5) The United Kingdom; (6) France; (7) The Netherlands; (8) Switzerland; (9) Others; (10) Total 100 per cent (thousand US \$).

Source: Reconstructed Table, Calculated from NSO (1999a).



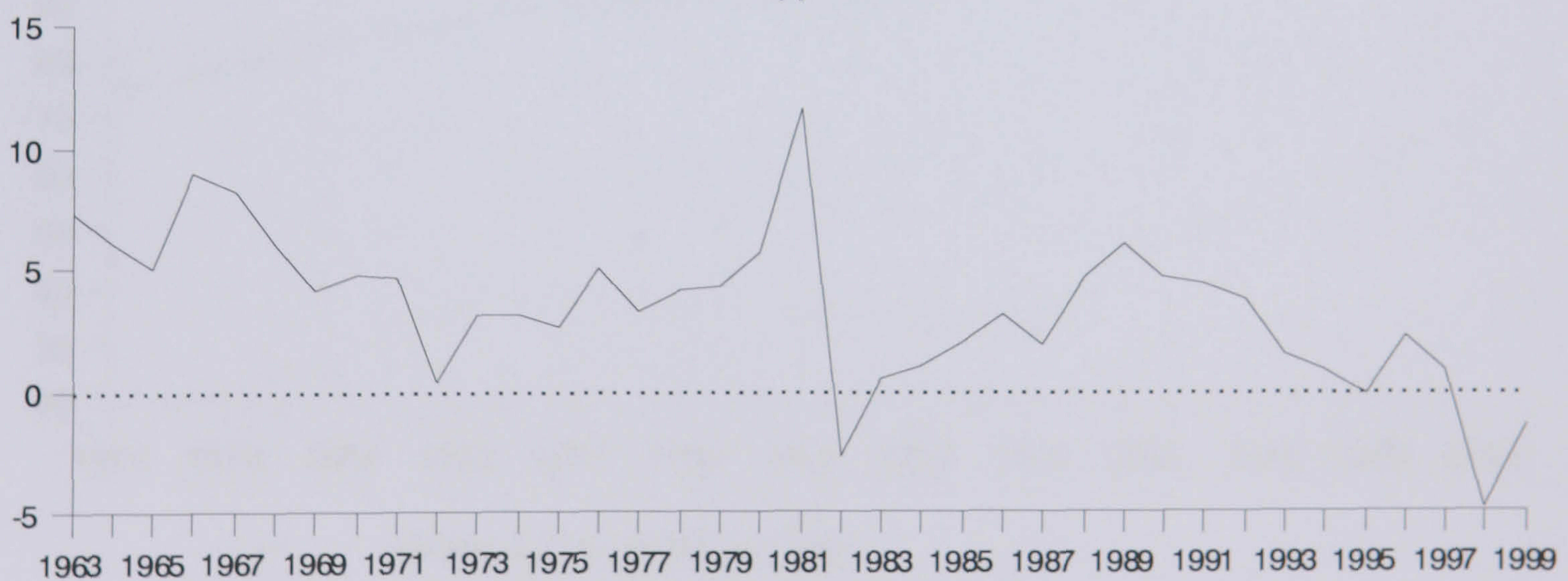
## Appendix 14 Increase of Government Employees (in person; per cent)

Year	Increase in Number	Percentage increase	Year	Increase in Number	Percentage Increase
1962	-	-	1981	69,464	11.6
1963	18,539	7.3	1982	-18,044	-2.7
1964	16,509	6.1	1983	3,063	0.5
1965	17,082	5.0	1984	6,300	1.0
1966	27,372	9.0	1985	13,423	2.0
1967	27,267	8.2	1986	21,033	3.1
1968	21,963	6.1	1987	13,383	1.9
1969	16,132	4.2	1988	32,172	4.6
1970	19,298	4.8	1989	44,121	6.0
1971	19,288	4.6	1990	36,775	4.7
1972	1,937	0.4	1991	35,961	4.4
1973	13,481	3.1	1992	32,097	3.8
1974	14,390	3.2	1993	13,647	1.5
1975	12,118	2.6	1994	7,772	0.9
1976	24,140	5.0	1995	-2,208	-0.2
1977	16,408	3.3	1996	20,404	2.3
1978	21,548	4.2	1997	8,453	0.9
1979	23,400	4.3	1998	-45,766	-4.9
1980	32,373	5.7	1999	-12,809	-1.4

Sources: MoGAHA (various years); KIPA (2000).

### Percentage Increase of Government Employees

Source: Appendix 14



— Percentage Increase of Government Employees (Authorised)



### Appendix 15 Advance Rate of Graduates to Higher School Level (per cent)

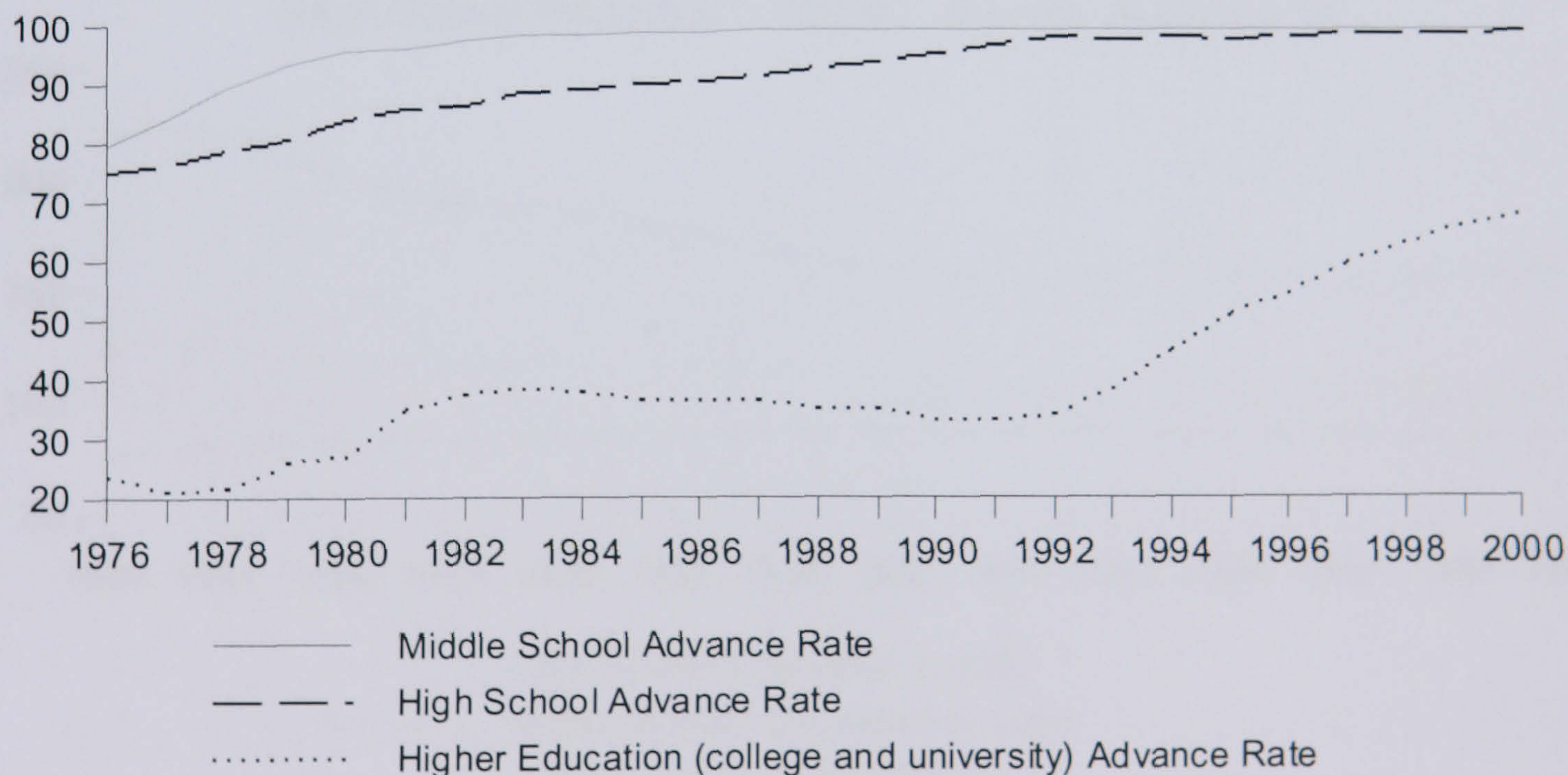
Year	Middle School	High School	Higher Education	Year	Middle School	High School	Higher Education
1976	79.5	75.5	23.8	1989	99.7	94.6	35.2
1977	84.5	76.8	21.4	1990	99.8	95.7	33.2
1978	89.7	79.3	22.0	1991	99.8	97.5	33.2
1979	93.4	81.0	25.9	1992	99.9	98.6	34.3
1980	95.8	84.5	27.2	1993	99.9	98.2	38.4
1981	96.5	86.5	35.3	1994	99.9	98.8	45.3
1982	97.7	86.9	37.7	1995	99.9	98.5	51.4
1983	98.6	89.4	38.3	1996	99.9	98.9	54.9
1984	98.8	89.7	37.8	1997	99.9	99.4	60.1
1985	99.2	90.7	36.4	1998	99.9	99.4	63.5
1986	99.4	91.2	36.4	1999	99.9	99.4	66.6
1987	99.5	91.9	36.7	2000	99.9	99.5	68.0
1988	99.5	93.5	35.0				

Note: higher education includes junior (2 year) college, university of education.

Sources: NSO (1998a: 223, 2000c: 237).

### Advance Rate of Graduates to Higher Education (%)

Source: Appendix 15





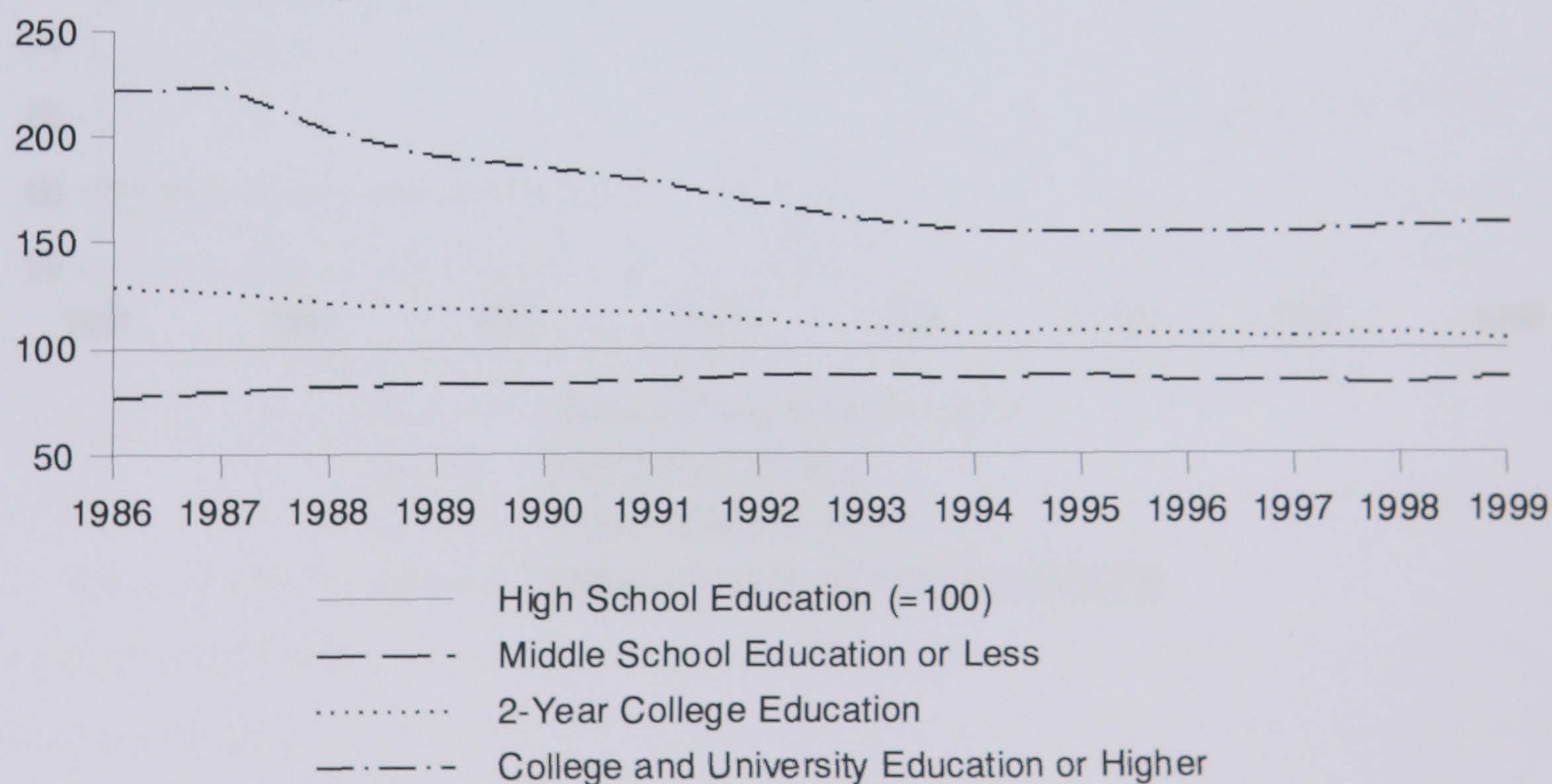
## Appendix 16 Wage Levels by Educational Attainment (In won; per cent)

Year	Middle School Education or less	High School Education (100.0)	2-Year College Education	College and University Education or Higher				
1986	250,968	77.6	323,541	100.0	417,361	129.0	718,266	222.0
1987	279,342	80.3	347,876	100.0	442,487	127.2	779,332	224.0
1988	339,947	82.1	414,081	100.0	501,402	121.1	839,441	202.7
1989	404,910	83.1	487,013	100.0	580,133	119.1	930,396	191.0
1990	476,949	83.8	569,394	100.0	668,200	117.4	1,055,950	185.5
1991	567,630	84.6	671,103	100.0	787,938	117.4	1,202,953	179.3
1992	686,481	87.3	786,157	100.0	894,532	113.8	1,326,795	168.8
1993	776,312	88.1	881,467	100.0	965,408	109.5	1,421,811	161.3
1994	848,914	86.9	976,699	100.0	1,049,439	107.4	1,521,039	155.7
1995	959,087	87.2	1,100,306	100.0	1,192,628	108.4	1,715,411	155.9
1996	1,053,122	85.3	1,234,569	100.0	1,326,790	107.5	1,925,812	156.0
1997	1,132,589	84.4	1,342,047	100.0	1,428,197	106.4	2,087,824	155.6
1998	1,119,426	83.9	1,333,672	100.0	1,430,946	107.3	2,109,317	158.2
1999	1,139,216	86.0	1,324,700	100.0	1,386,529	104.7	2,113,475	159.5

Sources: NSO (1998a: 256, 2000c: 270).

### Wage Levels by Educational Attainment (%)

(High School Education = 100 %) ; Source: Appendix 16





## Appendix 17 Wage Levels of Female Labour Force in Comparison (per cent)

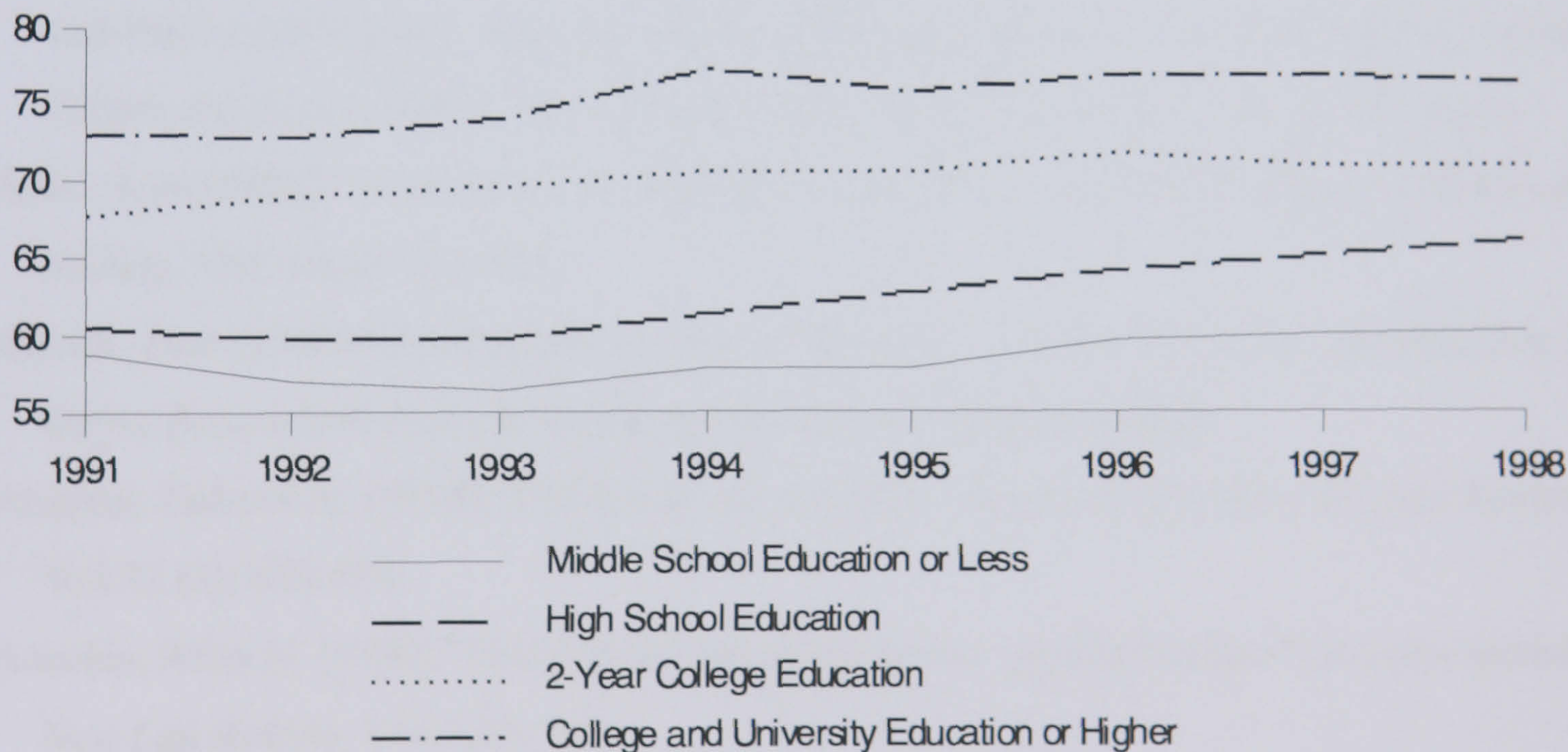
	Middle School Education or Less	High School Education	2-Year College Education	College and University Education or Higher
1991	58.85	60.64	67.93	73.12
1992	56.88	69.00	69.00	72.86
1993	56.32	69.67	69.67	74.21
1994	57.72	70.64	70.64	77.38
1995	57.88	70.67	70.67	75.94
1996	59.61	71.98	71.68	76.96
1997	59.91	71.11	71.11	76.95
1998	60.17	71.12	71.12	76.61

Notes: Estimation formula: (real wage of female ÷ real wage of male) × 100 in each year; the reference month of the wages is June of each year.

Sources: MoL (various years, 25 October 1999); NSO (1998a: 256).

### Wage Levels of Female Labour Force in comparison (%)

Source: Appendix 17





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## In Korean

### Romanisation

Instead of using, the McCune-Reischauer system, Romanisation of Korean script was completed according to the new 'Transcription System for the Romanisation of Korean', announced by the Ministry of Culture and Tourism, Republic of Korea, on 19 July 2000. For the names of historical political figures, the most widely-known romanisation was used such as Park Chung-Hee (Bak Jeong-Hui). As for the order of Korean names, the family name appears first for the sake of consistency.

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