
The Rise of the Korean Welfare State amid Economic Crisis, 1997-99: Implications for the Globalisation Debate

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Recent years have seen welfare states throughout the world undergoing restructuring in varying degrees and forms. In the industrialised West, against the backdrop of sluggish economic growth, the welfare state became the focus of ever more contentious political debate between the new Right and the traditional Left, and many significant reforms have indeed been made in Anglo-Saxon and Scandinavian countries (Mishra, 1990; Esping-Andersen, 1996). In Eastern Europe, new-born capitalist states are struggling with the reform of social welfare systems constructed under the former socialist regimes (Standing, 1996). In Latin America, states which are suffering from repeated economic crises, are nevertheless pressing forward with social welfare reform as a crucial component of economic adjustment packages (Cruz-Saco and Mesa-Lago, 1998; Mesa-Lago, 1994).

The main theme throughout the social welfare reforms across these regions is that of neo-liberalism, and an adequate understanding of this reform trend is inextricable from the momentous movement towards globalisation, that is, a fundamental integration of national economies into a global one. Globalisation has been seen as exerting pressure on all states to change their policies and institutions in market-friendly ways. Liberalising trade policy, removing capital controls, opening financial markets to foreign investors, and reducing the role of the state in the economy are believed to be the generic policy prescriptions for effective participation in a global economy. Because the welfare state is premised upon national economic growth and government interventions in the economy, pressure for the reduction - or even abandonment - of the welfare state has been seen as an inevitable by-product of globalisation (Milner, 1998; Teeple, 1995; Clayton and Pontusson, 1998).

Critics, however, challenge the conventional wisdom concerning the impact of globalisation on the welfare state. For them, the net effects of globalisation are greatly exaggerated because of its blindness to electoral politics (Pierson, 1996; Garrett, 1998). More importantly, it is often argued that greater social

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spending is required for effective participation in the global economy (Rodrik, 1997; Rieger and Leibfried, 1998), just as the capitalist development of past decades called for the state to intervene in the economic and social spheres to mitigate the insecurities and inequalities it had generated (Polanyi, 1964; Cameron, 1978; Ruggie, 1982).

In sum, the former view expects that welfare states will shrink when confronted with the forces of globalisation, while the latter view expects that they will fare well and even increase their activities. Although both strains of argument have been based on the experiences of the developed countries, the assumptions and implications are not limited to those countries alone. As Esping-Andersen (1996:2) points out, neo-liberalism influences strategic thinking on social security development within developing countries: there no longer seems to be a social democratic 'middle way' in the emerging industrial democracies. Accordingly, policy recommendations lead to emulating Chilean privatisation strategy rather than Swedish welfare statism, with the end result being the retreat of the welfare state as we know it in the developing world. However, critics maintain that advocates of globalisation are blind to the way the real world works, and that developing countries also exhibit a positive relationship between a high degree of globalisation and social welfare activity (Rodrik, 1997: 26). In short, both schools of thought are in head-on confrontation over the issue of globalisation and its impact on the prospects of the welfare state in both developing and developed economies.

Which proposition is correct? This article attempts to give an answer by examining the South Korean case. Although a single case study cannot confirm a generalisation (one confirmation does add confidence, however) and can shake an established practice only to a limited degree, the South Korean case can serve as a critical research finding since it questions the most-likely case for the neo-liberal conventional wisdom (Eckstein, 1975). In the early 1990s, the Korean Government began to liberalise financial markets and lower trade barriers in order to enter the OECD club, and as an OECD member it has further advanced the opening up of the economy. Due partly to the financial liberalisation, Korea was swept up in the Asian currency crisis in 1997, and since then the economy has been rapidly liberalised under the auspices of the IMF. According to the neo-liberal conventional wisdom, this urgency is supposed to compel the government to recoil from building up an extensive social welfare system. However, since 1997 the opposite trend has been observed in Korea. Although the government is pushing forward with neo-liberal reforms in the economic area, it is rapidly expanding its role in the social area – a situation reminiscent of the welfare states of post-war Europe and of the FDR government in the United States after the Great Depression.

This article, however, will not simply argue that globalisation has led to a higher degree of welfarism in Korea. Well aware of the peril associated with most macrostructural arguments that tend simply to correlate one macro

phenomenon with another without examining the true dynamics of the process, it will seek to trace as precisely as possible the trajectory of the emergence of the Korean welfare state since 1997, and suggest under what conditions the seemingly demolishing force of globalisation transforms itself into a propelling engine of the welfare state.

The first part of the article will review the theoretical debates on the relationship between globalisation and the welfare state. The second section will describe the rise of the Korean welfare state since 1997, focusing on the legislation behind the new comprehensive public assistance programme and the rapid expansion of four major social insurance programmes: on pensions, health, unemployment and injury at work. The final part will discuss the preconditions favourable to the growth of the welfare state in the light of the Korean experience and draw some theoretical conclusions regarding the future of the welfare state in the developing world in the era of globalisation.

Theoretical context: globalisation and the welfare state

Two contending views

After World War II, the welfare state represented a compromise between the principles of market efficiency and citizens' security and between those of liberty and equality. The state intervened in the market by means of fiscal and monetary policies to promote growth and maintain low unemployment, and developed comprehensive social policies to protect those excluded from the market on the grounds of sickness, old age, accident, unemployment, incompetence, and even unwillingness to work. However, changes in the post-war development of the welfare state have become evident since the mid-1970s. The fundamental cause of these shifts was not change in the principles of the welfare state or in political visions but rather what has come to be called the 'new reality', the coming of the global economy (Teepie, 1995: 55).

Globalisation has brought about two new trends in the working of the world economy: (i) the global organisation of production, namely, complex transnational networks of production which source the various components of the product in places offering the most cost advantage; and (ii) global finance, namely, a largely unregulated system of transactions in money, credit, and equities which transcends all national borders (Cox, 1997). This global economy has had two clear consequences for all states. First, they have had to embrace market-friendly policies in order to maintain international competitiveness and a favourable investment climate. Facing more credible threats of the 'exit' option on the part of the owners of industrial capital, governments have had to cut corporate and income taxes and make the labour market more flexible in order to attract foreign corporate investments and prevent the exodus of local

companies. Secondly, they have had to implement anti-inflationary monetary policies by reducing public spending, minimising public debts, and restraining counter-cyclical expansionary fiscal policy in order to avoid the 'punishment' of owners of mobile capital assets for otherwise unstable macroeconomic performances (Teeples, 1995; Pontusson, 1992; Heye, 1993; Notermans, 1993).

Despite variations in speed and extent in introducing neo-liberal policies owing to their national differences and partisan compositions, it is believed that these changes finally reveal numerous international parallels in social policies among advanced welfare states. Effective rates of benefits and coverage have been lowered, the effort to maintain full employment has been abandoned, the public sector has been cut down, privatisation has been introduced, and entitlement has been pegged more closely to work (Clayton and Pontusson, 1998; Schwartz, 1994; Teeples, 1995). The end result of these policy changes has been the retrenchment of the welfare state, generating a conventional wisdom that the welfare state is no longer viable in the globalisation era. This pessimistic vision of the inexorable dominance of capital over the welfare state is more applicable to developing countries since their economic performance is becoming increasingly dependent on the inflow of foreign capital (Rudra, 2000). The global dominance of capital and the subordination of the welfare state to it seem irreversible.

Some writers, however, call into question the conventional wisdom that the inexorable pressure of globalisation causes the shrinkage of the welfare state (Garrett, 1998; Rodrik, 1997; Rieger and Leibfried, 1998; Pierson, 1996). They argue that while monetary and fiscal policies may face new restrictions, most governments are not nearly as shackled by economic globalisation as is commonly believed, and thus that welfare states retain substantial autonomy in regulating their economies, maintaining institutions, and designing social policies, not to mention sufficient tax bases. Moreover, it is pointed out that welfare states have considerably broader bases of support, which promote the restoration of equilibrium and inhibit the kind of unravelling expected in the conventional wisdom about globalisation. The challenge does not stop here. Garrett (1998) even argues that exposure to the international market makes growing demands on social policies and, through partisan electoral politics, in fact induces greater government spending to reduce market-generated inequalities of risk and wealth. In contrast to the neo-liberal conventional wisdom, he argues that political and social stability induced by social policies helps attract the investment of mobile asset-holders, maintaining that 'macroeconomic performance under social democratic corporatism has been as good as any other constellation of political power and labour market institutions' (1998: 11).

In a similar vein, Rieger and Leibfried argue that it is not globalisation that limits the welfare state but rather the opposite: 'the movement toward and the trends in a globalised economy have been triggered, contained, differentiated

or modified, weakened or strengthened, slowed down or speeded up through national structures of social policy and their developments' (1998: 366). Why is this? Economic insecurity enhanced by globalisation will lead to the emergence of new coalitions of interests urging protectionism and resisting domestic deregulation. How salient such a development is depends mainly on the capacity of social policy to withstand such protectionist backlashes. The implication of this line of argument, therefore, is clear: in order that a country may reap the net gains generated by economic globalisation, it must be equipped with strong social safety nets.

For these reasons, critics of the neo-liberal conventional wisdom tend not to be so pessimistic as their counterparts regarding the prospects for the development of the welfare state in the less developed countries in the globalisation era. Developing social welfare systems is unlikely to be considered an obstacle to economic growth. Rather, it would be regarded as a pre-requisite for effective participation in the global economy.

The need for domestic prisms

The two contending views discussed above seem irreconcilable. But, since each has characteristic strengths and weaknesses flowing from their different logics and analytical foci, it may be more fruitful not to decide once and for all between the two but rather to explore what they can offer each other. In this respect, Rudra's extensive statistical analysis offers interesting points. She finds that there are two contrasting trends: in the advanced economies, globalisation has a positive effect on government welfare expenditure as the critics of the conventional wisdom argue, while, in the developing economies, it has a negative effect on social spending as the advocates of the conventional wisdom expect. She attributes the contrasting impacts of globalisation to the political/structural differences between developed and developing countries. The developed countries have sufficient revenue bases to provide a high social wage and, more importantly, formal democratic institutions through which societal groups can express their concerns and input their interests, while most developing countries lack such conditions (Rudra, 2000).

This account reveals an important missing link in the debate on the relationship between globalisation and the welfare state: namely, domestic politics and the institutional structures shaping those politics. The impact of globalisation can be neither uniform nor unidirectional because of the different internal responses to the universal external phenomenon. In explaining the effect of globalisation, therefore, more explicit and concrete efforts need to be made to find out what domestic factors deflect the impact of globalisation in which direction. In this respect, it is timely that a growing number of studies are now paying more attention to the domestic prism. For example, in the field of pension reform, Brooks (1999) demonstrates that the global economy has

differential effects on different countries according to their different levels of capital accumulation and public debt. Countries with low capital accumulation have a strong incentive to privatise their old public pension systems in order to foster local capital markets; but this incentive is moderated by the magnitude of public debt which will skyrocket during the switch to a private pillar, because of the continuing liabilities to existing pensioners with fewer payers into the old system. Kay (1999) seeks to explain the large variation in the outcomes of pension reform driven by Latin American governments under the same pressure from the IMF and the World Bank. He attributes the various outcomes to the variation in the opponents' ability to utilise institutional veto points such as fragmented party systems and plebiscites. In developing countries undergoing structural economic adjustment, Niles (1999) found that regime type and party system determined the state's commitment to targeted social programmes for the poor rather than expansive entitlement programmes for narrow interest groups.

With such domestic prisms in mind, this article will pay attention to a particular configuration of political coalition, financial capacity, and political institutions. It will cover not only pensions but also health, unemployment, and industrial accident social insurances and public assistance programmes in order to achieve a more comprehensive picture of social policy reform amid neo-liberal structural reforms in the era of globalisation.

The Korean case

Korea at the crossroads: economic crisis and two scenarios

On 21 November 1997 at the height of the Asian financial crisis, the South Korean Government asked the IMF for stand-by loans, admitting its inability to service its debt payments by its own means. Foreign reserves held by the Central Bank had dwindled to less than \$8 billion, and the Korean currency rapidly depreciated from \$1=Won 808 in 1993 to a record low of \$1=Won 2,000 in late 1997. With the shock of this devaluation, the economy contracted to -5.8% growth in 1998 from 7.1% in 1996. The unemployment rate soared to a record high of over 8% in 1998 from a previous 2 or 3%. The government budget balance plunged to -4.4% of GDP in 1998 from a string of balanced budgets in previous years. In a word, the Korean economy had collapsed after decades of economic miracle.

As part of its agreement with the IMF, the government pledged to take drastic reform measures to deregulate and liberalise the economy. These are basically threefold. First, restrictions on capital movement and foreign ownership have been lifted in an effort to induce foreign investment in Korean assets. Secondly, the government facilitated the laying-off of workers in order to increase labour market flexibility. Thirdly, the government adopted a series of measures to

make the economic system more transparent and accountable, including the introduction of consolidated financial statements and a ban on mutual payment guarantees within sister companies of the *chaebols*, the family-owned business conglomerates. In short, the core of these policies may be best understood as the rejuvenation of the Korean economy by means of neo-liberal reforms (Mo and Moon, 1998).

Against this backdrop, what would each camp expect regarding the issue of social welfare in Korea? The supporters of the conventional wisdom would argue that Korea could not afford to increase social spending. In order for it to repay its international debts and re-start the wheels of factory machines, it had to attract foreign direct investment and portfolio inflows, and generate a considerable trade surplus. Given that social welfare increases labour costs and aggravates the fiscal deficit, the government could not afford to opt for a high degree of welfarism. High labour costs will not only reduce the international price competitiveness of Korean companies but also discourage foreign direct investment seeking cheap labour. Moreover, a high level of budget deficit will make it riskier for international financiers to invest in Korean financial markets. Given the lack of effective social safety nets, however, the government might try to adopt poverty alleviation measures. Even in this case, neo-liberal social policies will serve as a model for the Korean policy-makers, emphasising privatisation, decentralisation, self-reliance, means testing, and workfare, to name but a few. It could therefore be hypothesised from the conventional wisdom that Korea's neo-liberal reform in the globalisation era will not lead to a higher degree of national commitment to social welfare, and, if anything, Korea will follow the neo-liberal social welfare model.

In contrast, critics of the conventional wisdom may make a diametrically different prediction for functional and political reasons. Functionally, social welfare will dampen explosive social unrest and help restore economic, political, and social stability, which is a necessary condition for attracting the investment of mobile asset-holders. Politically, politicians will not miss the chance to capitalise on the fear and reality of mass unemployment fuelled by neo-liberal reform of the hitherto protected labour market, and to mobilise support from the increasing ranks of the economically insecure latent in all liberalised economies. They have, therefore, every reason to trade social protection for the victims, real or potential, of economic insecurity under globalisation, for votes. All in all, expanding the social safety net will be not only an economically rational but also a politically sound policy option. Therefore, another possible scenario, based on criticisms of the conventional wisdom, would be that neo-liberal economic reforms in Korea will be associated with a higher degree of national commitment to social welfare in the era of globalisation.

Which pathway has Korea taken since the 1997 economic crisis? It may be too early to reach a conclusive answer. Nonetheless, many writers cautiously

agree that Korea has made considerable strides toward a welfare state (Y. Kim, 1999; Chung, 1998).

Pre-crisis social welfare system

Korean social welfare systems prior to the crisis may best be understood in the context of the 'high economic growth, low unemployment' miracle economy of the past 35 years (Y. Kim, 1998). Social welfare demands for health, housing, unemployment pay, old-age pensions, and education were satisfied, primarily, by fast growing real income in the market, which was buttressed by stable employment, and, secondarily, by traditionally strong family ties and corporate welfare. The Korean state undertook limited responsibilities for health and industrial injuries and provided only minimum protection to those neither able to participate in the labour market nor having family to rely on. Consequently, in contrast to the rapid economic growth, the Korean social welfare system was underdeveloped, as reflected in the low government commitment to social spending in contrast to spending on economic services (see Table 1).

Table 1
Government commitment: % of central government budget, 1993

<i>Country</i>	<i>Per capita income (US \$)</i>	<i>Health (A)</i>	<i>Housing, soc.sec & welfare (B)</i>	<i>A+B</i>	<i>Economic services</i>
US	24,740	17.1	31.7	48.8	6.2
Germany	23,560	16.8	45.9	62.7	9.7
Singapore	19,850	6.1	9.0	15.1	11.5
Korea	7,660	1.5	7.2	8.7	18.8
Greece	7,390	7.4	14.7	22.1	9.4
Chile	3,170	11.5	39.3	50.8	14.6
Brazil	2,930	5.2	30.0	35.2	7.5

Source: World Bank, 1995: 180.

This combination of high income growth and low government commitment to social welfare has led Koreans to prepare individual safety nets: Korea is among the highest as regards the gross domestic savings rate (for example, 34.25% of GDP in 1997: World Bank, 1999) and second in the world as regards the payment rate of private insurance premiums (for example, 15.42% of GDP in 1997: *Korean Economy Daily*, 11 August 1999). This imbalance between individual and government commitment was a product of the economy-first policy of previous authoritarian regimes under which the state was willing to pull resources back from the economy to social welfare only when it was functional to economic growth and political legitimisation. This reflects an

ideological bias embedded in the developmentalist coalition between authoritarian political leaders, economic technocrats, and *chaebols*, claiming that growing social needs would be best met through rapid economic growth and self-reliance (Chung, 1998; Ahn, 1991; Kwon, 1999; Lee, 1993).

This developmentalist ideology began to fray gradually as Korean democracy proceeded following the 1987 democratisation movement, but it was still cherished by the ruling coalition and by and large accepted among the public as well. This did not last long, however. It finally turned out to be a myth as soon as the economy stopped working in late 1997. At this moment, as Young-hwan Lee (1998) has pointed out, anxiety and hope co-existed in social welfare academic circles: would the economic crisis further weaken the public welfare systems because of budget constraints and the neo-liberal ideological offensive, or would it serve as an opportunity for take-off by revealing the weakness of the existing social safety net? They now see a welfare state arising amid economic turmoil.

The rise of the Korean welfare state

The Korean Government has sought to complement the external strategy of liberalisation with an internal strategy of compensation for those groups which are most at risk. It tightened the nation's loose social safety net by expanding the coverage (see Table 2) and the benefits of the four major state-administered social insurance schemes and by thoroughly overhauling the public assistance programmes.

Due to the mass unemployment and related social problems, programmes protecting individuals against unemployment are growing at the fastest speed. The government poured more than 13.4 trillion Won (equivalent to 8.6% of the FY 1998 and 1999 government budgets or US \$12 billion) into unemployment-related emergency programmes, including unemployment benefits, public works, training, employment subsidies, loans, and tuition support and food assistance for the children of the unemployed (Office of National Budget, 1999). Most striking is the rapid expansion of the unemployment insurance programme launched in 1995 to cover full-time workers in firms with more than thirty employees. Since the crisis, the coverage has been extended in January 1998 to those in companies with ten or more employees, and then in March to workplaces with 5 or more workers, and finally in October to all employees including part-time and temporary workers. Duration of benefits has also been gradually extended from two months to one year, while the qualifying period was shortened to three months from one year of work history (*Moon Hwa Daily*, 20 August 1999).

Table 2
The growth of social insurance coverage rate (1990-99)

<i>Year</i>	<i>Pension^a</i>	<i>Health^b</i>	<i>Unemployment^c</i>	<i>Work Injury^d</i>
1990	31.4	100.0	-	65.8
1991	31.4	100.0	-	69.1
1992	32.3	100.0	-	61.5
1993	32.7	100.0	-	60.5
1994	33.2	100.0	-	63.4
1995	41.3	100.0	30.66	68.8
1996	41.5	100.0	30.71	71.1
1997	43.7	100.0	31.78	71.8
1998	44.7	100.0	51.8	66.1
1999	75.8	100.0	70.0	79.7^e

Notes: a) contributors/labour force; b) contributors/population; c) contributors/total employees; d) contributors/total employees as of 1995; e) forecast for 2000.

Sources: National Statistics Office, 1999; Ministry of Planning and Budget, 1999; No and Lee, 2000.

This pattern was followed by injury insurance at work which is one of the oldest and most mature social insurance schemes in Korea. Industrial accident insurance law covering 7.5 million workers in industrial firms with 5 or more employees was amended to include an additional 1.6 million workers in small businesses with 4 or fewer employees from July 2000, and with this amendment, small business employers are also eligible to be covered (Ministry of Planning and Budget, 1999).

The state-administered pension and health insurance schemes made another impressive expansion. The National Pension Scheme (NPS), which began by covering private sector employees in 1988 and then expanded until it covered rural residents in 1995, was extended to provide financial security for old age, disability, and survivors for all urban residents aged between 18 and 59 in a single pillar in April 1999. Most Koreans, therefore, are now covered under four public pension schemes: the NPS, the Government Employees Pension, the Military Personnel Pension, and the Private Teachers Pension (National Pension Corporation, 1999).

A series of reforms of National Health Insurance (NHI) also contributed to the tightening of the nation's social safety net. The NHI, which already covered the entire population in 1989, is now being unified into a single integrated system. Formerly, it was enforced by 142 insurance associations serving company employees and 227 regional insurance societies for general citizens

including the self-employed, not to mention separate administrations for public employees and private teachers. In October 1998, the 227 regional insurance societies and the administrations for public employees and teachers were integrated into a new authority called the National Health Insurance Corporation (NHIC). By the National Health Insurance Act passed in the National Assembly in January 1999, the remaining company associations were scheduled to be incorporated into the NHIC from 1 July 2000. Along with the unification measures, the government enhanced the quality of benefits, including a gradual extension of the duration of benefits from 270 to 300 days a year in 1998, to 330 days in 1999 and then to 365 days from 1 January 2000 (National Federation of Medical Insurance, 2000; *The Korea Herald*, 5 August 1999).

The four major social insurance schemes generally base eligibility for pensions and other periodic payments on length of employment. Although a redistributive function is built in in the case of health insurance and national pensions, the amount of pensions and other periodic payments in the event of unemployment, sickness, or injury at work is related to the level of earnings. The social safety nets are therefore insufficient and inefficient for urban and rural marginals and those without work capacity. For these poor groups, the Kim Dae-jung Government rejuvenated public assistance programmes with fresh legislation to guarantee a minimum standard of living. Under the old scheme, the allowances were not available to households including at least one person aged between 18 and 64 deemed capable of working, even if their incomes were less than the minimum cost of living. Now from 1 October 2000 the needy will receive monthly payments of up to 324,000 Won (or US\$300) per person from the government, and the number of recipients will triple to 1.54 million from the present 0.54 million. Although the law requires recipients to continue to seek or train for jobs, it marks a turning point from the Elizabethan Poor Law-style public assistance in which the state distinguishes the deserving from the non-deserving poor and protects only the former (Ministry of Planning and Budget, 1999; Ministry of Health and Welfare, 1999).

As such, substantial improvement has been made in social welfare systems since the 1997 crisis. It will, however, take time for the nation to feel the full benefit of the cost of living payments since these programmes have not yet matured. Moreover, these schemes are basically funded by payroll contributions split between the employer and the employee, and, only in certain limited cases, supplemented from general government revenue. Thus, they will not quickly become a major drain on government revenues. Nonetheless, it is undoubtedly clear that the expansion of social safety nets will call for more government commitment. Indeed, the government's social spending has been outgrowing the total budget increase. During fiscal years 1998 and 1999, social expenditure grew by an average 19.5% while the total government outlay increased by 5.6% (Ministry of Planning and Budget, 1999).

Growth of welfarism and three preconditions

Social welfare as a functional necessity

Since the 1997 crisis, Korea has seen a rapid expansion of its social welfare systems and social expenditures. This upward trend defies the prediction of the neo-liberal conventional wisdom on the relationship between globalisation and the welfare state. The Korean case strongly suggests therefore that globalisation is not necessarily negatively related to social welfare.

At this point, the shifting emphasis on the part of the international financial lending institutions must be noted. In the past, the IMF and the World Bank were criticised for their welfare-busting ideology and practices (MacGregor, 1999; Deacon, 1997). But their involvement in South Korea presents a somewhat different picture. They recommend East Asian debtor countries to respond to the social consequences of the economic reforms and to safeguard budgetary expenditures for social protection (World Bank, 1998a). After admitting that 'social policy has come to the forefront of the international debate,' Michel Camdessus, then managing director of the IMF, claimed that 'Asia's experience with crisis reminds us that countries need strong social policies....Social safety nets are essential to protect those affected by the dislocation – such as unemployment – that remains a risk in even fast-growing economies' (Camdessus, 1999: 3-4).¹

It is not yet clear whether such a shift in attitude implies a fundamental realignment of their position on social policy. Nonetheless, it seems that the international financial institutions acknowledge the need for compensation for the victims of an ever-integrating world economy. Structural reforms take place in an open political environment. It is virtually impossible, for instance, to carry out labour market liberalisation in the same way as currency devaluation or tariff reduction. Vested interests have particularly strong incentives to resist institutional changes. Without due compensation in one way or another, structural reforms cannot be carried out (Nelson, 1996). The Korean case is an impressive testament to this. By means of long negotiations in the Tripartite Commission, more extensive forms of social protection were promised to labour in return for its agreement on the introduction of lay-offs which would promote labour market flexibility and ease corporate restructuring, but at the same time end the cherished tradition of lifetime employment (*Chosun Daily*, 21 January 1998). Korea's relatively 'peaceful' industrial relations since then contrast with

1. Since the 1995 World Summit for Social Development in Copenhagen, the IMF has paid increasing attention to ensuring that social developmental goals have been integrated into IMF-supported programmes with the help of the World Bank. For detailed evaluation of such a policy shift, see IMF (2000).

its notorious history of labour militancy which had aborted the controversial labour law reforms of the Kim Young Sam Government to promote labour market flexibility in early 1997.² The reaction of foreign investors has been very positive: foreign direct investment (FDI) has been soaring from the pre-crisis level of US\$3 billion in 1996 to around US\$9 billion in 1998 and reaching US\$15.5 billion, or 9% of GDP, in 1999.

The underlying political logic

There is also a political logic behind the provision of social welfare. The Kim Dae-jung Government seems to be pushing social welfare reform beyond functional necessities. From the beginning, it faced the complex dual tasks of meeting the demands of international lenders and foreign investors whose help it needed to recover from the economic crisis, as well as those of the lower middle classes, including blue-collar workers, the urban self-employed, and white-collar salarieds, the main support base of the Kim Government. Despite the robust economic recovery, its effect has yet to be felt by the constituency who suffered job losses and pay cuts under the structural reforms. According to recent studies by the Korean Institute of Finance, income inequality in Korea is reaching levels not seen since the early 1980s. The Gini coefficient, a measure of income inequality, rose to 0.37 in the first quarter of 1999, a 17-year peak, contracting the proportion of the middle class to 64% from 70.6% in 1992, and swelling the ranks of the poor (*The Korean Herald*, 16 June 1999). The leaders of the ruling party were therefore worried about the widespread popular backlash of the reform efforts among their constituencies, and this caused them concern about the general elections in April 2000 and the party's prospects beyond 2000.³ This situation drove President Kim to reinforce his efforts to build a stronger social welfare system. His Liberation Day speech in August 1999 reflected his concern and the new strategies to restore popular support (D.

2. The Korean Confederation of Trade Unions (KCTU), the then outlawed peak organisation of democratic unions, conducted general strikes mobilising 5 million workers for 26 days and costing 3 trillion Won, or US\$2.7 billion (*Chungang Daily*, 22 January 1997). The KCTU was legalised by the current Kim Dae-jung Government and participates in the Tripartite Commission.

3. Since Korea adopts a 5-year single-term system for the presidency, the general election was critical for the second half of the Kim Dae-jung Government which ends in 2002. The result was something of a mixed blessing for the ruling party: it increased its share by 17 seats from 98 to 115, the largest gain among political parties participating in the general election, but it fell short of becoming the largest party. The conservative opposition Grand National Party (GNP) remained the largest force in the National Assembly. Once again, the ruling party has secured a majority in the Assembly partly by forming a ruling coalition with the United Liberal Democrats and partly by co-opting independent representatives, see footnote 7.

Kim, 1999):

My fellow citizens,.....[a]s the ruling party, the National Congress for New Politics will take the lead in a renewal. It will be born anew a party worthy of the people's trust and hope. Built around the middle and working classes, the new political party will rise as a reformist party of the people. It will uphold human rights and social welfare..... To nurture the middle class and enhance the living standards of the masses, I will actively seek to implement constructive social welfare policies built around the principle of human development.... *Now, all citizens, including those getting by with less than the minimum level of income, will be provided with institutional guarantees of education, medical care, and other basic requirements of decent living..... The medical insurance, unemployment insurance, national pension, and industrial accident insurance systems will be beefed up so as to build a comprehensive system of social security under which all citizens can enjoy stable, secure lives (emphasis added).*

Such a political rationale explains why Korean welfare systems are being constructed in a style closer to the traditional ILO model which upholds the principles of the post-war consensus on social welfare: social rights, solidarity and equality. Despite both the World Bank's policy recommendation for the Medical Savings Account (MSA) and the Chilean-style multi-pillar pension system (World Bank, 1998b) and the political pressure in favour of market-friendly social policies from local supporters, including private insurance companies, big business, medical associations, conservative economic bureaucrats, the opposition party and a segment of labour unions (Federation of Korean Industries, 1999; Korea Centre for Free Enterprise, 1999), the Korean Government has taken the opposite path with the political support of, and under pressure from, civic activist groups and the democratic labour unions.⁴ It pressed forward with the unification of the administrative bodies and funds of numerous health insurance associations into a single authority and the incorporation of the company pension fund into the mono-pillar national pension system, both of which are designed to generate redistribution and national unity or solidarity. It is hard to say whether the rising Korean welfare state follows the social democratic or Scandinavian model. Nonetheless, it is

4. The pro-welfare social forces include civil activist groups led by People's Solidarity for Participatory Democracy (PSPD) and the Korean Confederation of Trade Unions (KCTU). The social pressure groups were born in the wave of democratisation in the mid-1980s when Kim Dae-jung's party was the major opposition party against the authoritarian regime. They formed what could be called a 'triangular' alliance with the ruling party as far as social policy is concerned. For a detailed account of the political dynamics behind social welfare policy-making, see Yang (2000).

clear that the Korean Government followed a different path from its counterparts in Latin American and Eastern Europe, most of which are keen to follow the World Bank's prescriptions. Why is this? Answering this question will help to define the preconditions for the development of the welfare state in the developing world in the era of globalisation.

Fiscal capacity, democracy, and political leadership

Among others, three preconditions must be highlighted: fiscal capacity, democracy, and political institutions which enable strong political leadership. Social welfare of its very nature induces higher government spending. Thus, without sufficient revenue flows, states cannot afford to develop an extensive social welfare system. Brazil is a good case in point. The key macroeconomic problem for Brazil is the public finances. The consolidated public sector deficit amounts to more than 6% of GDP a year. Thus, as Stanley Fischer, first deputy managing director of the IMF, points out, 'without a substantial and sustained reduction in the public sector debt...the economy will remain vulnerable to shifts of market sentiment' (1998: 7). In this situation, all the Brazilian government can do is to concentrate on some programmes targeted on the poor. In contrast, it is the financial and corporate sectors of Korea, not the public sector, that have accumulated unsustainable debts and thus served as a primary reason for the troubled economy. Since the Korean Government had maintained balanced budgets, when it was hit by the currency crisis the Kim Dae-jung Government had more leeway for social welfare spending.⁵

Democracy also matters. Social welfare, of its nature, means a transfer of income from one group to another: the rich to the poor, the healthy to the sick, the young to the old, the employed to the unemployed, and so forth. Thus, it entails distributive politics. Without democracy, the disadvantaged could not express themselves and realise their interests in the formal political processes which tend to be dominated by the more fortunate. In this regard, it was very lucky that the ordinary Korean people were able to elect the centre-left Kim Dae-jung Government by free election, and to articulate and inject their interests through the normal political processes. Also, the legal institutionalisation of the Tripartite Commission deserves attention since it marks the end of exclusive politics. Unlike the past where it was ignored and excluded, labour now participates in the national policy-making process with the same status as business and the state. The Commission has served as an important channel

5. In 1996, the total central government debt was only 8.6 % of GDP and interest payments accounted for only 2.3 % of current revenue. The total Brazilian central government debt as a share of GDP is not available, but its interest payments amounted to 47.9 % of current revenue (World Bank, 1999).

through which labour has articulated its views on social welfare policy and exerted its influence.⁶

Democracy, on the other hand, allows individuals and groups to become maximisers of their own particular interests. The logic of collective egoism is a pronounced norm of political behaviour and discourse (Moon and Kim, 1996). Given the redistributive nature of social welfare, it would be easy to expect hyper-political activism among social groups over the direction of social policy. Thus, it is rarely observed in democracies that a particular collective decision is made and pushed through all possible veto points within a short period of time.

In this context, political leadership becomes a very important variable. This may be why top political leaders are always in the spotlight. And Korea is no exception. It would be no exaggeration to say that the fate of the Korean welfare state depends on President Kim Dae-jung. As chief executive, he is the only man powerful enough to silence the voice of conservative economic bureaucrats who are tied to the *chaebols*, imbued with neo-liberalism, and obsessed with what is often called the welfare disease. Yet, the President's intentions and commitment are not enough to ensure the transition to the welfare state. The President and his government must overcome the 'notorious' executive-legislative stalemate (Linz and Valenzuela, 1994). Fortunately, the President copes with this built-in problem by means of 'partisan power' (Mainwaring and Shugart, 1997). Korean political parties are highly disciplined, since the party chair exclusively controls the party's nomination of parliamentary candidates and their political funds under a single-member district system which tends to generate a stable two-party system. The Korean President is the chair of the ruling party, and thus has a firm grip on it. In addition, the President's party rarely loses a reliable majority in the legislature. From 1948 to the present, there have been only two short periods of minority government: between 1988 and 1989 in the 13th Assembly and in the first half of 1998 (the current 15th Assembly) (Kang, 1998: 104). The latter occurred under Kim Dae-jung's presidency and it was overcome by forming a ruling coalition with the United Liberal Democrats and by so-called *Jung-gye-gae-pyon*, or an artificial reshuffling of party shares in the Assembly by co-opting independents and opposition party members into the ruling coalition.⁷

6. For details of tripartite compromise on social issues, see Kim, T. (1998). Heo (1999) neatly outlined the strategies of democratic labour unions on the issue of social welfare.

7. They are usually guaranteed party nomination and political funds for the next general election in return for their 'disgraceful' defection. Under the single-member district plurality system, party nomination in the ruling party's regional bases means *de facto* re-election. Thus, guaranteeing nomination is a very tempting inducement to representatives who seek re-election. So far, 26 Assembly members have switched to the ruling party (*Juang-ang Daily*, 19 October 1999). For a detailed discussion of the effect of the nomination process on party discipline, see

The sweeping reform of the health and pension programmes and the launching of a controversial public assistance programme that guarantees a national minimum livelihood may be best understood in such an institutional context. Strong party discipline, a stable bipartisan system, and a majority in the Assembly enabled the President and his government to implement the social policies as planned. The stagnation in Brazil's social security reform confirms the importance of stable political institutional settings. In sharp contrast to Korea, the combination of a fragmented party system, undisciplined parties, and federalism blocks the initiative of the able President Cardoso to mend the frayed social safety net, and makes the Brazilian economy more vulnerable in the globalisation era (Madrid, 1999: Ch.6).

In sum, Korea was blessed with favourable conditions when it was swept by the forces of globalisation. Civil society was able to articulate and inject its interests via normal political processes, and the centre-left Korean Government could afford to allocate more national resources to social welfare. More importantly, a strong presidential system protects Korea's unique method of social welfare reform from being wrecked by a traditional developmental coalition in favour of neo-liberal social policies.

Conclusion

Globalisation has shifted the post-war balance between the public and private sectors and contributed to a weakening of the state's autonomy in formulating its own social agenda. The Korean case, however, suggests that the rationale for social welfare has not been eroded even in the globalisation era, and that nation states still retain a considerable level of policy autonomy, sufficient to construct distinctive social welfare systems. The Korean case verifies Cameron's long-established conclusion that '[g]overnments use a variety of policy instruments to shelter their economies from the competitive risks of the international economy' (1978: 1260). It also confirms Katznelson's observation on the political aspect of welfare state development (1986: 318). As Katznelson notes, welfare states develop not only in a problem-solving way. Under certain conditions, political parties, interest groups, and social movements make use of elections, lobbying, and protests to achieve valued ends at a more rapid pace or in a direction qualitatively different from that dictated by the emergence of manifest problems in the operation of the existing welfare state. Korea provides an interesting contrast to other developing countries, especially those experiencing the same economic crises and supervisions by the IMF and the World Bank, in that it has combined 'neo-liberal' economic reforms with social

welfare reforms based on 'social democratic' principles. The Korean Government has expanded coverage and benefits at a speed unprecedented in history, and has made remarkable progress in unifying segmented social insurance administrations, all of which emphasise the state's responsibility for its citizens' wellbeing.

This unique policy combination was possible largely because of three preconditions: strong fiscal capacity, democracy, and strong institutionalised political leadership. As democracy consolidated, citizens were able to elect as their President a centre-left candidate, Kim Dae-jung, who had been vetoed by the military and conservative social forces for the previous 30 years, and civil activist groups and democratic labour unions inserted their interests through the ruling party and the Tripartite Commission. The Kim Dae-jung Government in coalition with the lower-middle and working classes utilised relatively healthy state revenues and stable political systems to achieve desired social policy goals. Contrary to the expectations of the conventional wisdom, the integration of the Korean economy into the global market has not been hampered by the dramatic upgrading of social welfare systems. Rather, it has eased economic restructuring and contributed to social stability, which seems to be associated with a significant improvement in the nation's credibility and increasing inflows of foreign capital.

The Korean case allows us to be less pessimistic than most believed possible about the future of the welfare state both in the developed and in the developing world. Most developed countries enjoy relatively stable revenue bases and democratic political systems that can be utilised by politicians to counteract the dark side of economic globalisation. In developing regions also, we observe the spread of democracy and its consolidation along with more successful launches of economic restructuring programmes than before. If these developments are combined with more stable political systems, governments could rationalise existing poorly managed social welfare systems and weave more effective social safety nets. We have seen such a possibility and its realisation in Korea and there is no reason for us not to expect similar cases in other developing countries in the future.

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