

**THE 'WELFARE STATE' IN KOREA: THE POLITICS OF
LEGITIMATION**

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A thesis submitted to the Faculty of Social Studies,
University of Oxford,
in fulfilment of the requirements of the degree of

Doctor of Philosophy in Politics

Hilary Term, 1995



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D. Phil. Thesis
Hilary Term
1995

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This thesis analyses the development of the Korean welfare system since the 1960s within the institutional dynamics of Korean politics. Its aim is to contribute to the understanding of Korean politics through the analysis of the Korean welfare state. The thesis argues that the making of social policy has been determined primarily by the politics of legitimation, in particular before democratisation.

This thesis identifies the confined institutional circle responsible for crucial social policy decisions. In this institutional terrain, the President and his ministers and policy experts have played the dominant roles. The democratisation since 1987 brought about institutional changes and enabled institutions such as the National Assembly to exercise effective power in social policy-making.

The political rationale of social policy is deeply embedded in the structure of social policy institutions, especially the way in which the state intervenes in the financing of welfare programmes. In the mix of welfare financing, the regulator type of state intervention emerges as the dominant feature in Korea.

This thesis assesses the outcomes of social policy from two perspectives: the perspectives of redistribution and of social rights. Social policy intervention has so far had little redistributive effect mainly due to the immaturity of the welfare system. In terms of social rights, the universality of rights to health care was achieved in a relatively short period of time. Rights to protection against industrial accidents have made good progress in terms of compensation and protection for the last three decades, despite the limited coverage. However, the quality of social rights that have so far been implemented is low.

In two important respects, the approach of the thesis is characterised by methodological broadness. In the policy analysis, the thesis moves beyond an institutional approach to including also the substantive outcomes of institutional changes. In the analysis of outcomes, the thesis covers both the perspective of redistribution and the perspective of social rights.

Acknowledgements

I would like to express my deep gratitude to my supervisor, Professor Stein Ringen. Throughout my study in Oxford, Professor Stein Ringen always encouraged me to persevere and gave me insights whenever I encountered difficulties in my work. I have been very fortunate to have such a mentor. Without his teachings, I could not have complete all the hard work.

My grateful acknowledgements are also due to Professor J.A.A. Stockwin, Dr. Rosemary Foot of St. Antony's College, Dr. Alan Ware of Worcester College and Dr. Vincent Wright of Nuffield College, Oxford University and Dr. James Grayson of Sheffield University, who is my co-supervisor, for their teaching of political study.

Professor Youngnok Koo and Professor Soong-Hoom Kil of Seoul National University have not only taught me the study of politics but also provided guidance in life. I have also learned a great deal from Professors Myung Chey, Soo-ik Hwang, Hong-Woo Kim, Jung Bock Lee, Chung-Si Ahn and Kwang-uk Kim of Seoul National University. I have to express special thanks to Professor Chongil Ra of Kyung-Hee University and Dr. Hak-Kyu Shon for their encouragement and support.

My study in Oxford was supported by a Swire Scholarship and a British Council Fellowship. The Cha Fund of Asian Studies Centre at St. Antony's College and the Grant of Graduate Studies of Oxford University also provided precious financial support. My thanks for their generosity are due to Sir John Swire and Mr. John Brodie of the Swire Education Trust, Dr. Anne Waswo of the Asian Studies

Centre at St. Antony's College, Oxford University and Mr. Tom White of the British Council.

What is special studying in St. Antony's College, Oxford is the opportunity to meet fellows and students from all over the world. Among others I want to thank my friends Lawrence Davies and Dr. João Espada for the live debates on social policy as well as political theory at the Political Theory Discussion Group which we ran together. I would like to thank Dr. Ik-joo Hwang who gave me fruitful advice to organise my research and the former Cabinet Minister Mr. Yun-Taek Lee who gave me a great deal of insight to understand the inside workings of the government. I also appreciate Mr. G. Davies' help with proof-reading.

When I began to write the final manuscript, my daughter Soon-Young arrived to our family. She gave me great pleasure as well as the hard work of parenting. I have to thank my wife, Hyeryung Ahn, for her support. She has been through all the demanding roles as a student, mother and wife.

I dedicate this thesis to my mother and father whom I always respect.

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Introduction

This thesis will analyse the development of the Korean¹ welfare system since the 1960s within the institutional dynamics of Korean politics. The aims of the thesis are, first, to explain the structure of the Korean welfare system, secondly, to add to the understanding of Korean politics through the analysis of social policy, and thirdly, to contribute to the political theory of social policy that has developed based fairly exclusively on the experience of the Western democracies.

The process of introducing a welfare system to Korea started just after the Military coup d'état of May 1961. There arose an institutional crisis due to the violation of democratic principles and the authoritarian government attempted to consolidate political situation. What political rationale in this political context lay behind the social policy decisions? How did the political decisions of social policy influence the structure of social policy institutions? These are the questions which this thesis will attempt to answer.

The study of Korean politics has not been much concerned with social policies. Contemporary Korean political studies both in Korea and by observers abroad are concerned mainly with themes such as the authoritarian nature of politics, political opposition movements and transition to democracy.² Apart from topics like these,

¹ Throughout this thesis, Korea refers to the Republic of Korea, unless otherwise indicated. Romanisation of Korean script is done according to the McCune-Reishauer system except for common usages such as Park Chung Hee [Pak Chōng Hūi].

² For instance, a book edited by the Korean Political Science Association to "reflect the reality of Korean politics and its members' interest" includes articles concerned with

Korea's economic and industrial policy has attracted the greatest interest from students of public policy.³ By contrast, social policy has not attracted much interest from students of Korean politics.

This state of social policy studies may have stemmed from the political history of Korea in which the political legitimacy of the overall constitutional institutional structure has been constantly challenged and subject to political conflicts. Political conflicts have been fierce, and physical force has often intervened in the political process. This volatile politics was interesting enough to attract a great deal of scholarly interest. However, this concentration of academic interest left many important areas of political research uninvestigated, which might have been more thoroughly dealt with.

This thesis will be concerned with the development of social policy and the logic of the politics underlying such development. The development of social policy in Korea seems at first to be merely technical and subordinated to economic considerations. Yet, in Korea as elsewhere, there are necessarily political dynamics

political legitimacy, political changes in the authoritarian regime and the possibility of liberal democracy in Korean politics. Studies of social policy were not included in the book; see the Korean Political Science Association, *Hyōndae Han'guk Chōngch'i-wa Kukka* [*Contemporary Korean Politics and the State*] (Seoul: Pōmmunsa, 1986). Studies of social policy also do not appear in a book which is the most comprehensive literature review of Korean politics, whereas it lists articles and books about the whole range of subjects, including 'non-institutional political participation', which deals with political movements of students and political opposition outside the political party system; see Kim Hakchun, *Han'guk Chōngch'ihak Sajōn* [*Dictionary of Korean Politics*] (Seoul: Han'gilsa, 1990).

³ A series of debates on the role of the state in the Korean economy has been taking place in the context of economic development and state intervention. The first section of Chapter 3 will review the debate.

behind the structure of social policy.⁴ In this respect, the political analysis is essential to understanding the development of social policy.

In this thesis, we will pose three basic questions. First, we ask what is the political logic underlying the making of social policy. Secondly, we will examine how the politics of social policy influence the structure of social policy institutions. Thirdly, we assess what impact social policy has made.

Concerning the first question, we will examine where the social policy decisions were made and will identify what political strategy lay behind social policy decisions. Methodologically, historical institutionalism will be the main approach. This approach understands political activities and policy-making as conditioned by the institutional configurations of governments and political party systems.⁵ Instead of reducing the origins of social policy to social and cultural determinants, the historical and institutional approach attempts to identify the political process of social policy. Alternative perspectives offered by other theories, such as the logic-of-industrialisation, or working-class mobilisation theories would not enable us to pinpoint the origins and development of social policy in Korea.

The constitutional crisis in Korea, which had been protracted since the 1960s, made the overall structure of political institutions unstable. Under the authoritarian regime, institutions such as the National Assembly, political parties, business

⁴ "The battles behind the welfare state lay bare the structure and conflicts of modern society. Ongoing disputes among groups for redistributive advantage contests over solidarity, force a constant renegotiation of the social contract." Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State 1875-1975* (Cambridge: Cambridge University Press, 1990), p. 1.

⁵ Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1992), p. 41.

organisations and trade unions did not play an important part in policy-making. Their influence, however, was enhanced after the institutional crisis had been consolidated into democratisation process, as we have seen in the late 1980s. We will trace how the institutional transformation affected the making of social policy.

As for the analysis of the structure of social policy, we will pay great attention to the role of the state in financing social policy. We will classify three types of state intervention and see what the specific characteristics of the Korean welfare system are. The underlying assumption of this analysis is that a particular fashion of policy-making would influence the structure of social policy.

Thirdly, we will assess the impact of social policies from two perspectives: the perspectives of redistribution and of social rights. Even though these perspectives do not represent all methodologies for evaluating the impact of social policies, they will provide a balanced point of view.

Having posed these three questions, we put forward a hypothesis, throughout this thesis, that the political and institutional logic of social policy in Korea has been primarily determined by the politics of legitimation. By the politics of legitimation, we mean the politics in which the normative grounds of the overarching institutional framework of polity are challenged, and those in power attempt to defend it by use of political measures such as social policy. In other words, the deficiency of legitimacy engenders the need of social policy. This politics of legitimation stems from the violation of the democratic principles when a group of political actors acquire or attempt to maintain political power. Because of the democratic deficiency, there always exists a potential political challenge, even when there is no direct political threat to the regime. When they emerge into the political theatre, political conflicts

would be fierce in the politics of legitimation. This politics of legitimation provides the first clue to understanding why a set of social welfare programmes were introduced at a particular time in the history in Korea, *i.e.*, the beginning of the 1960s.

Regarding the political impact of social policy in relation to the politics of legitimation, we need to differentiate the time span of social policy outcomes. In the short-term political context, the very introduction of social policy may bring about political effects in a way that may appeal to citizens and political actors such as political parties and interest groups. In order to see this short-term effect, we will follow the political context in which social welfare programmes were introduced and analyse the perception of political actors toward social policy. Because social welfare programmes which have immediate political purposes may face scepticism from various political actors, we have to read carefully the perception of political actors toward social policy, which in turn influences their political strategy.

In the longer term, the political effects of social policy are more closely related to the outcomes which social welfare programmes will produce over the long period than to the immediate impact of their introduction. When social welfare programmes begin to produce their outcomes, some people may be more benefited than others. There may be a clear dividing line between winners and losers. It is also possible that most of the population would have positive gains from social policy. Whatever the outcomes may turn out to be, those outcomes will strongly influence the political attitude of political actors, and will ultimately affect the legitimacy of political power. These outcomes, however, may not be directly related to those who have initiated social welfare programmes, partly because the time span of social policy is often longer than that of a government, and partly because political actors may not identify

the outcome of social policy with a particular government, but attribute them to the state in general. Because of this nature of social policy, our analysis of policy outcomes will eventually enable us to see the long-term political implications as well as the economic and social impacts of social welfare programmes.

This thesis is an attempt to enrich our understanding of social policy and the development of the welfare state. Studies of the welfare state have dealt fairly exclusively with a limited number of nations. An enormous amount of research has been conducted about the welfare states of nations in Western Europe, the Nordic region, and North America to the extent that our understanding of the welfare state in these nations can be described as systematic and well established. New Zealand⁶ and Australia are also among well-studied countries. To a lesser extent, studies of Israel⁷ and Japan⁸ have been carried out, either in the form of comparative studies or single-country studies.

Studies of social policy in other nations are less developed. Existing studies of

⁶ New Zealand is among the pioneering nations in the development of the welfare state in the late 19th century. The welfare state in New Zealand is currently undergoing radical reshaping. See Jonathan Boston and P. Dalziel, *The Decent Society?: Essays in Response to National's Economic and Social Policies* (Auckland: Oxford University Press, 1992). See also Francis G. Castles, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand, 1880-1980* (London: Allen & Unwin, 1985).

⁷ See Michael Shalev, "Israel's Domestic Policy Regime: Zionism, Dualism and the Rise of Capital," in Francis G. Castles ed., *The Comparative History of Public Policy* (Oxford: Polity Press, 1989); Shmuel Eisenstadt, "The Israeli Welfare System - A Nation with a difference," in Richard Rose & R. Shiratori, *The Welfare State East and West* (Oxford: Oxford University Press, 1986).

⁸ As for Japanese case studies, see Naomi Maruo, "The Development of the Welfare Mix in Japan,"; Yukio Noguchi, "Overcommitment in Pensions: The Japanese Experience," in Richard Rose & R. Shiratori, *The Welfare State East and West* (Oxford: Oxford University Press, 1986).

other nations are mostly economic studies⁹ and the amount of political research is smaller.¹⁰ In this respect, the present study of the development of the welfare system in Korea will be a contribution to broadening the base of the political theory of social policy. In this thesis, only one national case, that of Korea, will be analysed in depth, but our comparative perspective of social policy analysis will be maintained to see how the case of Korea differs from those of other nations.

The thesis comprises five chapters including the conclusion. The first chapter will set forward the theoretical framework. The second chapter will analyse the process of policy-making. The third chapter will examine the structure of social policy institutions. In the fourth chapter, the outcomes of these policy interventions will be evaluated from the two perspectives we have mentioned. The final chapter will be a conclusion, in which we will seek to answer the questions posed in the present study. We will also review the possibility of whether we can identify the Korean welfare system with one of models of the welfare state, which have been discussed in the study of social policy. We will pay particular attention to the model of the conservative welfare regime.

At the end of this thesis, we have a number of Appendices. Appendix A

⁹ The following bodies of work are among economic studies of social policy in developing countries. See Jean Drèze & A. Sen eds., *Hunger and Public Action* (Oxford: Clarendon Press, 1989); Ehtisham Ahmad, J. Drèze, J. Hills, & A. Sen eds., *Social Security in Developing Countries* (Oxford: Clarendon Press, 1991); Kenneth Lee & A. Mills, *The Economics of Health in Developing Countries* (Oxford: Oxford University Press, 1983). Catherine Jones explains Hong Kong's welfare system with particular reference to the legal and administrative structure. See Catherine Jones, *Promoting Prosperity: The Hong Kong Way of Social Policy* (Hong Kong: The Chinese University Press, 1990).

¹⁰ Among few studies, Malloy's work was concerned with the politics of social policy in Brazil. James M. Malloy, *The Politics of Social Security in Brazil* (Pittsburgh: University of Pittsburgh Press, 1979).

provides an easy reference of the chronology of politics and social and economic policies in Korea. Appendix B presents a table of the Eligibility and Coverage of Social Welfare Programmes in 1990, and Appendix C shows the Composition of Taxes. Lastly, Appendix D is on contributions and pensions, related to the analysis of Chapter 4.

Throughout this thesis, in order to refer to a specific set of social policies and institutions in Korea, the term 'Korean welfare system' has been and will be used rather than the 'Korean welfare state'. As Briggs¹¹ and Titmuss¹² suggested, the concept of the welfare state is somewhat vague and often used as a political catchword. The reason for using the term 'Korean welfare system', however, is not only because of the ambiguity of the term 'welfare state'. Despite some confusion, the term 'welfare state' has been used rather exclusively to refer to sets of social policies and institutions in specific nations, *i.e.*, the OECD countries. The term 'welfare state' also implies that the welfare provisions in the 'welfare state' are beyond a certain level of economic quality. In order to avoid this pre-judgement, we will use the term 'Korean welfare system' as a neutral concept in this thesis.

¹¹ Asa Briggs, "The Welfare State in Historical Perspective," *European Journal of Sociology* Vol. 2 (1961), pp. 221-222.

¹² Richard Titmuss, *Essays on 'the Welfare State'* (George Allen & Unwin, 1963).

Chapter 1

Social Policy In A Confined Institutional Terrain

1.1 From Similarity to Difference

By and large, comparative studies of the origins of social policy fall into two categories: one emphasizes similarities in the development of the welfare state among different nations while the other category pays more attention to differences in the welfare state. The similarity studies, concentrating on the common determinants of the development of the welfare state, were followed by the studies of differences, identifying the distinctiveness of individual nations, even though there is no clear cut distinction between the two schools of comparative social policy.¹ Studies of similarities often take the form of cross-national comparison. In varying degrees of success, the similarity studies have been trying to identify general patterns in, if not a grand theory of, social policy development. By contrast, studies which attempt to explore the distinctiveness of social policy take the format of case-study. In this chapter, we will trace the trend of comparative studies of social policy and will expose the strengths and weaknesses of the arguments proposed by previous studies. Based on this exposition, we will build our own theoretical framework for the present study.

In his seminal lecture on Citizenship and Social Class, given at Cambridge in 1949, T.H. Marshall set forward a rather grand historical trend through which the

¹ Francis G. Castles, "Introduction: Puzzles of Political Economy," in Francis G. Castles ed., *The Comparative History of Public Policy* (Cambridge: Polity, 1989), pp. 1-3.

welfare state had developed in Britain. According to his theory, there have been three stages in the evolution of citizenship rights. The first stage of the citizenship evolution was marked by civil rights which refer to "the rights necessary for individual freedom such as liberty of the person, freedom of speech, thought and faith, the rights to own property and conclude valid contracts, and the right to justice."² In the nineteenth century civil rights were followed by political rights which allowed the population which had been excluded to exercise political power. From the beginning of the twentieth century, the evolution of history moved into the third stage of social rights which refer to the "whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society".³ In this theory, the development of the welfare state can be explained in terms of the historical trend in which citizenship rights have evolved. In other words, the development of the welfare state was 'dictated by history'.⁴

This conclusion, which may seem to go beyond Marshall's intention, is too deterministic and has been misleadingly represented as a quasi-automatic, harmonious progression.⁵ There is little explanation about the actual cause of the trend. The

² T. H. Marshall, *Class, Citizenship and Social Development* (New York: Doubleday, 1964), reprinted in T. H. Marshall and T. Bottomore, *Citizenship and Social Class* (London: Pluto Perspective, 1992), p. 8.

³ *Ibid.*, p. 8.

⁴ *Ibid.*

⁵ Tom Bottomore, "Citizenship and Social Class, Forty Years On," in T. H. Marshall and T. Bottomore, *Citizenship and Social Class* (1992), p. 55. See also Bendix's critique on evolutionist approaches to social changes. Reinhard Bendix, *Nation-Building and Citizenship: Studies of Our Changing Social Order* (Berkeley: University of California Press, 1974), pp. 5-35.

logic of history, which Marshall regarded as the driving force of the trend, is the issue to be explained.

Having criticised Marshall's explanation, one should notice that his theme in the lecture was putting forward the concept of citizenship rather than building a theory of welfare state development. His explanation was mainly narrative, based on British history. Most countries in Europe and North America, in varying degrees, have experienced the development of ideas, institutions and programmes with respect to the welfare state with features similar to the theory that Marshall saw in Britain.

By the development of the welfare state since World War II, many scholars were convinced that there is a universal logic of evolution in the development of social policy. Among them were scholars of social policy who understood the evolution of the welfare state by the 'logic of industrialisation'. According to this theory, as industrialisation progressed, social policy became necessary, because the traditional institutions such as family, community and church were either weakened or unable to deal adequately with new social contingencies. On the other hand, industrialisation created the resources required for the implementation of social programmes. On the basis of a cross-sectional analysis, Harold Wilensky concluded that

(E)conomic 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 method of financing.⁶

⁶ Harold Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditure* (Berkeley: University of California Press, 1975), p. xiii.

In short, the logic-of-industrialisation theory saw economic growth as the ultimate cause of welfare state development. It was argued that among industrialising nations roughly similar social insurance systems and education policies would be found regardless of the political system.⁷

The argument of the logic-of-industrialisation theory went beyond establishing similarities toward a hypothesis of convergence. If we quote Harold Wilensky once again, he argued,

(T)he primacy of economic level and its demographic and bureaucratic correlates is support for a convergence hypothesis; economic growth makes countries with contrasting cultural and political traditions more alike in their strategy for constructing the floor below which no one sinks.⁸

The logic-of-industrialisation theory was successful in finding a broad correlation between economic level and the development of the welfare state. Cross-national data for the 1940s, 1950s or 1960s were well matched to the convergence hypothesis.⁹ The logic of industrialisation, however, is weak in explaining the detailed profiles of social policies in individual nations. For instance, the British reform in the 1940s should be

⁷ P. Cutright, "Political Structure, Economic Development, and National Social Security Program," *American Journal of Sociology*, 70 (1965); see also Frederic Pryor, *Public Expenditures in Communist and Capitalist Nations* (London: Allen & Unwin, 1968).

⁸ Harold Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditure* (1975), p. 27.

⁹ Theda Skocpol and E. Amenta, "State and Social Policies," in *Annual Review of Sociology* (1986), p. 133.

explained by an unusual situation of war and austerity creating a high degree of solidarity among its citizens rather than the level of industrialisation.¹⁰ More importantly, the level of industrialisation, in many cases, does not match the sequence of introduction of social policies.

Another school of scholars who attempt to find a universal logic in the development of the welfare state are neo-Marxists. Neo-Marxists understand the development of the welfare state in terms of the contradictions of capitalism. According to their view, the capitalist state has to fulfil two contradictory functions: accumulation and legitimation.¹¹ The state must, on the one hand, serve the interests of capital and, on the other hand, appear as a neutral actor to maintain social order. Social policy is understood as one of the mechanisms of legitimation, which maintains social harmony in capitalist society. Legitimation efforts like social welfare programmes, however, must be kept within the boundary in which accumulation is not hampered. Whether structurally or instrumentally autonomous from capitalists¹², the capitalist state cannot go beyond its constraints.

Neo-Marxist theorists advanced the understanding of the structural character of

¹⁰ Peter Flora & A. Heidenheimer, "Introduction," in Peter Flora & A. Heidenheimer eds., *The Development of Welfare States in Europe and America* (London: Transaction Books, 1981), p. 8.

¹¹ Claus Offe, *Contradictions of the Welfare State* (London: Hutchinson, 1984), pp. 120-121; James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), p. 6.

¹² On the autonomy of the capitalist state, an interesting debate took place between R. Miliband and N. Poulantzas. See Ralph Miliband, *The State in Capitalist Society* (London: Weidenfeld and Nicolson, 1969); "The Capitalist State: Reply to Nicos Poulantzas," *New Left Review* 59 (1970); "Poulantzas and the Capitalist State," *New Left Review* 82 (1973); N. Poulantzas, *Political Power and Social Class* (London: New Left Books, 1968); "The Problem of the Capitalist State," *New Left Review* 58 (1969); "The Capitalist State: a Reply to Miliband and Laclau," *New Left Review* 95 (1976).

the relationship between social policy and economic policy, which the logic-of-industrialisation theory juxtaposed. Social policies do not always go in tandem with economic policies. Obviously, social welfare programmes need resources to be implemented with and such costs could hamper the accumulation of capital. The weakness of neo-Marxists lies on the origin of social policy. The functions of social policy in capitalist society do not explain the origin of social policy. Even though some social policies carry out the function of legitimation in capitalist society, such function does not mean that social policies are necessarily originated by the purpose of legitimation. Without further elaboration of the decision-making process of social policy, the neo-Marxist view would make the mistake of functionalistic explanation.¹³

Another difficulty facing the neo-Marxist view is how to explain the expansion of the welfare state. The expansion in some nations went beyond the political and economic minima. According to the neo-Marxist view, the purpose of legitimation is to maintain the status quo, and the capitalist state is structurally constrained so that it cannot go beyond the structural limit. Because of this determinism, the neo-Marxist view cannot explain the expansion of the welfare state, which is obviously beyond the functional minimum of capitalist society.¹⁴

Both the logic-of-industrialisation and the neo-Marxist theories fall into the category of similarity studies in the sense that they attempted to formulate universal theories applicable in different national settings. These similarity studies provide a

¹³ Ian Gough offers two answers: first, the strength and form of working class struggle, and secondly the ability of the capitalist state to formulate and implement policies to secure the long-term reproduction of capitalist social relations. Ian Gough, *The Political Economy of the Welfare State* (London: Macmillan, 1979), p. 64.

¹⁴ Peter Baldwin, *The Politics of Social Solidarity: Class Base of the Welfare State 1875-1975* (Cambridge: Cambridge University Press, 1990), pp. 3-31.

macro viewpoint. The development of the welfare state can be seen from an overall long-term perspective, despite the criticisms which we have discussed. Because of the emphasis placed on common determinants, similarity studies do not pay much attention to differences between countries. Among countries at a similar level of economic development, welfare states vary to a large extent, for instance, from the marginal welfare state to the institutional welfare state. Even nations with the same level of comprehensiveness in welfare provision may have experienced different pathways. Why do welfare states differ?

A number of studies were carried out to explore the distinctiveness of policy profiles in individual nations. Scholars of social policy also began to look into the causal factors of differences between nations. A whole range of variables have been put forward by a number of studies from the geo-political¹⁵ to religious explanation¹⁶. The long standing interest, however, is about the scope of policy origin in each individual nation in shaping its welfare state.

1.2 Does Politics Matter?

The scholarship of social policy began to pay attention to the significance of politics in shaping the welfare state. Research by Douglas Hibbs tested the relationship between

¹⁵ Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).

¹⁶ Francis G. Castles, "On religion and public policy: Does Catholicism make a difference?" in *European Journal of Political Research* 25(1) (1994); Göran Therbon, "Another way of taking religion seriously: Comment of Francis G. Castles," in *European Journal of Political Research* 26(1) (1994); Francis G. Castles, "On religion and public policy: The case for covariance, Reply to Göran Therbon," in *European Journal of Political Research* 26(1) (1994).

party political constellation and policy outcomes. He set forward a hypothesis as follows. Left-wing governments would pursue a low unemployment and high inflation policy package, whereas right-wing governments would choose a high unemployment and low inflation policy. Data from twelve European and two North American nations supported the hypothesis that political party constellation had influenced macro-economic outcomes.¹⁷ Francis Castles and others investigated patterns of public expenditure and party politics. Their findings suggested that the co-relation between political party constellation and policy outcomes has been increasingly weakened.¹⁸ For the weakening of the co-relation, Francis Castles indicated the fact that the importance of ideology in politics had declined since the World War II. The external constraints on governments have also increased.¹⁹ For instance, international organisations such as European Union and IMF penetrate national economies so deeply that no government can simply ignore the constraint from international political economy.

The working-class mobilisation theory took into account the power base of political parties as well as parties themselves, in order to explain policy differences. Other interest organisations such as trade unions and business organisations as well as political parties were placed in the centre of analysis in this perspective. The hypothesis of the working-class mobilisation theory is that welfare state development is

¹⁷ Douglas A. Hibbs, "Political Parties and Macro-economic Policy," *American Political Science Review*, 71 (1977), p. 1487.

¹⁸ Francis G. Castles ed., *The Impact of Parties: Politics and Policies in Democratic Capitalist State* (London: Sage, 1982), p. 32.

¹⁹ Alan Ware, *Citizenship, Parties and the State* (Oxford: Basil Blackwell, 1987), p. 205.

closely related to the strength of working class power. The strength of working class power is measured, for example, by the level of unionisation, the type of unions and their inter-relationship.²⁰ From a comparative study of Scandinavia, Austria, and Germany, Esping-Andersen and Korpi drew a conclusion that the boundaries of social reform appeared substantially narrower in Austria and Germany than in Scandinavia, where the labour movements were comparatively strong.²¹ In contrast to Scandinavia, the bourgeois strengths in Germany and Austria appeared to be solid and hegemonic. Their social democratic parties played only a peripheral role in pre-war policy-making in these countries.

The experiences of some nations, however, do not always confirm the hypothesis of working-class mobilisation. By the strength of the working class, the eighteen OECD countries fall into five categories.²² Among the countries with a high level of mobilisation, Sweden, Norway and Austria²³ have had a pattern of strong and stable social democratic participation in government. This categorisation, however, does not appear well-matched with the development of the welfare state. For example, the French and German legislation in the 1960s and 1970s, modelled on

²⁰ Walter Korpi, *The Democratic Class Struggle* (London: Routledge & Kegan Paul, 1983), p. 39.

²¹ Gösta Esping-Andersen & W. Korpi, "Social Policy as Class Politics in Post-War Capitalism: Scandinavia, Austria, and Germany," in John Goldthorpe, *Order and Conflict in Contemporary Capitalism*, (Oxford: Clarendon Press, 1984), p. 202.

²² Walter Korpi, *The Democratic Class Struggle* (1983), p. 40.

²³ About the case of Austria, Korpi makes two different remarks regarding the political power of the left, which appear to be conflicting. See Walter Korpi, *The Democratic Class Struggle* (1983), and Gösta Esping-Andersen & W. Korpi, "Social Policy as Class Politics in Post-War Capitalism: Scandinavia, Austria and Germany," in John Goldthorpe, *Order and conflict in Contemporary Capitalism*, (1984).

Beveridgean and Nordic patterns, poses a difficult question for the working-class mobilisation theory. Neither country belongs to the high-mobilisation category.

The work of Peter Baldwin explains why the working-class mobilisation thesis does not always work. He criticises a simple dichotomy such as working class vs. bourgeoisie. It is misleading because redistribution of risk and income does not always take place along the lines of class division. Instead of class, the redistribution undertaken by social insurance reappropriates the cost of misfortune most immediately according to actuarial criteria, namely 'risk categories'.²⁴ Risk categories are a group of actors identified and given interests in common by their shared relations to the means of security, by their stake in or against the redistribution of risk promised by social insurance.²⁵ Two attributes of a group are crucial in dividing the line between risk categories. One is risk-incidence of the group and the other is the capacity for self-reliance. Generally speaking, the working class is more prone to risk and less self-reliant than others, but the working class is not in a position of monopoly of risk. Even in a single class, there can be various risk categories. One sector of a class may belong to the same categories as other sectors of another class. The middle class in particular has embraced a multitude of risk categories with divergent interests.

²⁴ Peter Baldwin, *The Politics of Social Solidarity*, (1990), p. 11.

²⁵ *Ibid.*, p.12. P. Baldwin and S. Olsson were engaged in the debate on the role of farmers in the development of the Swedish welfare state. Baldwin argued that the farmers as well as the working class played an important role in the 19th century when the Swedish welfare reform started. Olsson challenged this view, and pointed out that Baldwin had misread the historical context. Olsson maintained that the Swedish welfare state was the triumph of the working class. See Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State 1875-1975* (1990), p. 113; Sven E. Olsson, "Working Class Power and the 1946 Pension Reform in Sweden: A Respectful Festschrift Contribution," *International Review of Social History*, 34, 2 (1989); Peter Baldwin, "Class, Interest and the Welfare State: A Reply to Sven E. Olsson," *International Review of Social History*, 34, 3 (1989).

Because of this multi-faceted nature of the middle class, its approach to social policy has not been consistent over time. The transcendence from the restricted welfare state to the solidaristic welfare state depends on whether social policy embraces a wide range of risk categories. Peter Baldwin argued that winning middle class support is a decisive factor in successful welfare reform.²⁶

The weakness of the class-based theories is that they do not adequately account for the political mechanism of how class power or class-coalition is transformed into policies. These class-based theories assume that political outcomes are a reflection of the balance of political power. Esping-Andersen's work, for instance, makes a direct link between class coalition and welfare-state regime attributes.²⁷ There is a whole range of institutional pre-conditions to be met in order to establish the direct link between class coalitions and policy outcomes. For example, first, peak interest groups, such as organisations of industrial business and national trade unions should have a strong leadership over their members. Secondly, there must be a close tie between the peak interest groups and political parties so that the interest groups have a channel into political decision-making. Thirdly, the parliament must be an effective decision-making arena, where political parties install the political coalition. By and large, a strong parliamentary system and the corporatist interest-mediation system may fulfil these pre-conditions. These institutional settings, however, are only a few variations among several possible institutional structures.

A comparative study on health care policy in Switzerland, France, and Sweden

²⁶ Peter Baldwin, *The Politics of Social Solidarity*, (1990), pp. 21-31.

²⁷ Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity, 1990).

illustrates how the difference in the institutional structure leads to different policy outcomes in those countries.²⁸ These three nations have different health care systems. The Swedish health care system is considered the most socialised health system in Europe, the Swiss the most privatised, the French a conflict-ridden compromise between two.

This difference in health care systems cannot be well explained by the power resources of interest groups. Instead, institutional dynamics are a more convincing reason in explaining such differences. In Switzerland, the national health insurance proposal failed to go through the legislative process. The Swiss institutional settings allowed relatively small groups to block the policy proposal through the referendum system. The Swiss executive had to compromise on health care in order to avoid a defeat in the referendum. In consequence, health care is provided privately with limited subsidies from the government. In the French case, several health reform proposals were put forward since the first introduction of compulsory health insurance after World War I, but they managed to pass through the legislative process only in such an extraordinary period as the Liberation after World War II or the emergence of the Fifth Republic. Yet, the health reform compromised various interests of the society in a way that interest groups such as those of doctors and employers successfully forced major revisions in the legislation. With respect to the Swedish health care system, the long incumbency of the Swedish Social Democratic Party paved the way to health care insurance without much difficulty.

In order to understand institutional dynamics, it is very important to identify

²⁸ Ellen Immergut, *Health Politics: Interests and Institutions in Western Europe* (New York: Cambridge Press, 1992).

the veto points as well as the veto groups. The veto point means the place where the effective decision-making takes place. In Switzerland, the veto point is the referendum which provides the effective leverage to small interest groups to veto the proposals which they do not like. In the Fourth Republic of France, the parliament with its fragile coalition and weak party discipline can be described as a veto point. Regarding Sweden, the Social Democratic party could be a veto point.

The concept of veto point is a useful tool in identifying the decision-making point. The decision-making process, however, is not necessarily as negative as 'veto' point sounds. With the same reasoning as that of the veto point, we can elaborate another fruitful concept, the effective point of decision.²⁹ By the effective point of decision, we mean an institutional terrain where policy decisions are effectively made. Once policy decisions are made at the effective point of decision, the rest of the institutional process becomes more or less a formality.

1.3 The Case of Korea: An Institutional Approach

To explore the mechanism of how politics shapes social policy, we need to examine two dimensions of politics. First, we need to identify political actors in the society. Political parties are, above all, major political actors. Trade unions, and business organisations are also influential in many nations. Regarding social-policy making,

²⁹ Ellen Immergut, "The rules of the game: The logic of health policy-making in France, Switzerland, and Sweden," in Sven Steinmo, K. Thelen & F. Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), p. 65.

professional groups such as doctors' organisations, teachers' unions and organisations of social workers are also important actors. As well as these actors, war veterans and women activists, for instance, could be effective in exercising their influence on the issues about which they are concerned, as Theda Skocpol showed in the American experience. She also emphasized the role of policy experts such as social scientists and staff professionals and federal bureaus of labour statistics in shaping policy initiatives.³⁰ As this thesis proceeds, we will be able to see that policy experts played a crucial role in the making of social policy in Korea.

Studies from the class-based approach have shown their strength in identifying political actors and assessing the power resources which political actors can mobilise to realise their interests. Policy outcomes, however, do not automatically reflect the balance of power between political actors. Because political actors have to transform their power into policies through institutional mechanisms, the institutional configuration may impose a deadlock on certain political actors whereas it may provide a strategic edge to others. As in the Fourth Republic of France, for example, small political parties can exploit a fragmented parliamentary system. Here, we need to investigate the second dimension of politics, the institutional configuration.

The institutional analysis will enable us to see where policy-making takes place beneath the formal structure of political institutions. We can also see how political actors try to adapt their political strategy in order to take advantage of the given institutional framework. In other words, the effective points of decision and political strategies are the focal point of the institutional analysis.

³⁰ Theda Skocpol, *Protecting Soldiers and Mothers: the Political Origins of Social Policy in the United States* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1992).

The institutional approach has also a strategic advantage in analysing the Korean case compared to the class-based approach. Class conflicts have not been a decisive factor in Korean politics in general and in social-policy making in particular in the way that the class-based approach assumes. Trade union movements were subject to harsh oppression, and business organisations were not able to make their voice strongly heard independently from the authoritarian government. The working-class mobilisation thesis may explain why the Korean welfare system has lagged behind those of the nations where the working class have exercised their political power. But the working-class mobilisation thesis cannot explain how particular social policies, especially those we shall examine, could be introduced. Another difficult question for the working-class mobilisation theory is to explain why Korean trade unions did not use their power, once acquired through political struggle, for the introduction of new social welfare programmes.

The thesis that 'political parties matter', faces similar difficulties to those of the class-based approach. The change of government between political parties, which is in the centre of the analysis in the party-centred approach, simply did not take place in Korean politics since the 1960s. Apart from the absence of governmental changes between political parties, there has been no significant difference in the ideological stance between major political parties. Influential political parties are moderate right-wing parties with a certain extent of difference. More importantly, political parties and the National Assembly were not effective points of decisions as we shall see in the following chapter. These factors impose difficulties on the party-centred approach to examine development of social policy in Korea. After the democratisation, however, political parties exerted their influence in social policy legislation. We will pay

attention to the role of political parties and the National Assembly in social policy-making in relation to institutional changes.

Instead of class-based and party-centred approaches, we will formulate our theoretical framework for the present thesis. According to Peter Hall, political institutions comprise three different levels of political structure. In his words, "the concept of institutions is to refer to the formal rules, compliance procedures and standard operating practices."³¹ In other words, the institutional approach pays attention not just to the global structure of institutions but also to intermediate institutions and established patterns of political life. In this theoretical formation, we can explore three conjunctures of politics in general and policy-making in particular.

First, we can take into account the historical and political context of institutions. Institutions are the historical products of political struggle. In other words, previous political struggles and their historical legacies are embedded in institutions. When political actors agree with the normative social order of the overall configuration of institutions³², the fact that institutions are the results of political struggle may not be easily recognisable. But once these normative grounds of institutions are challenged to the extent that it can be described as institutional crisis, it would be clear that the institutions are the products of political struggle. In the institutional crisis, political battles are more fierce and they take place over the overarching structure. Political actors who have a vested interest in the prevailing

³¹ Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Cambridge: Polity, 1986), p. 19.

³² G. John Ikenberry, "Conclusion: An Institutional approach to American Foreign Economic Policy," in G. John Ikenberry, D.A. Lake & M. Mastanduno, eds., *The State and American Foreign Economic Policy* (Ithaca: Cornell University Press, 1988), p. 226.

institutional configuration will defend it in terms of normative arguments as well as other political actions. Those who are against the existing structure will challenge the normative grounds of the existing institutions and may fight for alternative political arrangements.

Secondly, we need to examine carefully the relational character of institutions.³³ Once, the battle over the global structure is settled, policy decisions will be in the centre of political conflicts. In many cases, the place where decisions are actually made is different from the point where decisions are supposed to be made according to the formal constitutions. Therefore, we need to look into interaction between political institutions to find out where the effective point of decision is located.

Thirdly, we need to read the political strategy of political actors. In so doing, we also need to see the preference formations of political actors. Because political strategies are the tools of political goals, the preference formation of political actors is an important factor in developing political strategies. Of course, political actors develop their strategy in the given settings of institutions. From the point of view of historical institutionalism, preference formation is contingent upon the historical background of political actors as well as the institutional structure.³⁴

This historical institutional approach has a strategic advantage in the analysis of the development of social policy in Korea. As we shall find in Chapter 2, most social policy decisions were made in a confined institutional terrain, to which only a small number of decision-makers had access, until the democratisation process began.

³³ Peter Hall, *Governing the Economy* (1986), p. 19.

³⁴ Sven Steinmo & K. Thelen, "Historical institutionalism in comparative politics," in Sven Steinmo, K. Thelen & F. Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (1992), p. 9.

Regarding social-policy making in Korea, the President, who has been the most powerful and important institution in Korean politics, ministers concerned with social policy, and policy institutions to which policy experts belong had made policy decisions in the confined circle of institutions. Apart from these institutions, provisional military councils, which were set up twice in two different military coups, played active roles. Other political institutions such as the National Assembly and political parties did not play significant roles as we could expect in the light of the explanation of other countries. Consequently, social policy issues were not at the centre of the political battle.

We will investigate these three conjunctures of institutional configuration: first, the overarching institutional structure, secondly, the effective point of decision and thirdly, the political strategies of political actors. As we shall see, Korean politics since the 1960s has been unfolding in a way that we may call the politics of legitimation, which is characterised by fierce political battles over the overall structure of institutions. In this battle, the legitimacy of the institutions as a whole was challenged and those in power attempted to defend it. We will describe Korean politics from the 1960s to the late 1980s when the democratisation began, the politics of legitimation. Since this politics of legitimation had been carried through to those three conjunctures of institutional configuration, we will examine how the politics of legitimation determined the politics of social policy through the analysis of each level of institutional structure.

By legitimacy, we mean the belief in the legitimate authority. Such belief can be established in a number of ways. For example, as Max Weber puts it, political actors may ascribe legitimacy to a social order by virtue of tradition, affection and

value-rational faith.³⁵ The belief in the legitimate authority is also historically determined as well as by such various perceptions. It seems to be a mistake, for instance, to say that the feudal social order of a society in the Middle Ages was not legitimate, only referring to the belief which prevails in contemporary society. The reference of legitimacy must be found in the context of the society concerned. In other words, the legitimacy of a particular political regime must be understood in relation to the sets of values of that society at a particular point in time. Throughout this thesis, we will ascribe legitimacy to the conformity of regimes to the principles of democracy. This is the case in the Korean context in the particular period of time with which we are concerned, since the 1960s. As this thesis proceeds to the following chapters, we will find that there has been an implicit consensus in Korean society throughout the period since the 1960s that legitimacy hinges on the conformity of regimes to the principles of democracy. What mattered was how to justify the prevailing regime if it were not based on the principles of democracy. Those in power attempted to defend their regimes with varying degrees of success, arguing that the violation of democratic principles was either necessary or inevitable, at least for the time being. But they did not deny democracy itself as a legitimate form of political order. Political opposition, of course, called for democratisation, instead of accepting the justifications from those in power.

Even if we define legitimacy in terms of conformity to democratic principles, there still remain some methodological issues to solve. First, such definition does not resolve the issue of measurement of legitimacy. Because conformity to democratic principles ultimately depends on the perception of people in society, the degree of the

³⁵ Max Weber, *Economy and Society* (New York: Beminister Press, 1968), p. 36.

legitimacy of a political regime has inevitably to refer to such perception. This gives rise to methodological difficulties in measuring the degree of legitimacy. One may directly ask people how they perceive the prevailing regime, using survey research techniques. Alternatively, one may also analyse results of elections or referenda in order to look into the popular belief about the prevailing regime. These methods are not always as reliable as one might expect. Opinion polls are often banned in many authoritarian regimes, or political authorities manipulate them for their own political purpose. Regarding elections and referenda, high turn-outs and high rates of support are the characteristics of authoritarian regimes not of democratic political systems, due to political mobilisation and propaganda.

The second methodological difficulty stems from the fact that authoritarian regimes do not deny completely the principles of democracy. They attempt to appear democratic as long as such an attempt does not endanger their hold of power. Elections and referenda do take place and a certain degree of political autonomy is given to political parties and social groups. One may score points for a political regime with respect to democratic institutional elements to measure the extent of its legitimacy, but such a method seems to be too static to capture the dynamics of politics and that of political change in particular.

In this thesis, we do not directly tackle the issue of the measurement of legitimacy, nor do we attempt to evaluate the legitimacy of the series of regimes over the period with which we are concerned. Instead, we will pay attention to critical points in time when violations of democratic principles were made and the issue of legitimacy explicitly arose. In particular, we focus on the military coup d'état of 1961, the constitutional reform of 1972 and the political turmoil of 1980. We focus on

these political conjunctures because at such points in time political initiatives of social policy came about as an effort to enhance the legitimacy of political regimes.

1. 4 The Politics of Legitimation and Democratisation

By the politics of legitimation, we mean the politics in which the normative grounds of the overarching institutional framework of polity are challenged, and those in power attempt to defend it by the use of political measures such as social policy. Since we understand legitimacy in terms of conformity to democratic principles, the politics of legitimation differ from those of democratisation, although they could both ultimately result in enhancing the legitimacy of political regimes. In the politics of legitimation, various political measures are used to enhance the legitimacy of the prevailing regime, while the undemocratic nature of the institutional structure is maintained. By contrast, in the democratisation process, the overarching structure itself would be reformed so that it conforms to the principles of democracy. It gives rise to the necessity of explaining whether and how the transition from the politics of legitimation to the politics of democratisation can be carried through in terms of institutional changes.

The notion of legitimation refers to engendering and maintaining the belief that the existing political structure of institutions is appropriate and acceptable to the society. A similar conception of legitimation has been adopted by some social scientists and neo-Marxist scholars in particular.³⁶ In this thesis, however, we will use

³⁶ Claus Offe, *Contradictions of the Welfare State* (London: Hutchinson, 1984).

the notion of legitimation in a narrower and more specific sense than neo-Marxists have. Whereas neo-Marxists see certain sets of public policy measures such as those of social policy as measures of legitimation, in this thesis we will see policy measures such as social policy initiatives as efforts of political legitimation only in the context of the deficiency of legitimacy. We understand, therefore, social policy measures in Western democracies in terms of democratic political process.³⁷ If we look into each of three conjunctures of institutional configuration, the difference between the politics of legitimation and democratic political process should be clear. If one only takes into consideration two levels of institutional conjunctures, *i.e.*, the relational character of institutions and the political strategy of political actors, one cannot pinpoint what the differences are between the politics of legitimation and the democratic political process.

In the politics of legitimation, first and foremost, the overarching institutional structure is challenged, due to the deficiency of legitimacy which in turn stems from the violation of democratic principles. Secondly, the political process and especially the decision-making process is monopolised to a great extent by those in power. Thirdly, political actors develop their political strategy in given political constraints. Those in power devise their political strategy in a way that would enhance the legitimacy of the prevailing institutional structure.

We have set forward the hypothesis in the beginning of this thesis that the political and institutional logic of social policy in Korea has been primarily determined by the politics of legitimation. To find out the validity of this hypothesis, it is

³⁷ Walter Korpi, *The Democratic Political Struggle* (London: Routledge & Kegan Paul, 1983).

important to look into the strategy of legitimation, *i.e.*, the political rationale for political decisions and the structure of social policy institutions. Certainly, social welfare programmes do carry out the political function of legitimation in such a way as neo-Marxist scholars have described. This does not, however, necessarily support our hypothesis since the politics of legitimation clearly imply intentional political action. This gives rise to a necessity to follow closely the decision-making process of social policy and to analyse the perceptions of decision-makers.

During the period 1961-1987, the governments of Korea pursued a strategy of legitimation that can be summarised as legitimation through economic performance despite the different emphases at certain points in time. President Park's government pursued an economic-growth strategy whereas President Chun aimed at economic stabilisation. In that formula, economic policy was given priority over other policy considerations including those of social policy. The political rationale and institutional structure of social policy should, therefore, be analysed in this paradigm of policy-making. It is particularly important to capture how economic strategy which was placed at the centre of the strategy of legitimation constrained social-policy decisions and in turn the structure of social-policy institutions. We will follow closely the political process formulating the strategy of legitimation through looking into the confined institutional terrain where policy decisions were effectively made. We will also pay attention to the ways of policy intervention in the financing of social welfare programmes and attempt to find out how the strategy of legitimation entailed social-policy institutions which required low state financial commitments.

Since 1987, the nature of Korean politics has changed from the politics of legitimation to that of democratisation. Through the process of democratisation, the

overarching structure of institutions increasingly came to conform to democratic principles, and the relational character of institutions has changed in such a way that the confined circle of institutions can no longer monopolise policy decisions. The political strategies of political actors have changed since political opportunities and channels became more available to some actors, while new democratic constraints were imposed on other political actors. In other words, there have taken place a great number of changes in all three conjunctures of institutional configuration.

Nevertheless, these changes do not necessarily imply a clear discontinuity either in the politics of legitimation or in the politics of social policy. First, the democratisation process does not resolve the issue of legitimacy once and for all since it is a piecemeal reform. Some of the authoritarian characteristics of institutional structure, such as issues concerning the National Security Law, have certainly been carried over to the period of post-1987. Secondly, in terms of the relational character of institutions, a democratically elected President could exercise strong political power, even stronger than the authoritarian counterpart, if he has a powerful mandate. In other words, democratisation does not in itself guarantee a stronger voice or more influence to other political actors such as political parties and social groups. Thirdly, social-policy considerations would not automatically be given priority over economic policy. Since "the eventual survival of the new democracies will depend to a large extent on their economic performance,"³⁸ economic policy would be taken most seriously in the new democratic government. In other words, the policy paradigm which gave priority to economic policy over social policy might persist in the post-

³⁸ Adam Przeworski, *Democracy and the Market* (Cambridge: Cambridge University Press, 1993), p. 95.

1987 period in Korea.

In the analysis of the period of democratisation, we will first focus on the changes in the nature of institutional relations. Electoral politics and political confrontations such as that between the President and the National Assembly, will be placed at the centre of our analysis. This analysis will enable us to see whether the nature of the politics of social policy has been changed and where the effective point of social-policy decisions has been shifted. We will ask questions as to whether the President still holds the effective power to make decisions or whether other institutions such as the National Assembly have gained power over political decision-making. These will lead to further questions as to whether the changes in social-policy making would bring about transformation of social-policy institutions. We will pay attention to continuity and discontinuity in the modes of policy intervention in the financing of social welfare programmes.

Since the issue of legitimacy has to a certain extent been carried over in the period of democratisation, elements of the politics of legitimation also remained in the post-1987 period. Nevertheless, we would not see the politics of legitimation as overriding the nature of politics in the period of democratisation, since the normative grounds of the newly formed institutional structure have not faced challenges to the extent of an institutional crisis. The political function of social policy, namely enhancing political support, however, would still be available for political actors, and there is no reason for them to abandon such useful political instruments. We will analyse how political actors, especially the President and political parties, perceive social policy and develop political strategy from the perspective of democratic political process, in which the elements of the politics of legitimation still persist.

1.5 The Role of the State and the Outcomes of Social Policy

So far we have discussed issues in the policy process through which social policy originated. We now turn to the results of this process, to social policy institutions and to the outcomes of government actions in the form of social policy.

Possibly the most used method for measurement of social policy activity is the public expenditure approach.³⁹ The standard method is to calculate the size of either public expenditure or social expenditure as a percentage of GDP. This method can produce a table which shows at a glance the trend of public expenditure over time in one nation and give a clear comparison among nations at one point in time. The other reason why this public expenditure method has been widely used is that data on public expenditure is the most easily available. In many Western democracies, especially where public spending is high, the figures for public expenditure are also a politically sensitive indicator.

There have been, however, criticisms of the validity of the public expenditure approach. On the one hand, it is criticised in the sense that expenditures are epiphenomenal to the theoretical substance of welfare states and that the linear scoring approach contradicts the sociological notion of power, democracy and welfare which are structural phenomena.⁴⁰ On the other hand, it is also criticised in terms of social

³⁹ See Frederic Pryor, *Public Expenditures in Communist and Capitalist Nations* (1968); Harold Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditure* (1975); David Cameron, "The Expansion of the Public Economy: A comparative analysis," *American Political Science Review*, 72 (1978); Francis Castles, *The Impact of Parties* (1982).

⁴⁰ Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990), p. 19.

rights. Higher expenditure does not necessarily mean better protection of social rights.⁴¹ For instance, a part of the population might not have access to the public health care system in a country where the public spending on health is larger than another country where most of the population have equal access to medical protection.

We could also point out the limit of the public expenditure approach as a method of comparison concerning the financing of welfare programmes. Because the institutions of social policy and their funding method vary to a great extent from one country to another, the implications of public expenditures in general and, social expenditures in particular, are not always the same. In Britain, for instance, where the health care services are largely funded by government expenditure, the proportion of government spending on health is a good indicator of the role of the state, but in other countries like Korea the importance of government spending as an indicator is not so significant as in Britain because of the method of financing. To find out the reason, we need to differentiate the role of the state in the financing of welfare programmes.

Instead of making a typology according to the global attributes of the welfare state, we will focus in the present thesis on the role of the state in the financing of welfare programmes. In the financing of welfare programmes, state intervention falls into three types according to the role which the state plays. In the first type, the state is a 'provider', which means that it produces social services through its expenditure.

⁴¹ See Walter Korpi, "Power, politics, and state autonomy in the development of social citizenship: Social rights during sickness in eighteen OECD countries since 1930," in *American Sociological Review*, Vol. 54 No. 3 (1989); Oli Kangas, *The Politics of Social Rights: The Studies on the Dimensions of Sickness Insurance in OECD Countries* (Stockholm: Swedish Institute for Social Research, 1991); Joakim Palme, *Pension Rights in Welfare Capitalism: The Development of Old-Age Pension in Eighteen OECD Countries 1930 to 1985* (Stockholm: Swedish Institute for Social Research, 1990).

The second type of intervention is as a 'regulator' in which the state makes laws, decrees or regulations to bring about a certain form of compulsory programme. The state, however, does not provide the funds itself. In the last form, the state is a 'market-maintainer'. This form may imply that there is no state intervention at all in social welfare programmes. The state does not interfere with market mechanisms and lets the market provide welfare. This form can, however, be a deliberate action in two ways. First, if a change is made from one of the other two forms of state intervention to the market-maintainer, this change might be a deliberate action. Secondly, if the state rejects the demand to change the way of state intervention from the type of market-maintainer to another, this might also be an intentional means of intervention, a deliberate non-action.

We will discuss the type of intervention in detail in chapter 3 in which we will be concerned with four welfare programmes⁴²: Industrial Accident Insurance, National Health Insurance, the Public Assistance Programme and the National Pension Programme. These four programmes are the main contours of the Korean welfare system in terms of history, coverage and impact. They also represent the main areas of social policy: industrial accidents, health care, income support and old-age pensions. Industrial Accident Insurance was introduced as a compulsory welfare programme in 1964. In 1990, 41.3% of employed persons⁴³ were covered by Industrial Accident

⁴² In this thesis, we do not analyse education and housing policies. Of course, they are important parts of the welfare state, but the present framework cannot deal with these two areas of social policy because we think we need to approach them from cultural and sociological angles as well as political analysis. For this reason, it must be said that the discussion in this thesis does not cover the whole of the welfare system in Korea.

⁴³ The figure is calculated from National Bureau of Statistics, *Han'guk T'onggye Nyōn'gam [Korean Statistical Yearbook]* (1990) and Ministry of Labour, *Sanjae Pohōm Saōp Nyōnbo [Yearbook of Industrial Accident Insurance]* (1990). 'Employed persons'

Insurance. National Health Insurance was introduced in 1965 as an experimental programme. In 1977, it has become a compulsory programme and the coverage has been gradually widened. National Health Insurance became a universal programme, covering the whole population in association with the Health Assistance Programme in 1989. It marked a breakthrough in the development of the Korean welfare system. The Public Assistance Programme (1965) and the National Pension Programme (1988) are the income maintenance programmes for low-income people and for the elderly, respectively.

With respect to the analysis of the social policy outcomes, we may have to make a difficult choice: which aspects of policy outcomes should we look into? This often gives rise to the issue of value judgement, because not all outcomes of social policy are technical. Desirable outcomes to someone may not be desirable at all to others. For libertarians, social welfare programmes easily lead to undesirable consequences. For egalitarians, social policies are supposed to bring about a better income distribution. The debate seems to be conducted upon never-converging parallel lines.

We propose two perspectives to evaluate the outcomes of social policy: the perspectives of redistribution and of social rights. These two perspectives will allow us to see the outcomes from different angles and will provide a balanced point of view. In examining policy outcomes, we focus only on primary consequences not unintended outcomes such as disincentives to work nor secondary outcomes such as freedom. First, we will analyse three dimensions of income distribution: the trend of income distribution, cross-sectional income redistribution and income redistribution

includes 'temporary employees' who work fewer than 18 hours a week.

over life-cycle. With respect to the trend of income distribution, we will review a few existing studies of income distribution. Through the cross-sectional analysis, we will measure redistributive effects of social policy. We will also do a simulation to find out the effects of income redistribution over life-cycle.

Secondly, we will look into the social rights aspect of welfare outcomes. Following T. H. Marshall's insights, we can define social rights as "referring to legislated social provisions aimed at guaranteeing economic welfare and security for every citizen, and the standard of those provisions correspond to the prevailing standards in the society."⁴⁴ The concept of social rights has a strong implication of the ideal state of human life which social policy should pursue. In many cases, benefits from social welfare programmes come after an individual's misfortunes, such as health care for illness, industrial compensation for accidents and unemployment benefits to the unemployed. Most people would like to avoid the misfortune in the first place rather than to receive benefits following an unwanted event. Nevertheless, they still need a guarantee as a right to rely on in the possible event of misfortune. Using the concept of social rights, the second section of chapter 4 will examine social rights to health care, pension and protection against poverty and economic contingencies.

As we shall argue, the governments in Korea aimed at enhancing the legitimacy of the political regime when they introduced social policy. We will investigate the political strategies of legitimation in chapter 2. But how do we measure to what extent social policy has enhanced the legitimacy of a political regime? In a volatile constitutional political crisis, the very introduction of social policy may lead to

⁴⁴ Oli Kangas, *The Politics of Social Rights* (1991), p. 15.

enhancing political legitimacy, which we are able to analyse quite closely in the political context. However, in the long run, the analysis of social policy to enhance the legitimacy of the political system is related to the outcomes of these policies. The degree to which they are effective in producing intended outcomes and the distributive consequences which will bring about winners and losers are among the issues to be analysed regarding the longer term political impact of social policy. In the analysis of these issues, we are only in the position to make a first start for three reasons. First, due to the immaturity of the welfare system, outcomes have not yet materialised. Secondly, political feedbacks such as political opinion about social policy outcomes do not strongly appear, and for this reason it is too early to evaluate the political impact of policy outcomes. Lastly, our analysis of intended and primary outcomes sheds light only on limited aspects of policy outcomes. Since our evaluation of social policy outcomes breaks new ground, it is inevitably partial and tentative.

Chapter 2.

The Making of Social Policy

No political institution is a static structure. On the contrary, political institutions are constantly in change in varying degrees. Changes in political institutions can be brought about by the shift of political power as well as by the socio-economic developments. In a stable democracy where the overall structure of institutions is accepted by the majority of society, political battles take place over policy matters and the whole framework of institutions is normally stable. By contrast, where the overall structure of institutions lacks the normative grounds, such as democratic legitimacy, the political struggle tends to be about institutions. Those who have power attempt to defend the existing framework of institutions in one way or another. Sheer physical repression against opposition is often used in many authoritarian political regimes, yet such regimes also have to defend themselves in other ways. They may have to persuade people that they are competent as a government despite the lack of legitimacy or that there is no other option available for the time being. The opposition would not accept the argument of the power nor recognise the legitimacy of political institutions. They will try to point out the undemocratic nature of political institutions. They will also demand a transition to democracy. In this political situation, the legitimacy of the whole institutional framework is subject to political conflicts. We will call such politics the politics of legitimation. What political strategy do political actors adopt in the politics of legitimation? What are the roles of political institutions

such as the government, the parliament and political parties in policy-making? Where are policy-decisions taken?

Korean politics over the last three decades can be described as a case of the politics of legitimation. Since the military coup d'état overthrew the Second Republic in 1961¹, the legitimacy of the political regime had been challenged by opposition parties and civil movements. The responses from the government to the opposition were three-fold. First, legal and constitutional changes were made to strengthen their grip on power and to repress the opposition. For instance, the Park government revised the Constitution to make sure that President Park Chung Hee could be in the office for his life time. The new Constitution, the so-called Yushin Constitution, also stipulated the institutional structure in which the President had a monopoly of power.² The Park government ended abruptly in October 1979 due to President Park's death. This sudden end of the Park government could have led to democratisation. Amid the political turmoil, another military general, General Chun Doo Hwan, denied the opportunity for democratisation and maintained the authoritarian regime. This meant that the crisis of legitimacy would continue for another decade.

¹ As for Korean politics in the First and Second Republic, see Sungjoo Han, *The Failure of Democracy in South Korea* (Berkeley: University of California Press, 1974).

² Referring to O'Donnell's model of 'bureaucratic authoritarianism', the Park government was described as a 'bureaucratic authoritarian' regime. Whether the emergence of the authoritarian regime could be explained by the 'bureaucratic authoritarian regime' theory is subject to debate. See Han Sangjin, "Kwallyojōk Kwōnwijuūi-wa Han'guk Sahoe [Bureaucratic Authoritarianism and Korean Society]," in Sōul Taehakkyo Sahoehak Yōn'guhoe ed., *Han'guk Sahoe-ūi Chōnt'ong-gwa Pyōnhwa [The Tradition of Korean Society and Change]* (Seoul: Pōmmunsa, 1983); Yi Chōngpok, "Sanōp Sahoe-wa Chōngch'i Ch'eje-ūi Pyōnhwa" [Industrialisation and the Change of Political Institutions], in *Han'guk Chōngch'ihak Hakhoebo [Journal of the Korean Political Science Association]* Vol. 19, 1985; Hyuk Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," *World Politics* Vol. 39, No.2 (1987).

Secondly, the governments took advantage of the threat from communist North Korea. The governments often claimed that the authoritarian political system was inevitable, at least for the time being, faced with the communist threat. This claim of the communist threat provided a justification not only for the political system as a whole but also for many repressive measures which we will discuss in due course.

Thirdly, the governments attempted to persuade citizens that they were competent and that they could deliver what the nation wanted. President Park's drive for economic growth and President Chun's emphasis on economic stabilisation were the essential parts of such a strategy. In other words, their political strategy was legitimation through economic performance. Social policy was also a part of the strategy of legitimation. Regarding the position of social policy in the strategy of legitimation, it depends on how the relationship between economic and social policy is defined. Social welfare programmes may require the resources which otherwise would go to economic programmes. Social welfare programmes may also affect incentives to work in a negative way. Social policy, of course, can be compatible with economic policy and it can be an integral part of the overall economic policy. With respect to policy-making, the crux of the matter is the policy paradigm of decision-makers through which they perceive the relationship between economic and social policy in relation to their political necessity.³ Here, we need to see how social policy was

³ "In technically complex fields of policy, such as that of macroeconomic policy-making, decision-makers are often guided by an overarching set of ideas that specify how the problems facing them are to be perceived, which goals might be attained through policy and what sorts of techniques can be used to reach those goals."

Peter Hall, "The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s," in Sven Steinmo, K. Thelen & F. Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), p. 91.

perceived by the decision-makers and how changes in the policy paradigms could affect policy decisions.

Because of the institutional arrangement in the authoritarian regime, there was little space for political actors such as political parties, trade unions, business organisations and other interest groups to respond to those in power. First, the National Assembly was effectively controlled by the government through constitutional provisions which ensured majority for the governing party in the National Assembly regardless of the vote each political party won in the general election.⁴ Secondly, rights to organise social groups were effectively denied and the official organisations of interest groups were controlled by the government.⁵ Thirdly, repressive measures were widely used when necessary. Martial law and Presidential Emergency Measures were often imposed on many occasions to repress opposition. Due to these institutional constraints, political actors had only narrow channels to the decision-making process.

The institutional constraints did not mean complete denial of political activity. Interest groups attempted to enhance their interest given the constraints. Business organisations expressed their view when necessary and official trade unions tried to

⁴ According to the 'Yushin' constitution of the Fourth Republic, the President had constitutional power to appoint a third of the National Assemblymen, which ensured the majority of his party in the National Assembly in conjunction with the electoral system of the rest of the National Assemblymen. In the Fifth Republic, one half of the proportionally elected National Assemblymen was given to the biggest party after the general election, according to the provision of the proportional representation system. More importantly, the opposition parties in the National Assembly were effectively controlled by the government in the Fifth Republic.

⁵ Jang-Jip Choi, "Interest Conflict and Political Control in South Korea: A Study of Labor Unions in Manufacturing Industries, 1961-1980," (Ph.D. Dissertation, The University of Chicago, 1983).

protect workers' interests. Sections of this and the next chapters will account for the relationship between businesses and the state. We will also trace the ups and downs of trade union movements. Direct political challenge came from civil opposition and democratic union movements.⁶ These civil movements were deeply rooted in student democratic movements. Despite the heavy-handed oppression against them, the civil opposition movements persistently raised political issues such as democratisation, human rights and social justice.⁷ They challenged the legitimacy of the political regime and called for democratisation. Political parties sometimes attempted to mobilise support outside the institutional arena.

Politics also took place in the street where students and heavy-gearred policemen confronted each other. In this fierce form of politics, political conflict was over the legitimacy of the political regime and constitutional reform. The civil and student democratic movements played an important role in this constitutional reform movement. The question is why the issue of social policy was not raised by these political actors. Why were the social policy decisions made in the confined institutional terrain? How were decisions made in that institutional space? These are the central questions in this chapter.

We will examine the political strategy of interest groups and social groups and their perception of social policy. We will pay attention to the preference formation of business and trade unions, both official and 'democratic' unions. We will also analyse the political efforts of doctors to protect their interests regarding social policy.

⁶ George E. Ogle, *South Korea: Dissent within the Economic Miracle* (London: Zed Books, 1991).

⁷ Hak-Kyu Sohn, *Authoritarianism and Opposition in South Korea* (London: Routledge, 1989), ch. 5.

Doctors are among many professional groups who have interests at stake in social policy issues. They are so well organised and influential that they can promote and block policy proposals in their own interest. Doctors, however, are not always successful in protecting their interests. Whether they effectively protect their interests is dependent on the institutional setting and their political strategy given such settings, as well as their organisational power, such as the number of membership and the structure of organisation.⁸ In Korea, doctors are among the few professional groups who are well organised. Most other professional groups are less well organised in contrast to doctors. Teachers, for instance, are not allowed to form unions and their official organisation has been criticised as not being independent. However, the reason we will look into doctors is not because they were strong enough to defend their interests but because they often failed to promote their interests. Through the analysis of the political activity of doctors, we can see the extent of the institutional constraints imposed on the political activity of a group like that of doctors who were well organised but did not intend to challenge the legitimacy of the government. We can also see that the confined institutional terrain is not only confined but also closed.

By the confined institutional terrain, we mean the exclusive circle of institutions to which only a small number of decision-makers have access. In this small circle, policy discussions take place in an exclusive manner and the policy process is not open to the public. What makes this small circle distinctive is that it is highly effective and hierarchical in its decision-making process, in particular because it is the place where the president makes his decisions. In this small and exclusive circle, the president, his

⁸ Ellen Immergut, *Health Politics: Interest and Institutions in Western Europe* (New York, Cambridge University Press: 1992), pp. 6-9.

advisory staff and involved ministers plan their political strategy and make policy decisions in relation to the strategy. It is important to recognise the exceptionally strong presidency in Korean politics in general and policy-making in particular. The strong presidency is due not only to the authoritarian politics but to the personal authority of both Presidents Park and Chun over politicians and bureaucrats.

Regarding social policy decisions, two institutions of policy experts as well as those top decision-makers played an important role in the social-policy making: the Committee for Social Security (CSS) and the Korean Development Institute (KDI). The Committee for Social Security was an advisory committee for the Minister of Health and Social Affairs. Policy experts of the CSS played an active role from 1960 to 1972 when the Korean Development Institute effectively took over the role. The Korean Development Institute was established by President Park Chung Hee in 1971 for the drafting of an overall economic plan, and evaluating the nation's economic performance. The Committee for Social Security originated from a private group of people, comprising concerned doctors, intellectuals and civil servants. This group was a private study group concerned with the feasibility of introducing social welfare programmes. Even though officials from the Ministry of Health and Social Affairs participated in the group, and the group used the facilities of the Ministry, the group had no official status before they became the Committee for Social Security in 1962. When President Park took power in the military coup d'état of 1961, the study group could respond quickly to policy demands from the President. Through this opportunity, the study group became the Committee for Social Security as an advising committee for the Minister of Health and Social Affairs. Since then, it continued to work, drafting social policies by the time of 1972 when the Korean Development

Institute took over most of the roles of the Committee for Social Security.

The role of policy experts in the decision-making process was to provide expertise to the decision-makers and to draft policy proposals once decision-makers had formulated broad policy orientation. Their role was, however, not limited to such practical work. More importantly, they also influenced the decision-makers' perception of social policy. They can initiate new policy ideas and proposals of which decision-makers are previously unaware. Policy experts may also affect the policy paradigm of decision-makers. The policy paradigm, however, is less likely to change because it stems from the political philosophy of decision-makers. If there is a difference in the policy paradigm between top decision-makers, especially between the president, and policy experts, policy experts could be marginalised from the decision-making process. We will follow the two institutions of policy experts, *i.e.*, the Committee for Social Security and the Korean Development Institute, one idealists and the other pragmatists. The account of their rise and fall will provide insight into the workings of the confined institutional terrain.

Before we probe into the decision-making process, we should review the historical backgrounds of the political institutions and political actors. Because political institutions are deeply embedded in the political and social history of the country, a historical analysis will explain the origins of institutional crisis. Section 1 of this chapter will examine the history from the colonial period of Japanese imperialism through the period of the American Military Government to the Second Republic which ended in 1961. A historical examination of the period prior to the Third Republic is quite important because the legitimacy of the political regime was already considerably undermined from this period. We can see that the subsequent

constitutional crises were not only a matter of constitutional reform. The constitutional crises were actually the manifestation of the legitimation crisis of the political regime.

2.1 The Nature of the State and Social Classes

The Legacy of Japanese Imperialism and the American Military Government

In the thirty five years of Japanese rule, Korean society experienced drastic changes in its class and state structure. The American military government also impressed its legacy on the Korean class and state structure as the Japanese had done before, even though it lasted only three years from 1945 to 1948 after the period of Japanese rule. A brief review of this period will reveal that the deficiency of political legitimacy in Korean society stems from this period. It will explain why constitutional crises in later periods were not only a matter of reforming the constitution but were fundamentally crises of political legitimacy.

After the Sino- and Russo-Japanese Wars, Japan annexed the Korean peninsula in 1910 with the recognition of Great Britain and the United States.⁹ The colonial function of Korea was to provide resources for Japanese industries and to act as a strategic bridge for Japanese imperialism to penetrate into China. For this purpose,

⁹ There were agreements between Britain and Japan, and between the U.S.A and Japan: the Anglo-Japanese Treaty and the Taft-Katsura communiqué, respectively. These agreements recognised the Japanese ascendancy in North-East Asia while Japan promised not to interfere with British policy in Burma and China, and with American affairs in the Philippines.

the Japanese built railways through Korea to China and industrial plants in the northern part of Korea to support their colonial operation in Manchuria.

In order to implement their colonial aims, the Japanese implanted the Japanese state structure in Korea, which was alien to Korean society. Until the 1910 annexation, the Korean state was based on an agricultural society, with Confucian ideology.¹⁰ The Korean state extracted revenues from agricultural products and did not attempt to accumulate resources to transform the society from an agricultural to a capitalist society. A huge bureaucratic structure was exogenously imposed on Korean society. The colonial state comprised three pillars: bureaucracy, colonial banks, and oppressive apparatuses.¹¹ The colonial state proved to be very effective and oppressive. The bureaucracy was organised and disciplined by military rationale. All Governor-Generals in the colonial state were Japanese generals. To control the population the colonial government used the police, who were notorious for their oppressive behaviour. This oppressive bureaucracy and police force remained unreformed even after Liberation in 1945. The failure of reforming bureaucracy was one of the origins of the deficiency of Korean political legitimacy, which has its roots in this period.

Japanese colonial rule also had a great impact on the class structure of Korea. The cadastral survey from 1910-1918 dispossessed the peasants of their land. The survey was basically a land re-register programme. The conventional land ownership in the Chosŏn Dynasty was changed into a modern register programme. Until 1910,

¹⁰ C. I. Eugene Kim & Han-kyo Kim, *Korea and the Politics of Imperialism, 1876-1910* (Berkeley: University of California Press, 1967).

¹¹ Bruce Cumings, *The Origins of the Korean War: Liberation and the Emergence of Separate Regimes 1945-1947* (Princeton: Princeton University Press, 1981), pp. 12-16.

Korean peasants were small-scale land-owners, tenants and a mixture of these. Many peasants failed to re-register their land, partly because they were ignorant of the new law and partly because they were deliberately misinformed by the Japanese authorities. The Oriental Development Company, a public company of the Japanese colonial state, bought most of the land very cheaply and distributed it to Japanese farmers who had immigrated from Japan. The choices which the Korean peasants had were two-fold: either renting land on unfair conditions or leaving the land altogether. A great number of the peasants left their land for the northern part of Korea where new industrial plant had been built, or for Japan and Manchuria, where they became the basis of a working class. Throughout the colonial period, the working class grew on a great scale. In terms of class power, however, they were weak. They failed to organise themselves into a class power because of the harsh control of the oppressive Japanese colonial apparatus.

The landlord class managed to survive under Japanese rule. This survival, however, meant their demise as a dominant class in the Liberation period after World War II. In return for their compliance with Japanese rule, the landlord class retained their land and also secured their privileges. The landlord class did not change their way of managing agricultural businesses. They simply collected rents from tenants. They did not invest the surplus in new farming techniques for the improvement of productivity. Rather, they put the money into land speculation and money-lending. Even though there were some landlords who became capitalists¹², most of the landlords

¹² A study by Eckert traced a family of landlords from the Japanese Imperialist period to the post-Liberation, who managed to transform themselves from landlords to capitalists. Carter J. Eckert, *Offspring of Empire: The Koch'ang Kims and the Colonial Origin of Korean Capitalism, 1876-1945* (Seattle: University of Washington Press, 1991).

failed to transform themselves into capitalists. The vast majority of the industrial factories were run by Japanese nationals and the public companies of the colonial state.

Overall, the class structure in the colonial period turned out to be a distorted form: an emerging working class, and weak landlords as a dominant class. The point which should be stressed here is the absence of a capitalist class. This absence provided the Korean state with considerable space to manoeuvre in industrial and social policies in the post-Liberation period.

On 5 September 1945, the American army landed in Korea and found themselves amidst an imminent socialist revolution. One study of the division of Korea suggested that General Hodge, who was in charge of the American Army in Korea, had no detailed plan for a policy of occupation.¹³ The policies of the American military government were guided by the general foreign policy on the Far East. The underlying aim of American foreign policy at that time was to contain the Soviet Union within the northern part of Korea and to ensure the establishment of a non-socialist nation in the southern part.¹⁴

Having a containment policy, the American military government did not spend time on building a new bureaucracy. It maintained the political machinery which used to rule Korea under Japanese imperialism. It re-employed the personnel and policemen who had worked under the Japanese colonial state, to whom the Korean people did not give any legitimacy at all. The American military government gave

¹³ Soon Sung Cho, *Korea in World Politics, 1945-1950: An Evaluation of American Responsibility* (Berkeley: University of California Press, 1967).

¹⁴ As for the critical review of the American foreign policy in the post-war period, see Joyce & Gabriel Kolko, *The Limits of Power: the World and United States Foreign Policy, 1945-1954* (New York: Harper & Row Publishers, 1972).

political favour to Syngman Rhee, a long-standing nationalist and later the first Korean President.¹⁵ It also supported the right-wing Korean Democratic Party in tackling the left-wing movements which might have taken political power without the American occupation. The Korean Democratic Party included politicians who had formerly been pro-Japanese and landlords. With the help of the Americans, Syngman Rhee, who, due to his exile, had no domestic political base, made a coalition with the Korean Democratic Party, who also desperately needed a popular leader. This coalition formed the first government in the southern part of the nation after the American occupation. Such pragmatic policies of the American military government, ignoring the political atmosphere in the post-Liberation theatre, entailed the deepening of the legitimacy problem in Korea.

The American military government frustrated the working class efforts to organise a national trade union which was vital to the movement. The number of unions increased to 1,194 in November 1945 from almost nothing, compared with 75 in Japan in the same year.¹⁶ This was an explosion of unions. At the national level, the Korean workers organised the National Council of Korean Labor Unions. The number of peasant unions also increased rapidly. Some radical peasant unions seized the lands of the Japanese and Korean landlords, while others tried to rationalise the tenancy contract. The General League of Korean Peasants was formed as a national organisation of peasant unions. These working class and peasant movements, however, drastically collapsed after the September Uprising in 1946. The Democratic

¹⁵ Sungjoo Han, *The Failure of Democracy in South Korea* (1974), pp. 7-32.

¹⁶ Jang-Jip Choi, "The Strong State and Weak Labor Relations In South Korea," in Kyungdong Kim ed., *Dependent Issues in Korean Development*, (Seoul: Seoul National University Press, 1987), p. 311.

National Front, which was the vanguard organisation of the National Council of Korean Labor Unions, the National League of Peasant Unions and the Communist Party, confronted massive oppression from the American Military Government. The Democratic National Front mobilised demonstrations and two general strikes in September and October 1946. The police again proved to be effective in suppressing the Uprising. The effect of the Uprising was to make illegal the Democratic National Front and labour and peasant unions. It also marked the eradication of the labour movement, after which the labour movement lost its historical continuity.

In this transition period and throughout the First Republic, the landlord class failed to adapt themselves to the new economic environment. We will look into the reasons for this failure in relation to the land reform in the next section. Due to this failure of the landlord class, the incoming capitalist class was a newly emerging class rather than a transformed old class.¹⁷

In sum, Japanese rule not only exploited the Korean people but also stripped the state of its legitimacy. The American Military Government deepened this problem from which the Korean state afterwards suffered. Among other legacies, the Japanese and the American rule also left the 'strong state'.

¹⁷ Eckert seems to emphasize the legacy of the Japanese imperial period in the Korean business history. He argues that nearly 60 percent of the founders of Korea's top fifty chaebōls had some kind of colonial business experience. That does not mean, however, that they were a coherent group of people as a class in the Japanese imperial period, nor suggest that there is strong continuity in the business class between pre- and post-Liberation period. Carter J. Eckert, *Offspring of Empire* (1991), p. 254.

The Trial of Liberal Democracy within the 'Strong State'

In August 1948, Syngman Rhee became the first President of the Republic of Korea. In North Korea, one month later, Kim Il Sung declared himself Premier of the Democratic People's Republic of Korea. Many of the Korean politicians, including Kim Ku, who had been the leader of the Korean Provisional Government in exile during the Japanese rule, did not join the Government, opposing two governments in one nation. They blamed Syngman Rhee for the separation of the nation.

In the beginning, Rhee's First Republic was a liberal democratic government. In terms of constitutional principles, the organising principle of the newly established political system was the idea of representative government founded on the principle of universal suffrage. The opposition parties had political freedom and the press also had freedom of expression. The idea of liberal democracy, however, lasted only up until the early period of the First Republic. In Korea of the 1950s, in which there was no established democratic tradition, the political system was very vulnerable to authoritarian ambition. Moreover, President Rhee had a huge bureaucratic machine and the police, which had proved to be an effective political apparatus in the colonial period. Rhee also had a very powerful ideology which was used as a substitute for liberal democracy: anti-communism.¹⁸ After the Korean war, anti-communism became a hegemonic ideology.

The first signs of the authoritarian trend came after President Rhee broke up

¹⁸ Sangsop Park, "The Failure of Liberal Democracy in Korea, 1945-1979," in Kyungdong Kim ed., *Dependent Issues in Korean Development* (Seoul: Seoul National University Press, 1987), p. 328.

the coalition with the Korean Democratic Party. After he had stabilised his presidency, he distanced himself from the Korean Democratic Party. In his first cabinet, he appointed only one member of the Korean Democratic Party.¹⁹ The Korean Democratic Party went into opposition and was merged with other parties to form the Democratic National Party. After the second general election in 1950, President Rhee created his own party, namely the Liberal Party. In 1952, Rhee amended the Constitution in order to change the presidential election system from an indirect to a popular voting system.

In the 1956 and 1960 presidential elections, he won the presidency, partly because the leading opposition candidates suddenly died during the election campaign in both elections and partly because the police intervened in the elections. It was the Vice-Presidential election that caused the political crisis of the Rhee government. Unlike the American system, the President and the Vice President were to be elected in separate ballots. In the 1956 election, Rhee's Liberal Party lost the Vice-Presidency to the Democratic National Party. In the 1960 election, the Liberal Party's candidate won the Vice Presidential election with heavy police interference. After several demonstrations protesting against the election results, one middle school student was found dead in Masan, a city in southern Korea. The death of this student brought about wide demonstrations across the nation, leading to the collapse of the First Republic in April 1960.

In the period of the First Republic, it was the land reform that made a significant impact on class structure. There are three lines of explanation of why

¹⁹ Jungwon A. Kim, *Divided Korea: The Politics of Development 1945-1972* (Cambridge, Mass.: Harvard University Press, 1976), p. 119.

Rhee's government carried out the land reform. The first explanation stressed the demand from the peasants who had suffered from the unfair tenancy relationship under Japanese rule.²⁰ According to the second explanation, President Syngman Rhee tried to undermine the political base of the Democratic National Party with the land reform.²¹ Because many of the members of the Democratic National Party were landlords, land reform could seriously curtail the financial resources of the Democratic National Party. However, in the legislative process of the National Assembly in which the Democratic National Party was dominant a good price for the land was guaranteed by the Government.²² The third interpretation suggested that the U.S. regional strategy in the Far East pushed Rhee's government to carry out the land reform. A comparative study of the land reforms in Korea and Taiwan argued that the U.S. recommended that the Korean and Taiwanese governments should undertake land reform in order to avoid a socialist revolution.²³ This argument is convincing in the sense that two preliminary land reforms had already been carried out by the American Military Government. By the Military Government decree of 1945, the rent of land could not be more than a third of its annual production. In 1948, the land which was held by the Oriental Development Company was sold to the peasants who had rented it.

²⁰ Chang Sanghwan, "Nongji Kaehyōk-e Kwanhan Silchūngjōk Yōn'gu" [Empirical Research on Land Reform], in Kang Man'gil, *Haebang Chōnhusa-ūi Insik 2 [Studies of the Period Before and After Liberation, Vol. 2]* (Seoul: Han'gilsa, 1985).

²¹ Jungwon A. Kim, *Divided Korea* (1976), p. 125.

²² *Ibid.*

²³ Sin Pyōngsik, "Han'guk-kwa Taeman-ūi T'oji Kaehyōk-e Kwanhan Yōn'gu" [Comparative Research on Land Reform in Korea and Taiwan], in *Han'guk-kwa Kukche Chōngch'i [Korea and World Politics]* Vol. 4, No. 2 (1988).

The land reform could also have meant an opportunity for the landlords to transform themselves into a new capitalist class. They were, indeed, paid a good sum of money for their land. Most of them lost the chance to adapt themselves to the new economic system. The landlords failed to transform themselves into capitalists because of their lack of entrepreneurship and the mismanagement of the security fund which they were paid for land.²⁴ This failure created a vacuum in the class structure and subsequently provided great autonomy for the state.

After the April Revolution in 1960 which ended the First Republic, the Democratic Party (previously the Democratic National Party) formed the government of the Second Republic. Although the Second Republic was evaluated as a 'real' democratic regime by many Koreans, it lasted only ten months. Chang Myōn, the Prime Minister of the Second Republic, was not able to control the military which had gained in strength during the Korean War. His government was ended by the military coup of 16 May 1961.²⁵

2.2 The Politics of Legitimation and Social Policy

Although the Second Republic was marred by factional fighting and incapable of controlling the military, it was a democratic government. The excuse given by the military leaders for the coup d'état was that their intervention was temporary. Just

²⁴ Yi Hōnch'ang, "8, 15-ūi Sahoe Kyōngjesa chōk Insik" [Social Economic Aspects of Korean Liberation], in Yi Taegūn and Chōng Unyōng, *Han'guk Chabonjuūi Non* [*Studies of Korean Capitalism*] (Seoul: Kkach'i, 1984), p. 93.

²⁵As for the development of social policy prior to the 1960s, see Hikang Yang, "The Origins of Social-Policy Making in Korea 1910 - 1963," (forthcoming M.Litt. Thesis, Oxford University, 1995).

after the military coup in May 1961 which overthrew the Second Republic, President Park, then the military leader of the coup d'état, formed the Supreme Council for National Reconstruction to supervise the 'revolutionary work'.²⁶ He promised that he would return to the barracks after finishing his tasks. This was the first broken promise, which would be followed by many others. He stood in the 1963 election and became president in December 1963. To stay in power afterwards, President Park amended or reshaped the Constitution several times despite making promises to the contrary. In October 1972, he announced the 'Special Declaration' to change the Constitution. He proclaimed the 'Yushin' regime which violated the basic principles of democracy. The 'Yushin' Constitution virtually denied the possibility for the opposition to win in the presidential and general elections. The Constitution stipulated an indirect election of the President in a rubber-stamp electoral college, the National Conference for Unification. The President had the right to appoint one third of the Assemblymen in the National Assembly. This 'Yushin' Constitution partly originated from the dead-heat election result of 1971. In the 1971 presidential election, Park defeated the opposition candidate by a narrow margin despite the heavy intervention of the police and the bureaucracy in the elections.²⁷

Whereas this 'Yushin' Constitution effectively blocked the institutional channel for opposition parties to challenge the government, political power was concentrated in

²⁶ The five 'Revolutionary Pledges' were 1) anti-communism as the nation's first policy, 2) observance of the UN rules, 3) social morality, 4) an independent economy and 5) national unification. When the military leaders prepared these pledges, they were very anxious about the U.S. Government's response. The U.S. Government was suspicious of General Park's ideological orientation, because he had been sympathetic to communism in his early life and had a communist brother. The first two of the 'Revolutionary Pledges' were made to reassure the U.S. Government.

²⁷ Hak-Kyu Sohn, *Authoritarianism and Opposition in South Korea* (1989), p. 31.

the hands of the President throughout President Park's era and to a lesser extent that of President Chun. The President exercised his centralised power over his party and administration.²⁸ The President was a commander-in-chief rather than a negotiator or compromiser. This personification of power came not just from the style of leadership which originated from the military background but also from the huge institutions at his disposal. The advisory staff in the Presidential office was a small government which supervised most of the ministries of the government. The President also used the intelligence service to control his party as well as the opposition. The Korean Central Intelligence Agency was controlled only by the President and did not have to account for its activity to the National Assembly. With this extremely centralised power, the President could be an initiator of new policy and an arbitrator of policy disputes whenever necessary.

Despite such concentration of power, the President could not simply rely on repressive measures to defend his grip on power. He must justify his regime. He also had to prove that his government was competent to achieve what the nation wanted. President Park turned to the politics of legitimation. His strategy was, in short, to compensate for constitutional defects by economic performance. This political strategy seemed to originate from the President Park's personal ideology. It was argued that the military coup d'état in 1961 was not only motivated by the ambition of power but also driven by Park's political idea of modernisation.²⁹ He was deeply convinced that

²⁸ Dal-Joong Chang, *Economic Control and Political Authoritarianism: the Role of Japanese Corporations in Korean Politics 1965-1979* (Seoul: Sogang University Press, 1985), p. 87.

²⁹ Park Chung Hee graduated from the Manchukuo Military Institute in 1942 and entered the Japanese Military Academy in Manchuria, from which he did not graduate due to the end of World War II, and took military personnel training programme at the U. S.

the Korean society must be reformed toward modernisation. From his military education, he learned the importance of technology as well as efficient administration in economic development.

With respect to political legitimation through economic performance, there are two competing theories of legitimation. The accumulation argument understands the relationship between economic growth and legitimation effects quite differently from the way in which the effectiveness thesis does. The accumulation argument sees economic policies as contradictory to legitimation.³⁰ By contrast, the effectiveness argument explains the relationship between economic development and legitimation in positive terms.³¹ This difference between the two theories stems from views as to whether economic growth entails legitimacy or whether separate measures for legitimation are necessary.

According to the accumulation argument, legitimation is mainly carried out through social policies, which, however, tend to be contradictory to accumulation. In a democratic society, the state cannot explicitly represent the interests of one part of society, namely the interests of capitalists. The state should appear to be impartial in order to maintain social order. The accumulation argument defines legitimation as

Army Artillery School, Fort Sill, Oklahoma in U. S. A in 1955. In his time, there were only few who had such formal military education; see Se-Jin Kim, *The Politics of Military Revolution in Korea* (Chapel Hill, The University of North Carolina Press, 1971), pp. 89-90. See also Park Chung Hee, *The Country, the Revolution and I* (Seoul: Hollym, 1963).

³⁰ Claus Offe, "Advanced Capitalism and the Welfare State," *Politics and Society*, Vol. 2, No. 4 (1972); Ian Gough, *The Political Economy of the Welfare State* (London: Macmillan, 1979); J. O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973).

³¹ S. Martin Lipset, *Political Man: The Social Base of Politics* (Baltimore: Johns Hopkins University Press, 1981).

methods of ensuring the consent of the dominated classes. Legitimation comprises various measures of which social policies are the most important. The welfare state can be explained as the result of legitimation efforts. The problem of legitimation is that it needs resources which otherwise should be put into further accumulation. According to accumulation theory, capitalists have a vital interest in the accumulation of their capital, and they cannot, therefore, make concessions. The contradiction between legitimation and accumulation is manifested in the form of a fiscal crisis of the state. The state cannot continually create revenue from taxes or increase borrowing without limit. These two measures would hamper the accumulation process. Instead, the state creates resources from other sources, mostly indirect taxes. Indirect taxes shift the burden from capitalists to dominated classes. This may lead to the failure of legitimation.

By contrast, economic growth does not contradict legitimation, according to the effectiveness argument. On the contrary, economic growth engenders and maintains the belief that the existing political regime is effective and appropriate for the society. In other words, there is a positive relation between effectiveness and the legitimacy of a political regime. Effectiveness means the actual performance of the political system.³² Good economic performance would bring about legitimacy.

A similar logic can be found in Etzioni's typology of power. Categorising "power according to its means employed to make subjects comply," Etzioni differentiated remunerative power from coercive and normative power. Remunerative

³² S. Martin Lipset, "Social Conflict, Legitimacy and Democracy," in W. Connolly ed., *Legitimacy and the State* (Oxford: Basil Blackwell, 1984), p. 89.

power is based on control over material resources and rewards.³³ According to him, a remunerative power can appeal to 'subjects' even without normative power.

Just after the military coup d'état, the First Five-Year Economic Plan was launched. It is not clear, however, whether the Military Government had from the beginning an intention to achieve legitimacy by economic growth according to the logic of effectiveness. Even though there was a commitment to economic independence in the 'Revolutionary Pledge', the First Five-Year Economic Plan was not the idea of the Military Government. There were a couple of recommendations for Korea from the U.S. Government before 1961. One such recommendation made by the Nathan Group was that the First Republic government should launch a five-year economic plan for Korea, aiming at an export-oriented economy.³⁴ In the Second Republic, at the National Conference for the General Economic Plan held in December 1960, the Chang government confirmed that the government would put forward a five-year economic plan. The Second Republic, however, did not have time to implement it.

Before the 1963 presidential election, Park expressed his view about economic development to justify the coup d'état.

I want to emphasise and reemphasise that the key factor of the May 16th Military Revolution was in effect an industrial revolution in Korea. Since the primary objective of the revolution was to achieve a national renaissance, the revolution envisaged political, social and cultural reforms as well. My chief concern, however, was economic

³³ Amitai Etzioni, *A Comparative Analysis of Complex Organisation: On Power, Involvement and Their Correlates* (New York: Holt, Rinehart & Winston, 1961), p. 5.

³⁴ Chōng Yunhyōng, "Kyōngje Kaebal-ūi Ch'ejejōk Yōn'gu" [A Systematic Approach to Economic Development], *Han'guk Sahoe Pyōndong Yōngu I* [Studies on Changes in Korean Society I], p. 31.

revolution.³⁵

After the presidential election in 1971, disappointed by the result, he said to his colleague:

How much money did we spend? How much administrative power did we mobilise? Is this narrow margin (of votes in the election) all they produced? . . . *I have done my best to get rid of poverty. We have achieved this much after ten years of hard work. Our exports are now one billion dollars a year. . . . The people may not like the fact that I wanted to be president.*³⁶ (my emphasis)

He thought that he deserved a huge margin of votes.

Throughout the Park government, economic development was put forward as the overriding common good. The Economic Planning Board was established to coordinate an economic plan over the ministries. The Minister of the Economic Planning Board became designated to *ex officio* Vice-Prime Minister. The Korean Development Institute, which played an important role in making social policies, was also established in relation to economic planning. Given Park's strong commitment to achieving economic development, economic policies were given the top priority under this bureaucratic structure. The Park government set favourable conditions to Korean businessmen and foreign capital for direct investment through special legislation on

³⁵ Park Chung Hee, *The Country, the Revolution and I* (1963), p. 177.

³⁶ O Hyojin, "Kim Chongp'il, Ib-ül Yōlda: Pak Taet'ongnyōng-gwa Kim Hyōnguk Silchong" [Kim Chongp'il Speaks: President Park and the Disappearance of Kim Hyōnguk], pp. 297-298, quoted from Hak-Kyu Sohn, *Authoritarianism and Opposition in South Korea* (1989), pp. 31-32.

interest rates and taxes, and setting up industrial estates.³⁷

The commitment of the Park government to economic growth corresponds to the effectiveness thesis of legitimacy. In fact, the formula of legitimacy through performance became the trade mark of the Park government. The policy orientation of the Park government was also opposite to the accumulation thesis. Contrary to the accumulation thesis, the underlying idea of the economic policies was the 'economic growth first, distribution later' formula. This formula gives rise to a question, what is the position of social policy in this formula?

The political strategy of legitimation through economic performance was a long-term strategy. It would, however, take time to produce visible effects on economic performance because it was a long-term plan. Meanwhile, the political power needed a short-term strategy of legitimation, especially after violations of constitutional rules or democratic principles. The first major introduction of social welfare programmes came after the military coup d'état in 1961. In the case of the National Pension Programme, the President, the Vice Prime Minister and the policy experts considered the feasibility of its introduction just after imposing the 'Yushin' Constitution which violated democratic principles. Due to the economic conditions, mainly inflation, the introduction of the National Pension Programme was postponed at that time. Instead, the government declared the Presidential Emergency Measure No. 3, which temporarily waived the income tax for low-income households. It also

³⁷ Hyun-Chin Lim, *Dependent Development in Korea* (Seoul: Seoul National University Press, 1985), p. 76.

strengthened regulations on the unfair practices of employers in work places.³⁸

We should be careful, however, not to juxtapose economic and social policy, describing them simply as long-term and short-term strategy. Because the political strategy of legitimation placed the fundamental emphasis on economic performance, social policy was to a great extent constrained by the consideration of economic policy. Those constraints imposed by economic policy were deeply embedded in the structure of social welfare programmes, which we will examine in chapter 3. The method of financing welfare programmes, incrementalism in expanding the coverage and the choice of certain programmes are among such characteristics stemming from those constraints. Underlying the relationship between economic and social policy was the perception of decision-makers. They thought that social policy would hamper economic policy in the sense that social policy would require resources and could make people expect too much from the state instead of relying on self-help. Because of such perception, the manner in which social welfare programmes were introduced was lukewarm and in incremental fashion despite the political function of social policy.

President Chun Doo-Hwan found himself in the almost identical situation which President Park faced twenty years previously. Taking advantage of his position as the head of the military investigation of President Park's assassination under the martial law, he put aside civilian politicians by force and made himself President. He followed the same political strategy of legitimation as his predecessor, President Park. What President Chun imitated was not only the short-term strategy of legitimation but also

³⁸ Kwon Hyōk-Chu [Kwon, Huck-Ju], "Han'gug-ūi Chōngdangsōng Wigi: Kin'gūp Choch'i 3 Ho" [The Crisis of Legitimacy in Korea: Presidential Emergency Measure No. 3], *Sōngsim Hakpo [Journal of Sacred Heart University]* (1986), (Sacred Heart Women's University).

the ways of stabilising power which he had seized by undemocratic means. There was a fundamental continuity between the regimes of Park and Chun in terms of institutions and the idea of decision-makers.³⁹ The difference was the fact that Chun had a political slogan, "Constructing A Welfare State" (*Pokchi Kukka Kōnsōl*), which President Park had been cautious about. We will examine the political tactics underlying the slogan in detail in section 2.3, which will first look into the decision-making process in the Park government.

Before we go into the details of the decision-making process of social policy, we have to answer a question: why were the social policy decisions confined to a small number of decision-makers? What were the influences from businesses, workers, especially left-oriented union movements, and other social groups? There are many answers to these questions, but they are unsatisfactory. Among them, theories of the 'strong state'⁴⁰, the 'autonomous state'⁴¹, and the 'corporatist state'⁴² have tried to give an answer. These concepts seem to be descriptions rather than explanations. They leave many details unexplained, partly because they are only interested in the broad picture of the state, and partly because they are not fully analytical. The main reason why these descriptions are not satisfactory is that they do not pay appropriate attention

³⁹ Stephan Haggard & C. Moon, "Institutions and Economic Policy," *World Politics* No. 2 (1990), p. 220.

⁴⁰ Jang-Jip Choi, "The Strong State and Weak Labor Relations in South Korea," in Kyongdong Kim ed., *Dependent Issues in Korean Development* (1987).

⁴¹ Hochul Sonn, "Towards a Synthetic Approach of Third World Political Economy: The Case of South Korea," (unpublished dissertation at the University of Texas at Austin, 1987), pp. 343-344.

⁴² Jangjip Choi, "A Corporatist Control of the Labor Union in South Korea," *Korean Social Science Journal*, 9 (1984), pp. 25-55.

to social classes and groups. Here we will explore directly the ideas and attitudes of social classes and groups towards social policy.

Businesses and Social Policy

Throughout the period of the Park government, Korean businesses grew rapidly, but their growth was very dependent upon government support. In Chapter 3, we will have a discussion about the relationship between the state and business in relation to state intervention in economic development. Despite an argument that Korea was ruled by the coalition of the military, Chaebōl and intellectuals⁴³, the relationship of Chaebōl with the Park government was not as good from the beginning. By the time of the military coup d'état in 1961, there were few big businesses which could impose constraints on the government. Some of the heads of big business were accused as having illicitly accumulated wealth just after the coup. But the Park government soon opted for big businesses as the spearhead of economic growth, and their relationship became interdependent. However, the Park government did not lose its grip of control over big business. The measures exercised by the Park government to control the big businesses were basically of two kinds, sanctions and incentives. Without compliance, any big business could not survive because they were heavily dependent upon the government. Once they followed the government policies and met performance

⁴³ Dal-Joong Chang, *Economic Control and Political Authoritarianism: the Role of Japanese Corporations in Korean Politics 1965-1979* (1985), p. 77.

targets, they would be subsidised in various ways.⁴⁴ In terms of capital subsidies, low interest rates and special tax relief were frequently used by the government. In 1972, for instance, the government postponed the payment of interest on private loans to relieve the burden of big businesses.⁴⁵ In terms of market competition, the government did not allow newcomers in the strategic sectors in which one or two companies were allowed to operate. Once favoured, there would be few reasons for the businesses to complain about the government policies, because the government worked for the companies' interests. Kuznets characterised this situation as 'guided capitalism'.⁴⁶

Regarding social policy, businesses did not initiate the introduction of new social welfare programmes. It would be very difficult to expect business to propose new social welfare programmes in any countries. When the government announced the introduction of a new social policy, especially by the President himself, the responses from businesses were favourable. What business did about social policy was to present their opinions in a technical manner instead of making them political issues. For instance, the Korean Chamber of Commerce and the Korean Coal Corporation proposed the new way of settlement of compensation disputes caused by employer's

⁴⁴ Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialisation* (Oxford: Oxford University Press, 1989), p. 136. See also Hajoong Chang about various promotional laws for businesses, H. Chang, *The Political Economy of Industrial Policy* (London: St. Martin's, 1994), pp. 115-116.

⁴⁵ The Bank of Korea, *8.3 Kyōngje Kin'gūp Choch'i Chonghap Pogosō [General Report on the August Third Economic Emergency Measures]* (1973).

⁴⁶ Paul Kuznets, *Economic Growth and Structure in the Republic of Korea* (New Haven: Yale University Press, 1977). On this point, there have been a series of debates involving neo-liberal economists, dependency theorists and state theorists. See Robert Wade, "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence," *World Politics* 44 (1992).

negligence regarding Industrial Accident Insurance.⁴⁷ Research institutions, such as the Centre for Korean Economic Studies established by the Korean Chamber of Commerce, are the other channels to express publicly the stance of business on social policy. A study by that institution argued that politicians should not try to take advantage of citizens' high expectations for social welfare. If politicians promise what they cannot deliver, the basic orientation of social policy will go astray. It continued to argue that a social welfare programme should be introduced in an incremental manner.⁴⁸ The implications of those responses from business, however, should not be exaggerated, because those kinds of opinion were expressed in such a way that they rarely brought about political controversies.

The Emergence of Trade Unions and Their Perception of Social Policy

Working class and social democratic parties have been the main driving forces in the development of the welfare state in many nations, such as Britain and Sweden. The British Labour Party after World War II regarded welfare reform as the pathway which would lead to socialism.⁴⁹ The Social Democratic Party in Sweden has also

⁴⁷ The Ministry of Labour, *Sanjae Pohōm 15-nyōn Sa* [Fifteen Year History of Industrial Accident Insurance] (1981), p. 67.

⁴⁸ Centre for Korean Economic Studies, "90 Nyōndae Sahoe Pokchi Sahoe Kaebal Chōngch'aek Panghyang" [The Policy Orientation of Social Welfare and Social Development in the 90s], Working Paper 85-10, I-163 (1985), p. 159.

⁴⁹ Michael Hill, *The Welfare State in Britain: A Political History since 1945* (Aldershot: Edward Elgar, 1993), pp. 25-45.

seen welfare reform as a means of democratisation and achieving social justice.⁵⁰

Working classes, however, have not always expressed the same voice in favour of social welfare programmes. For instance, in nineteenth-century Germany, Lassalle, one of the leaders of the German working class movement, strongly demanded that the state should introduce some measures to protect workers, while the Marxist orientation in the Social Democratic Party opposed that idea, claiming that welfare reform was a tool of the ruling class and that such reform could not be expected to act in the interest of the workers. They would have preferred a socialist society to a reformed capitalist society.⁵¹

To what extent did the Korean working class influence social-policy making? According to the working class mobilisation thesis, the strength of working class power can be measured by the level of unionisation, the type of unions and their inter-relationship.⁵² The working class mobilisation thesis presumes the hypothesis that the strength of working class power is closely related to the level of influence of the working class on social-policy making. This hypothesis cannot entirely work in measuring the strength of working class power and its influence on social policy-making in Korea. First, the level of unionisation was not significantly related to the strength of the working class because of the legal constraints and the oppressive measures against trade union activities. Even though the number of unionised

⁵⁰ Rune Premfors, "The 'Swedish Model' and Public Sector Reform," *West European Politics*, Vol. 14, No. 3 (1991), p. 84.

⁵¹ Gaston Rimlinger, *Welfare Policy and Industrialisation in Europe, America, and Russia* (New York: John Wiley & Sons, 1971), pp. 102-122.

⁵² Walter Korpi, *The Democratic Class Struggle* (London: Routledge & Kegan Paul, 1983), p. 39.

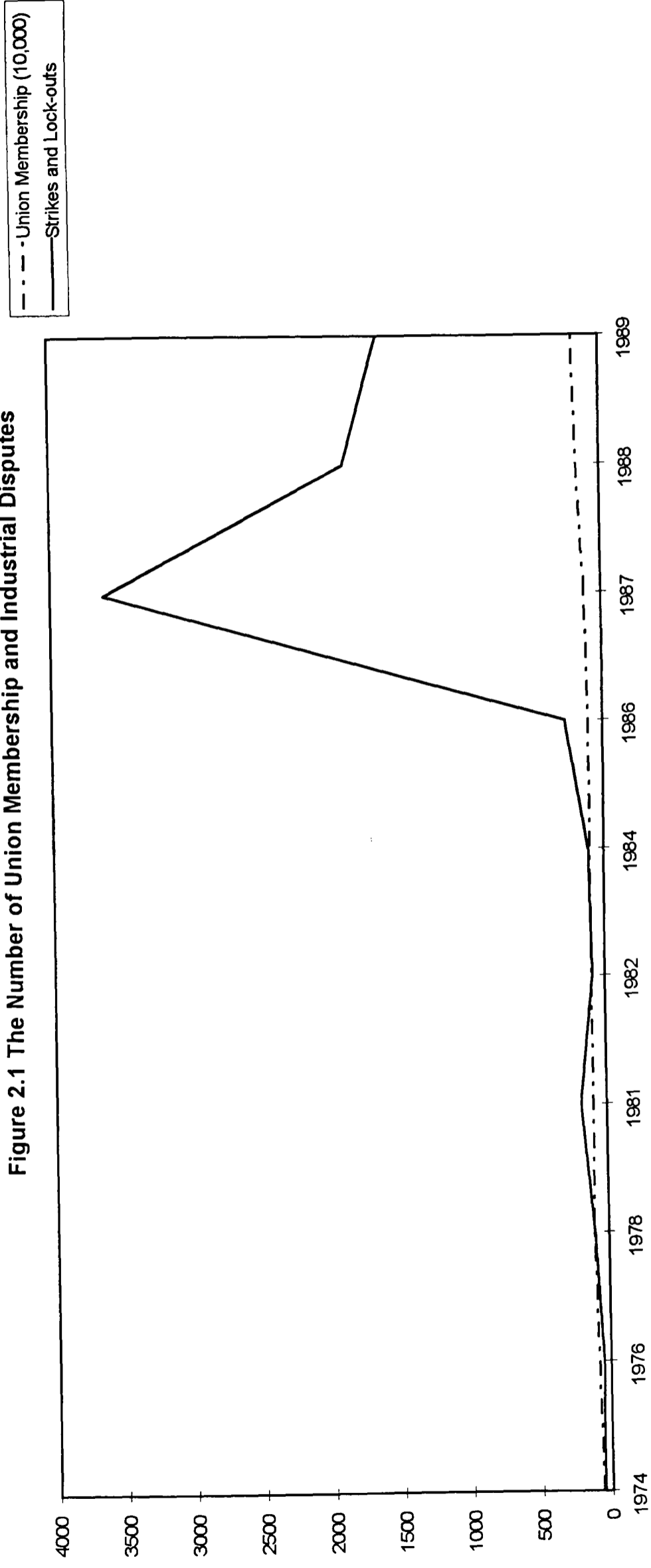
labourers gradually increased over the last three decades and rather fast in the second half of the 1980s, strikes rose sharply only after the lifting of some of the oppressive measures against unions in the late 1980s. In other words, the level of unionisation does not always have a close relation to working class power. Secondly, the working class did not try to influence social-policy making when they gained some influence. We will examine three different stages which the working class has been through in Korea in relation to their strength and political strategy (see Figure 2.1⁵³).

The first period is between the military coup d'état of May 1961 and the Special Decree for National Security in December 1971. Like many other interest groups, trade unions were ordered to re-organise their national association after the coup. Unlike other social groups, however, the Military Government kept a special eye on trade unions. The Supreme Council for National Reconstruction reformed the structure of unions. Trade unions had to be organised in accordance with industrial sectors, and local unit unions could not be organised independently. The Korean Central Intelligence Agency (KCIA), which was created by the Military Government as a secret police, closely controlled the re-organising process of the General League of Korean Trade Unions, the national association of trade unions.⁵⁴ After the military intervention, the General League of Korean Trade Unions suffered from factional fighting. Even though the General League was weak, leadership elections were highly contested. The leaders of the General League were often appointed to government

⁵³ The source of figure 2.1 is International Labour Office, *International Labor Statistics; Korea Statistical Yearbook* (various issues).

⁵⁴ Chōng Hūisōp, "Hyōngmyōng Inyōngan Ōpchōk Kaeyo: Pogōn Sahoebu" [The Summary of the Achievements during the Two Years after the Revolution: the Ministry of Health and Social Affairs], in *Ch'oego Hoeūibo* [Supreme Council Review] No. 21 (1963), p. 40.

Figure 2.1 The Number of Union Membership and Industrial Disputes



posts or became members of the National Assembly after their term in the General League. The reason for the weakness of working class power in the first period, however, should be found in the structure of the labour market. The number of workers in the industrial sector was relatively small as a proportion of the whole working population. The number of unionised workers was also relatively small compared to the subsequent periods.

The second period is from 1972 to 1986 which comprises two sub-periods. In the first half of the second period (1972-1979), the number of unionised labourers increased faster than in the preceding period. This first half was also marked by the growth of heavy and chemical industry in the Korean economy. The second half (1980-1986) covers most of President Chun's years in office, the Fifth Republic. In this second half, the level of unionisation did not increase though it was maintained.

Table 2.1 Employees by Industry (in percent)

	Agriculture Forestry	Manufacturing, Mining	Service
1966	57.89	10.48	31.27
1971	48.44	14.19	37.37
1978	38.41	23.15	38.44
1985	24.94	24.44	50.62
1990	18.25	27.32	54.42

Source: *Korea Statistical Yearbook*, 1966, 1986 and 1990

In the second period overall, trade unions had effectively no right to negotiate or to go on strike. In December 1971, President Park promulgated the Special Decree for

National Security. Unlike its name, the decree suspended workers' rights to negotiate and go on strike. The reasons underlying the decree were three-fold. First, a year before, a worker set fire to himself and died in protest against the government labour policy. His death became a symbol of labour protest and there was growing tension on university campuses and in work places. Secondly, the profit rate of industry had fallen sharply by 1971 after two successful Five-Year Economic Plans. Thirdly, President Park was prepared to make a *volte face* in his economic plan from an emphasis on import-substitution to heavy and chemical industry.

President Chun also maintained controls on labour in the period after 1980. His measures were more dependent upon physical force. In other words, he used police power in labour disputes in addition to legal constraints. In this period, the number of unionised labourers remained at the level of 1980.

In this second period, labour disputes took the form of occasional disruption, because there were no institutional ways to negotiate. A labour dispute which eventually led to the demise of Park's government in 1979 was a typical example. Women workers from a small export factory occupied the building of the opposition party to protest against their employer's unfair labour practices. This affair led to the death of a woman worker in the strike and was highly politicised. Once politicised to that extent, the issue could no longer be simply regarded as a labour issue.

The third period could be characterised as an expansion of trade unions. This period showed the increase of working class power as well as the level of unionisation. In the Figure 2.1, the sharp increase in the number of strikes is shown clearly, compared to the two preceding periods. The Figure 2.1 suggests that the strength of working class power can be better measured by the number of strikes over the last

three decades in Korea than by unionisation. If the strength of the working class increased, to what extent did they have an influence on social-policy making?

During the late 1970s and the 1980s, some labourers challenged the official trade unions and tried to organise another union at the factory level. This 'democratic union movement' was stimulated by university students and church missionaries who worked in factories as so-called 'disguised labourers'. The democratic union movement was illegal and subject to harsh oppression. Because of legal and political restrictions, the democratic union movements could not make much difference before 1987. The democratic union movements did not have a national organisation until 1987, when the leader of the governing party promised a constitutional reform and the government lifted the suppression orders on the labour movements.

In the summer of 1987 the democratic union movement organised demonstrations across the nation. Some leaders of the democratic union movement were either implicitly or explicitly socialist revolutionaries. One of the pamphlets of the democratic union movement said:

We, the working class, confronting the military fascism of the neo-colonialists and monopoly capitalists who have exploited and oppressed us, should struggle for our life, democratic rights and transformation of politics and society.⁵⁵

They were also very sceptical about reform in capitalist society.

⁵⁵ Uri Nodong Munje Yōn'guwōn [Institute for Labour Issues in Korean Society], *Minju Nojo Undong-ūi Hyōnhwang-gwa Chōnmang* [*The Current Stage of the Democratic Union Movements and Their Prospects*] (Seoul: Paeksan, 1989), p. 10.

The reform of the dominant classes faced by the challenge of the dominated classes is not different from oppression in the sense that the reform is intended to protect the vested interests and restrain working class movements.⁵⁶

In the other pamphlet, they saw the social policies in the Western countries from the Bonapartist perspective.

Since (the Second World) War, both conservative and progressive parties in the developed capitalist countries claimed the idea of the welfare state. Because of those policies, the working class movements were reformed. For example, social security, health insurance and unemployment benefits are not only the economic concessions of the monopoly capitalist but the way to reproduce the work force.⁵⁷

Because of this ideological orientation towards social policies, the democratic union movements concentrated on political struggles such as constitutional reform and the revision of various laws related to workers' rights. After the summer of 1987 the democratic union movements set the two main agenda.⁵⁸ First, they demanded that either the Federation of Korean Trade Unions be dissolved or that a second confederation organised by the democratic union movements be allowed legally to exist. Secondly, they made it clear that political struggle for democratisation is an

⁵⁶ *Ibid.*

⁵⁷ Pak Hyōngjun, "Tokchōm Chabonjuūi-wa Nodong Undong" [Monopoly Capitalism and Working Class Movements], in *Han'guk Sahoe Nodongja Yōn'gu* [Studies of the Working Class in Korean Society] (Seoul: Paeksan Sōdang, 1989), pp. 60-61.

⁵⁸ George E. Ogle, *South Korea: Dissent within the Economic Miracle* (1991), pp 157-161.

"inescapable task of history".⁵⁹ In sum, democratic union movements concentrated on establishing their legal base and continuing the political struggle for democratisation whereas they did not use their increased power to influence social-policy making.

Professional's Political Strategy: the Korean Medical Association

While businesses and trade unions did not place the issue of social policy at the centre of their political strategy, the Korean Medical Association, the national organisation of doctors, actively tried to influence policy-making. Yet, the Korean Medical Association was not successful in exercising its influence on policy-making because of institutional constraints and the lack of effective political strategy which was partly rooted in the former reason. The unsuccessful efforts of the Korean Medical Association illustrates the fact that the decision-making was closed to interest groups as well as confined to a small circle of institutions.

The Korean Medical Association was forced to be re-organised in 1961 after the military coup d'état. The existing executive members of the Korean Medical Association had to go and new faces came into office on the orders of the new Military Government. The doctors held a national conference to organise a new medical association on 2 September 1961.⁶⁰ In this situation, even if the doctors had been consulted, they could not have presented their opinion about National Health

⁵⁹ Kwon Yōng Mok, the President of the Union at Hyundai Engine which was one the biggest union in the democratic union movements, said in his speech, "We formed the Union because we believe the land wants to be democratic. Our task is inescapable task of history." Recited from *Ibid.*, p. 161.

⁶⁰ The Korean Medical Association, *Taehan Ūihak Hyōphoe 85-nyōnsa: 1908-1993* [85 Year History of the Korean Medical Association: 1908-1993] (Seoul: KMA, 1993), p. 96.

Insurance which was already being prepared by the experts of the Committee for Social Security. Even after the 1961 reorganisation, the Korean Medical Association was not closely informed of policy proposals by the Government. It seemed inconceivable for the Korean Medical Association to launch a political campaign and confront the government. Their approach to National Health Insurance was to tackle technical and minor issues. In other words, they did not try to argue about the policy itself but to express concerns about detailed problems, particularly the pay contract with the insurance funds. The doctors were not successful even in those issues.

In 1977, when the first compulsory National Health Insurance was introduced, the Government proposal included the regional pricing system which the Korean Medical Association did not like. In this regional pricing system, payments from the insurance funds would be varied according to regions: Seoul, big cities, small cities and rural areas. The Korean Medical Association opposed this system even though they 'welcomed' the National Health Insurance system. The Korean Medical Association held a meeting with the National Assemblymen of the Health and Social Affairs Committee and presented five points of their view on the National Health Insurance, but their attempt to block the regional pricing system turned out to be unsuccessful, even though some of their proposals were included in the National Health Insurance Act.⁶¹

The political strategy of the Korean Medical Association was neither complex nor successful. Its strategy to influence government policies and to gain access to the policy-making process was to have a Minister of Health and Social Affairs who had a

⁶¹ Son Chun'gyu, "Han'gug-ūi Sahoe Chōngch'aek Kyōljōng Kwajōng-e Taehan Yōn'gu" [A Study of the Decision-Making Process of Social Policy], (Unpublished Ph. D. Dissertation, Seoul National University, 1981), p. 95.

background as a medical doctor. In the Second Republic, the Korean Medical Association strongly lobbied to promote to a doctor Minister. After the military coup d'état of 1961, the Korean Medical Association did not dare to set in motion this strategy, which might look as if it were confronting the new Government. Instead, the Association appointed a senior politician from the governing party the president of the Korean Medical Association as "an inevitable measure".⁶² After the nineteen years absence of a doctor Minister of Health and Social Affairs, a doctor Minister was appointed in 1988. But he stayed in office only for ten months. The next Minister of Health and Social Affairs was also a medical doctor. His tenure of office was even shorter. The period in office of two consecutive Ministers of Health and Social Affairs lasted only a year and half. In less than a year in office, it would be very difficult for any Minister to exercise significant influence. These two doctor Ministers were not in the core circle of the decision-making process.

Despite this weakness of the Korean Medical Association, what should be reminded is that National Health Insurance did not seriously threaten the doctors' economic and professional interests. Doctors may spend time reimbursing payments from the insurance funds and they may also be subject to some government regulations regarding the work of National Health Insurance. Nevertheless, the National Health Insurance system created a guaranteed demand for health treatment in such a way that patients tend to go to doctors more often than they do without insurance. Korean doctors, actually, did not oppose National Health Insurance.

⁶² The Korean Medical Association, *Taehan Ūihak Hyōphoe 85-nyōnsa: 1908-1993* [85 Year History of the Korean Medical Association: 1908-1993] (1993), p. 115.

2.3 The Role of Experts

The term 'experts' will be used to refer to researchers in research institutions. The term 'experts' has two advantages in the analysis of social policy. First, institutional behaviours of experts are different from those of bureaucrats and professionals like doctors as in the analysis above. As far as bureaucrats are concerned, they tend to try to expand their field of work. The expansion of working scope means the increase of the institutional power of bureaucrats because new work often comes along with increase of power and funding. By contrast, experts do not actually deal with the implementation of social welfare programmes, even though they may design those programmes. Experts in the governmental institutions, whom we will analyse here, try to expand their institutional power by way of providing their expertise to decision-makers and eventually acquiring their confidence. Occasionally, they propose new ideas to impress the top decision-makers, the President in the Korean context. Once the President gave weight to their proposals, their institutional power would be strengthened. If they failed to impress the President, the President will not ask them to prepare policy proposals. This could mean that their institutions become marginalised.

In contrast to professionals such as doctors, teachers and social workers, experts do not have their interests at stake in social welfare programmes. The economic interests of the professionals are closely related to the content of social welfare programmes. Doctors often oppose a national health programme because it may threaten their professional independence and financial interests. Teachers often demand that the government increase spending on education. Experts do not have

these economic interests at stake in social welfare programmes.

Secondly, the term 'experts' enables us to look into the micro units of the decision-making process. In the macro unit analysis, we often use a sentence like, "the state decided to increase the premium of National Insurance by 5% from the next year." We can look at the inside of the state, using the term of the micro unit of decisions, such as the President, his advisors, experts, and so forth.

In the making of social policy in Korea, there were two important expert institutions. The Committee for Social Security (CSS), which was an advisory committee of the Minister of Health and Social Affairs, prepared most drafts of social welfare programmes in the 1960s. The Korean Development Institute (KDI) was a research institute of the Economic Planning Board. It took over the role of the CSS at the beginning of the 1970s. The CSS did not advocate the idea that social welfare programmes could play a part in the overall economic plan. Instead, the CSS tried to persuade the top decision-makers to recognise the necessity of 'social development'. In the top decision-makers' perception, a social welfare programme would hamper economic development. They did not pay attention to the argument for 'social development'. By contrast, the KDI managed to impress the President with the idea that social welfare programmes could play a positive role in economic development. The President was particularly interested in the idea that the National Pension Programme could create a huge fund which for the time being could be invested in constructing heavy and chemical industry. The comparison of these two expert institutions will also reveal the structural aspect of economic and social policy as well as the inside view of the workings of the confined institutional terrain.

The Committee for Social Security (CSS)

Before the CSS took its present form in 1962, it was a Study Group for Introducing Medical Insurance Programmes. Because the Study Group had its meeting every Wednesday, the members called the Group the 'Wednesday Group'. At the beginning, the members of the study group were eight people, including a doctor, intellectuals and civil servants. They were proud of their work which might contribute to the possible introduction of social welfare programmes. They produced several pamphlets most of which explained social welfare programmes and anticipated possible obstacles in introducing social welfare programmes.⁶³ Before the 'Wednesday Group' became the Committee for Social Security, it was a private voluntary group of people who believed that Korea should have a social welfare system. After the military coup d'état, the 'Wednesday Group' became the CSS, an advisory committee for the Minister of Health and Social Affairs by the Cabinet Decree No. 469 in 1962.⁶⁴

The idea of establishing the CSS, however, was not initiated by the Military

⁶³ The titles of pamphlets which the study group produced are "Ūiryo Pohōm Chedo Toib-e Kwallyōndoen Che Munje-wa Yebi Kwon'go" [Issues Related to the Introduction of Health Insurance and a Preliminary Proposal] and "Sahoe Pojang Chedo-ūi Ch'angsi-e Kwannan Kōnūi" [A Proposal for the Creation of Social Welfare Institutions]. Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa* [The History of Korean Social Policy Research] (Seoul: Institute of Korean Social Security, 1991), p. 17.

⁶⁴ The Committee was chaired by the Deputy Minister of the Health and Social Affairs. There were eight researchers and associate researchers in the Committee. Among the researchers, Cho Manje, a graduate of Tokyo Imperial University was in charge of the General Section, and Sim Kangsōp who had worked in the Labour Bureau of the Ministry of Health and Social Affairs in the Labour Section, Han Sangmu in the Public Assistance Section and Choe Ch'ōnsong, who graduated from Paris University, in the Health Insurance Section, respectively. The Committee for Social Security, "Sahoe Pojang Simūi Wiwōnhoe Yōn'guwōn Myōndan mit Nyōndo Pyōl Yon'gu Silchōk" [Names of the Researchers in the Committee for Social Security and Research in Each Year] (1981), mimeo.

Government. In the Second Republic before the military coup d'état, the National Conference for the General Economic Plan, which was held in December 1960, decided to establish the CSS.⁶⁵ While the Ministry of Health and Social Affairs was founding the CSS, the military coup d'état took place and the work was postponed for the time being. The idea of establishing the CSS was re-introduced by the Chairman of the Health and Social Affairs Committee in the Supreme Council for National Reconstruction. By this time, the CSS was only a provisional committee for the Minister of Health and Social Affairs. In 28th July 1962, President Park, then the Chairman of the Supreme Council for National Reconstruction, presented a memo to the Cabinet.⁶⁶ In the memo, Park requested the Cabinet to introduce social welfare programmes. Through this memo, the CSS became an official committee of the government.

In the 'Revolutionary Pledge' of the military coup d'état, there was no indication of the introduction of social welfare programmes. In May 1962, as chairman of the Supreme Council for National Reconstruction, Park mentioned the possible introduction of social welfare programmes in a press conference for the first time.⁶⁷ After the memo, Park urged the Cabinet to prepare welfare programmes before the 1963 presidential election. The chairman of the Health and Social Affairs Committee told the experts of the CSS that the CSS must design two or three welfare

⁶⁵ Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa* [*The History of Korean Social Policy Research*] (1991), p. 13.

⁶⁶ The Ministry of Labour, *Sanjae Pohōm 15-nyōnsa* [*The Fifteen-Year History of Industrial Accident Insurance*] (1981), p. 25.

⁶⁷ Sō Pongch'an, "5.16 Hyōngmyōng Kongyak-kwa Pokchi Kuk kwa-ui Inyōm" [The Pledges of the 5.16 Military Revolution and the Idea of the Welfare State], in *Ch'oego Hoeūibo* [*Supreme Council Review*] No.9 (1962), p. 114.

programmes which could cover all of the population. He mentioned a programme for labourers and a programme for health care. The CSS had very little time to prepare the programmes by the January 1963 when the President would promise the introduction of social welfare programmes in his new year press conference.⁶⁸

In the CSS, the Labour Section reviewed the feasibility of two welfare programmes which would benefit labourers. An unemployment programme and an industrial accident programme were discussed in the Labour Section. Eventually, the Labour Section decided to introduce an industrial accident programme. In order to introduce an unemployment programme, the CSS had to decide how to create funds for the programme. The experts in the CSS thought they could not make that decision. Another problem was that it would take time to raise funds. President Park wanted a clear plan for a welfare programme for labourers so that he could promise that programme in his New Year Press conference scheduled for January 1963. Compared with the unemployment programme, the industrial accident programme did not present many obstacles. First, it did not raise a funding problem because employers were already liable for industrial accidents by the 1953 Labour Standard Law. The only thing required was to make it compulsory insurance. Secondly, the Labour Section considered that injured labourers would be in a more difficult situation than the unemployed because of the loss of their ability to work as well as the necessity of health care.⁶⁹ The Industrial Accident Insurance Act was enacted in November 1963.

⁶⁸ The Ministry of the Labour, *Sanjae Pohōm 15-nyōnsa* [*The Fifteen-Year History of Industrial Accident Insurance*] (1981), p. 25.

⁶⁹ *Ibid.* p. 27.

The Health Care Section had much more difficulty in preparing the programmes than the Labour Section. The Health Care Section conducted a survey of the health condition of the citizens in October and November 1962. The sample was five hundred residents of Seoul. The survey concluded that a universal health programme might help the lowest income group more than any other income group. Despite the poor health condition, people in the lowest income group visited pharmacies rather than hospital because of the cost.⁷⁰ Contrary to the conclusion drawn in the survey, the Health Insurance Programme drafted by the Health Care Section was not going to cover the lower income groups. In the first draft, the Health Insurance Programme would cover only employees of enterprises which had more than 500 workers. The Programme could cover only 0.51% of the enterprises.⁷¹ Due to the lack of statistics, it could not be calculated how many workers were employed in the enterprises which had more than 500 and how much their income was in 1963. Nonetheless, it would be difficult not to expect that the incomes of these employees were likely to be bigger than those of people working in smaller enterprises.

Why did the Health Care Section design a draft in this way? One of the experts in the Health Care Section said:

I regret very much that the Health Insurance Programme (the draft) did not cover the poor who needed it most. It was designed to cover only the small numbers of workers who were relatively well off. However, we had to make a safe start rather than launch an ambitious Health

⁷⁰ The CSS, *Kōn'gang Chosa Pogosō* [*The Report on Health Survey*] (1963), recited from Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa* [*The History of the Korean Social Policy Research*] (1991), p. 60.

⁷¹ *Korea Statistical Yearbook*, 1965.

Insurance Programme.⁷²

The Health Care Section was concerned about the feasibility of the Programme. Another reason was that there was little time for the Health Care Section because the health insurance programme had to be enacted before the presidential election scheduled for December 1963.

The draft of the health insurance programme was revised drastically in the process of reading at the Supreme Council for National Reconstruction. The compulsory clause was deleted from the health insurance proposal. The National Health Insurance became a voluntary programme. It would cover only those employees in enterprises which had more than 300 employees, who would want to join the Programme. If they did not, the health insurance programme could not cover even better-off employees. The health insurance programme lacked one of the essential attributes of social welfare programmes, the compulsory condition. The reason why the Supreme Council deleted the compulsory clause clearly showed how the decision-makers understood social policies. The Secretary to the Vice-Chairman of the Supreme Council argued that it would be unfair to undertake the Government expenditure for only one part of the citizenry. He also maintained that it would be impossible to "conscript" resources from the citizens except by taxation.⁷³ He won the debate against the experts of the CSS at the reading in the Supreme Council.

⁷² Interview with Choe Ch'ōnsong, conducted in Seoul January 1992. Despite the regret, he was very proud of his work contributing to the introduction of health insurance programme.

⁷³ Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa [The History of the Korean Social Policy Research]* (1991), p. 110.

The Industrial Accident Insurance and the National Health Insurance Acts were passed in the Supreme Council in November and December 1963 respectively with many other laws, running up to the last day of the Military Government. While Industrial Accident Insurance was put into effect in 1964 as a compulsory programme, National Health Insurance was implemented in 1965, and only as an experimental programme. Only two companies, one fertiliser and one mining company, took part in the experimental project. The result of the experiment turned out to be a failure due to the Programme's defect. Because of its voluntarism, only those who were not healthy and those who had big families joined the Programme. The healthy and better off simply ignored it. Until 1977, when National Health Insurance became compulsory, the programme was not effective at all.

The CSS was established in 1962, and since then it published many reports on welfare programmes. After 1974 when the Korean Development Institute took over most of the roles of the CSS, it was gradually marginalised in the making of social policy. In 1987, the CSS became a part of the Institute of Population and Public Health, which meant the demise of the CSS as an independent institution. There were two reasons for the failure of the CSS. First, the welfare programmes were used only as a measure of short-term strategy for political legitimation which was needed only intermittently. Secondly, and more importantly, the CSS failed to persuade the decision-makers of the positive relationship between economic policy and social policy. The experts tried to make a point on 'social development'⁷⁴ which the President was

⁷⁴ The CSS published a report entitled, "Sahoe Kyebal Kyehoek Kich'o Yōn'gu" [Preliminary Research on the Plan for Social Development], in 1966/1967 and several reports on the issues of social development each year until 1974. The Committee for Social Security, "Sahoe Pojang Simūi Wiwōnhoe Yōn'guwōn Myōndan mit Nyōndo Pyōl Yon'gu Silchōk" [Names of the Researchers in the Committee for Social Security and

not interested in. A policy meeting held in sometime 1971 illustrates the gap of idea between the Minister of Health and Social Affairs, who was sympathetic with the experts of the CSS, and the President and his advisors. At this meeting, in which top decision-makers discussed the Third Five-Year Economic Plan, the Minister of Health and Social Affairs was about to present a plan for the social development to the President. One advisor of the President's office, the Chief Secretary to the President for Economic Affairs, prevented him from continuing the briefing and argued that the Minister should not distract national efforts from economic development. The President said nothing and the Minister stopped the briefing.⁷⁵

The Korean Development Institute (KDI)

The Korean Development Institute was established in 1971 by President Park in order to 'conduct research on policy matters concerning the overall national economy, and to design the nation's five-year plans'. In other words, the basic aim of founding the KDI was to develop economic plans for industrialisation not for social welfare programmes. Every year, the KDI published *A National Budget and Policy Target* which was the guide-line of the budget.

From the beginning, the KDI was much more powerful than the CSS in terms of institutional influence. Because it had nothing to do with the implementation of policies, the KDI was free from any practical constraints so that it could design a

Research in Each Year] (1981), mimeo.

⁷⁵ Son Chun'gyu, "Han'gug-ūi Sahoe Chōngch'aek Kyōljōng Kwajōng-e Taehan Yōn'gu" [A Study of the Decision-Making Process of Social Policy], (1981), p. 77.

policy which the top decision-makers might want. That was the very reason why President Park established the KDI. The KDI experts had easy access to the President and Vice Prime Minister which the CSS did not have. While the CSS had difficulties in conducting research due to the lack of research funding, the KDI was free from financial problems.

From 1972 the KDI was involved in social-policy making. As we saw earlier, President Park changed the constitution in October 1972 in order to stay in power. He justified constitutional change by the rhetoric of anti-communism and economic growth. He needed good economic performance in the long-term. He also needed some short-term measures of political legitimation. At that time, the KDI president, Kim Manje met the President on 25th November 1972 and convinced him that a national pension programme would provide capital as well as social security, both of which the President desperately needed because the government's economic strategy shifted the emphasis from import substitution to heavy and chemical industry. At that meeting, the effect of the National Welfare Pension Programme on 'the nation's socio-economic development plan' was discussed by President Park and the KDI president.⁷⁶ After the discussion, the President formally requested the KDI to undertake research to develop a framework for a social security programme. This coincided with the beginning of the marginalisation of the CSS. Two months later, the President, in his new year press conference, promised that he would introduce a social security programme.

⁷⁶ Chong Kee Park, *Social Security in Korea: An Approach to Socio-Economic Development* (Seoul: KDI, 1975), p. 104. At that meeting, Chong Kee Park also participated in the discussion. Since the meeting, he had been in charge on KDI activities in social policy area.

According to the Law passed in 1973, the National Welfare Pension Programme was due to be financed solely by the contributions of employers and employees. The government would subsidise only the administrative cost from the general revenue. The fund of the National Pension Programme could be saved and invested by the decision of the Minister of Health and Social Affairs in coordination with the Prime Minister, the Vice Prime Minister, and the Minister of the Treasury. This formation was aimed at effectively mobilising capital for the National Welfare Pension Programme. One of the senior experts, who was involved in the Programme, said:

In examining the role of the 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 (the National Welfare Pension⁷⁷) Programme.⁷⁸

What is the primary objective of the Programme? He answered:

The National Welfare Pension program can thus be considered as an efficient means of increasing the rate of savings out of current income. . . . Also, higher taxation generally encounters heavy political resistance. Thus, the social security payroll contribution has important merits which make it preferable to an increase in taxes.⁷⁹

The National Welfare Pension programme was launched on 24th December 1973. Four days later, President Park suddenly postponed the Programme. It was not

⁷⁷ The name of the pension programme was changed into the National Pension Programme when it was put into effect in 1988.

⁷⁸ Chong Kee Park, *Social Security in Korea: An Approach to Socio-Economic Development* (1975), p. 90.

⁷⁹ *Ibid.*, p. 86.

clear why he made that decision. In 1973, the inflation rate was very high due to the sudden and unexpected rise in the oil price. It was clearly very difficult to preserve the real value of money amid the high inflation rate. Another consideration was that the government could not impose the burden of contributing to the Programme on businesses which were already in a difficult economic situation. Without public consensus or debate in the National Assembly, he might have thought that he could not take the political risk by himself. A month later, he proclaimed the Presidential Emergency Measure No.3 in which tax-relief for low income groups was included. It also imposed heavy taxes on property and luxury goods. The president of the KDI was believed to have prepared the Emergency Measure No.3.⁸⁰

The decision-making process around the second amendment of the health insurance programme was more complex than the previous one involved in the National Welfare Pension Programme. The 1976 amendment of National Health Insurance was the second one, following the first in 1970 which had not been implemented. The initial idea of the second amendment came from the U.S. aid loan in 1975 which was specifically designated for the health programme. In the Government, the Council for Health Policy, chaired by the Vice Prime Minister, was formed for the coordination of affairs between the ministries concerned with health policies. The Vice Prime Minister requested the KDI to form the Policy Unit for Health Policy in order to examine the health policies from the point of view of overall economic planning. According to the director of the Policy Unit for Health Policy of

⁸⁰ Korea Herald, 15 January 1974.

the KDI⁸¹, there was a conflict between the Economic Planning Board and the Ministry of Health and Social Affairs about the issue of which ministry would take the responsibility for the health insurance programme. As far as economic policy was concerned, the Economic Planning Board was the most powerful ministry in the Government. This time the case was rather different from the usual. Sin Hyōnhwak, then the Minister of Health and Social Affairs, who had the political confidence of the President, insisted that the health care programme should be drafted by his Ministry. The conflict on health policy between the two ministries was resolved by the President. In his new year press conference, promising the implementation of National Health Insurance, President Park said that the Ministry of Health and Social Affairs would prepare the Programme. The Policy Unit of Health Policy in the KDI only gave the advice to the Ministry of Health and Social Affairs in order to make the programme compatible with the Five-Year Economic Plan. In the Ministry of Health and Social Affairs, the Bureau of Welfare Pensions took the initiative in preparing the draft on National Health Insurance. The Committee for Social Security did not play any role in this process, even though it was still an advisory committee to the Minister of Health and Social Affairs.

By the revision of the Law of 1977, National Health Insurance became a compulsory programme which the CSS had failed to create. It covered employees in all work places which had more than 500 people. The 1977 Programme was almost the same as the initial draft of the CSS.

In the Fifth Republic, the KDI's role in social policy-making as well as

⁸¹ From the interview with Chong Kee Park, who was the director of the Policy Unit. The interview was conducted in January 1992 in Seoul.

economic policy-making was reduced to a large extent. President Chun had more confidence in his economic advisors on economic policy-making in the Blue House, the presidential office. He appointed his advisors from the Economic Planning Board and the Ministry of the Treasury. His advisors already had many years of experience in economic planning and the implementation of policy. They were competent and some of them had a doctorate from abroad, mostly from the U.S.A. The President met them in the National Security Council which was an interim military council after the political turmoil in 1979. They put forward the 'new line' of economic planning which President Chun was convinced of: economic stabilisation rather than growth.⁸²

Regarding social policy, the Fifth Republic launched a political slogan "Constructing A Welfare State" (*Pokchi Kukka Kōnsōl*). This welfare initiative, however, did not last long. The idea of the welfare initiative came from the National Security Council. In the National Security Council, the military members confronted the members from the bureaucracy. The military argued for a welfare reform to justify their political intervention. The confrontation entailed a compromise in which economic policy would follow the new line and welfare reform would be pursued in a rhetorical form for the time being. After those military members went back to barracks, even the rhetoric of welfare reform disappeared.

In the Fifth Republic, the KDI published several reports on social welfare programmes. According to a senior KDI expert⁸³, however, there was no social policy initiative from the KDI in the Fifth Republic. That senior expert eventually left the

⁸² S. Haggard & C. Moon, "Institutions and Economic Policy", *World Politics* No. 2 (1990), pp. 221-229.

⁸³ From the 1992 interview with Chong Kee Park.

KDI for a university job.

Some recent studies of policy-making pay a great deal of attention to the role of policy experts.⁸⁴ Among them is the study by Skocpol providing a contrasting illustration about the role of experts in the late 19th and early 20th century America. She probed into the work and activities of reform-minded advocates of social policy. Those early advocates of social policy promoted their reform project around the American Association for Labor Legislation (AALL), which was launched in 1906.⁸⁵ They believed that working men and their families should be helped by new compulsory public policies. Social insurance was a way to use state power to promote social solidarity and the moral well-being of the nation.⁸⁶ Despite vigorous efforts, those reform-minded experts failed to introduce the working men's insurance. This failure may explain the fact that America lagged behind in developing a welfare state. Skocpol found the reason for failure in the institutional configuration of American polity. She pointed out that the American policy experts, who pursued social legislation, had to deal with dozens of state legislatures and higher courts as well as Congress and the federal Supreme Court.⁸⁷ That was obviously a daunting task.

⁸⁴ See Guy Peters & A. Barker ed., *The Politics of Expert Advice: Creating, Using and Manipulating Scientific Knowledge for Public Policy* (Edinburgh: Edinburgh University Press, 1992); Guy Peters & A. Barker ed., *Advising West European Governments: Inquiries, Expertise and Public Policy* (Edinburgh: Edinburgh University Press, 1993); Radhika Desai, "Second-Hand Dealers in Ideas: Think-Tanks and Thatcherite Hegemony," in *New Left Review* No. 203 (1994).

⁸⁵ Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, Mass.: The Belknap Press of Harvard University, 1992), p. 177.

⁸⁶ *Ibid.*, p. 176

⁸⁷ *Ibid.*, pp. 254-255.

In contrast with the American policy experts who campaigned for their belief outside the government, policy experts in Korea were not only inside the government but also placed in a strategic location where decisions were effectively made. The National Assembly did not play an important role in promoting or blocking policy proposals. Political parties and trade unions and other civil movements did not take on the issue of social policy because of their political strategy. Only a small number of top decision-makers and policy experts had effectively made the social policy decisions. In other words, the institutional configuration of Korean polity allowed policy experts to play an important role in social policy-making.

Despite their strategic location, the position of experts in the decision-making was not always secure. First, let us divide experts into two groups in order to elaborate this point: idealists and pragmatists. The portrait of experts painted by Skocpol in her study is similar to that of idealists. The American experts believed that social insurance would improve the living and working conditions of all members of the working class.⁸⁸ They also strongly believed that their proposals would eventually bring about social justice and economic efficiency. This belief and their expertise partly came from their study in Europe. The experts of the CSS in Korea were very similar to this description of American experts. Many of them did their study abroad and they voluntarily organised a group to promote and prepare the introduction of social welfare programmes. Because of the institutional difference, the experts of the CSS, unlike their American predecessors, had access to the decision-making process without vigorous promoting or lobbying.

However, their idealistic attitude toward policy -making was not in line with

⁸⁸ *Ibid.*, p. 188.

the policy paradigm of the top decision-makers. The argument for social development was not attractive to the President, or his Ministers and advisors, who pursued the politics of legitimation through economic performance. In other words, the sets of policy paradigm between experts and decision-makers were different. This difference was resolved in such a way that the CSS was marginalised from the confined circle of institutions which made decisions.

In contrast to the idealistic approach of the experts of the CSS, those of the KDI saw social policy as one of the means to implement economic measures. They did not pursue social policy to realise social values like social justice and equality. This pragmatic approach entailed social welfare programmes in which economic considerations were put first before social values. The more significant role which these pragmatic experts played was that they changed the top decision-makers' perception of social policy in the given policy paradigm. They managed to persuade the President to see economic aspects of social policy which might be compatible with his economic policy. This enabled the KDI to take over the role of the CSS. Despite the advantage of its pragmatic approach, the KDI was not free from the competition between institutions. More importantly, the new institutional configuration following the democratisation process, allowed institutions previously excluded from the decision-making process to begin to take part in this process and, dramatically reduced the role of experts in general.

2.4 Toward Democratic Policy-making?

In April 1987, the crisis of political legitimacy reached its highest point when President Chun announced that he would not reform the constitution and would carry on the presidential election scheduled at the end of the year under the existing constitutional law. According to that constitution, the president would be elected at the electoral conference of the electoral college. This indirect election system had been used by Presidents Park and Chun to ensure their presidency without popular support. The announcement by President Chun in April 1987 provoked nation-wide demonstrations, in which many ordinary citizens as well as university students participated. Direct confrontations between demonstrators and the police took place over almost all the big cities in Korea. Opposition parties formed a National Committee for Constitutional Reform with many other social groups including university students, in order to spearhead popular demonstrations for constitutional reform. In June, the presidential candidate of the governing Democratic Justice Party, Rho Tae-woo, put forward eight points of declaration in which he promised constitutional reform. Afterwards, the main political parties agreed to the new constitution in which the president would be elected by direct popular vote.

In 16 December 1987, the candidate of the governing party, Rho Tae-woo, was elected president, contrary to the widespread expectation at that time that one of the opposition candidates could be elected despite their failure to put forward a united opposition candidate. With hindsight, it was almost impossible for the opposition candidates to win the presidential election, because the two leading opposition candidates, Kim Young Sam and Kim Dae Jung, fairly evenly divided the opposition

votes. These two opposition candidates altogether attracted 55% of the votes. Kim Young Sam had 28% and Kim Dae Jung 27% of the votes. A united opposition would more likely have meant a defeat for the ruling party. The failure to put forward a united opposition candidate gave the ruling candidate the chance to win the presidency with 36.6% of the votes.⁸⁹

To what extent did the new formal rule of institutions bring about changes in the making of social policy? President Rho was elected through a constitutional procedure which did not violate democratic principles. In other words, President Rho's government was the first government in thirty years which did not suffer from the deficiency of legitimacy. The first visible change was the fact that social welfare programmes were openly debated in the electoral arena and new programmes were promised by the presidential candidates. Under the governments of Presidents Park and Chun, new social welfare programmes were introduced by the presidents in order to enhance their political legitimacy. Because debates on new programmes were effectively not allowed in the public arena, interest groups did not have an opportunity to pursue their interests in social policies in those periods. By contrast, in the presidential election of December 1987, four leading candidates promised that they would bring changes in the social welfare system in Korea. If we assume that candidates would be obliged to keep promises made during election campaigns, the effective point of decision of social policy -making shifted from the confined circle of decision-makers and experts to the electoral arena.

It is worth noting that the main debate in the presidential election was still

⁸⁹ James Cotton & S. Bae, "Regionalism in Electoral Politics," in J. Cotton ed., *Korea under Rho Tae-woo: Democratisation, Northern Policy and Inter-Korean Relations* (London: Allen & Unwin, 1993), p. 171.

constitutional issues because a wide range of institutional rules was yet to be made. Nonetheless, all of the four leading candidates put forward proposals for social welfare programmes which were more or less similar to each other: the introduction of the National Pension Programme and the expansion of National Health Insurance.⁹⁰

After the presidential election, National Health Insurance was expanded to cover those who had not been covered previously, like farmers, employees in informal sectors and the self-employed. This marked a breakthrough in the development of the Korean welfare system in terms of the role of the state in the financing of social welfare programmes. As we will examine in the next chapter, the Korean state had not played the role of the provider in the financing of social welfare programmes before the new constitution of 1987. Funds for social welfare programmes came from the contributions of employers and employees. With the exception of the Public Assistance Programme, only administration costs were subsidised by the general revenue of the government. The role of the state could be seen as a regulator which made programmes compulsory without providing funds for programmes. The Park and Chun governments had not played the role of provider in financing social welfare programmes. Their approaches were very lukewarm and cautious about the possible move from a regulator to a provider. This caution about the move to the new role of the state caused a grievance for those who were not covered by National Health Insurance. For example, as the coverage of National Health Insurance expanded, those left outside National Health Insurance became increasingly isolated from the rest of the population. Some of the self-employed previously outside of National Health Insurance formed health funds for themselves to join National Health Insurance. For

⁹⁰ *Sin Tong'a*, January 1988.

instance, the National Association of Artists, whose members were mostly the self-employed, formed an insurance fund to join National Health Insurance in 1981. Many associations of self-employed people soon followed this example. As this trend continued, the defect of National Health Insurance became more obvious in the sense that those remaining outside National Health Insurance were socially and economically vulnerable groups who needed more social protection than others.

The government had not taken responsibility for those people until the 1987 when the presidential election took place. All four leading candidates made election promises for the expansion of National Health Insurance in the presidential election of 1987. The deadlock of National Health Insurance, which had remained unsolved in the confined institution of the decision-making process, was quite easily broken through in the electoral arena. National Health Insurance began to cover those who had not been covered before: those in rural areas in 1988 and those in urban areas in 1989 respectively. The government began to pay 50% of the premium, which was the equivalent of the employers' contribution in the case of salaried employees.

The return of the governing party to power seemed to mean that the effective point of decision for social policy would again remain confined to a small number of decision-makers as it had been before: the President, the ministers involved and the experts in social policy. After the Presidential election of 1987 in which opposition leaders were to blame for their defeat, the President seemed to have a strong political mandate. The new constitution also stipulated a strong president, like the previous constitutions. Because the new President did not have democratic deficits, he could be more powerful than ever before. He was expected to play a great role in the decision-making process as an effective institution of decision. The newly established formal

rules of institutions, however, provided another, and quite unexpected, effective point of decision other than the President: the National Assembly.

After the victory in the presidential election, the Rho government was surprised by its defeat in the general election 1988, which the government had anticipated winning with a considerable majority. Like the previous presidential election, the general election for the National Assembly was led by the same four leading politicians, President Rho, Kim Young Sam, Kim Dae Jung and Kim Jong Pil. The opposition parties fought the general election, remaining divided again. The performances of the leading four parties in the general election were almost identical to those in the presidential election of 1987 in terms of the share of vote. For what reasons was the governing party, the Democratic Justice Party, defeated in the general election whereas it won the presidential election with almost the same share of the votes? The first answer was the strong regional feelings which emerged vividly in the presidential election. Those four political leaders had their own regional strongholds where they gained a large number of seats of the National Assemblymen. Secondly, the system of constituencies mattered to a great extent in making the different results between the presidential and general elections. Under the new election law of 1988⁹¹, National Assemblymen were to be elected from the 'Small Constituencies' in which a member of the National Assembly would be elected in a constituency, in other words a First-Past-the-Post system. This 'Small Constituency' system would favour a party whose supporters were geographically concentrated. A party whose supporters were spread over the country would have difficulty in capitalising their support to win a

⁹¹ Hong-nak Kim, "The Parliamentary Election in South Korea," in *Asian Survey* Vol. 29, No. 5 (1989), pp. 481-482.

number of seats in the National Assembly. In the presidential election, whoever has the biggest aggregate of votes at the national level would win the presidency. In contrast with the presidential election system, a party with concentrated support in a certain region had a great advantage in the 'Small Constituency' system for the election of the National Assemblymen. Interestingly, all four parties had their own regional strongholds. The four leading parties won most of the seats available in their strongholds. The general election in April 1988 produced a four-party system in which the governing party did not have a majority even though it was the biggest party in the National Assembly.

After the general election, Korean politics saw an unprecedented confrontation between the President and the National Assembly. Three opposition parties cooperated in the National Assembly with a strong mandate from the public for 'purification of the past', even including one of the opposition parties, the New Democratic Republican Party (NDRP), which had a close affinity to the governing Democratic Justice Party. With a considerable majority, the opposition parties overruled the governing Democratic Justice Party and the government in the National Assembly.

The National Assembly set up two committees to investigate the irregularities and corruption in the Chun government. The televised hearings in the National Assembly caused a great deal of embarrassment to the Rho government. The National Assembly also refused to approve President Rho's appointee for the Chairman of the Supreme Court in July 1987. Such a refusal by the National Assembly was unprecedented in the thirty years. The President and government seemed to be unable to carry out their policies with the National Assembly where the opposition parties dominated. The National Assembly, however, was not effective in transforming their

newly obtained power into actual policies. The existence of two effective points of decision meant that neither institution was effective. Rather, they became veto points.

Table 2. 2 Regional Strongholds and Election Results in the Presidential Election of 1987 and the General Election of 1988

Party and Leader	Regional Strong Holds	% of Votes in the Presidential Election	% of Seats in the National Assembly (% of votes)
DJP, Rho T-W	Taegu N. Kyōngsang	36.6	38.8 (34.0)
PPD, Kim D-J	Kwangju N. Chōlla S. Chōlla	27.1	24.1 (19.3)
RDP, Kim Y-S	Pusan S. Kyōngsang	28.1	20.5 (23.8)
NDRP, Kim J-P	S. Chungch'ōng	8.1	12.1 (15.6)

Source: Rearranged from Hong-nack Kim (1989), "The Parliamentary Election in South Korea," in *Asian Survey*, Vol. 29, No. 5, 1989, p. 492; Okonogi Masao, "South Korea's Experiment in Democracy," in James Cotton & S. Bae, "Regionalism in Electoral Politics," in J. Cotton ed., *Korea under Rho Tae-woo: Democratisation, Northern Policy and Inter-Korean Relations* (London: Allen & Unwin, 1993), p. 18.

DJP: Democratic Justice Party; PPD: Party for Peace and Democracy; RDP: Reunification and Democratic Party; NDRP: New Democratic Republican Party.

With respect to decisions on social policy, the confrontation of two institutions produced a policy deadlock in which neither institution could implement its political will. They merely vetoed each other. In March 1989, the National Assembly passed a bill for the reform of National Health Insurance after several readings in the Health and Social Affairs Committee and the special committee of the National Health

Insurance Bill. The bill was about the reform of the National Health Insurance funding structure. The same bill was discussed in the previous National Assembly but it could not pass through the National Assembly, then dominated by the governing Democratic Justice Party. The bill tabled by the opposition Assemblymen would have established a National Fund of Health Insurance, merging all health insurance funds across the nation.

Since National Health Insurance had expanded incrementally over the years, many health insurance funds were organised by occupations and managed separately. The financial situations of the funds were different according to the occupation of the insured. For instance, the fund of government employees had been in a very good financial condition because the contributions from the government as an employer and government employees were stable. The general health conditions of government employees were also good compared to those of people in other industries. The health fund for government employees, therefore, had a stable revenue and little expenditure. By contrast, it was feared that newly established funds for regional members, who had just joined National Health Insurance, would face financial difficulties. While the premium of the salaried employees, such as government employees and company employees, could be deducted directly from their salaries, new funds for regional members, organised by local areas, had to collect payrolls from their members whose financial situations were generally not so stable as salaried employees. Most regional members were self-employed, farmers and people employed in informal sectors. In addition, these regional members who had not been insured before were expected to use health services on a massive scale in the initial period of their membership.

A national fund would make it possible to transfer money from a stable fund to

a weak fund. This would also bring about redistribution effects between income groups, since upper and middle income groups, such as government and big company employees, had stable health funds while regional members, like farmers and informal-sector employees had weak funds. The National Assembly actually aimed at these redistribution effects between income groups.⁹² In an attempt to avoid the presidential veto, the opposition parties amended their original bill. Under the original bill, the National Fund would merge all funds immediately after the bill became law. In the revised version, the bill set several stages towards a national fund over the long period. The conditions for financial transfers between funds were also modified in the revised version of the bill. The National Health Insurance Bill was sent from the National Assembly to the president for ratification on 8th March 1989. The President used his veto on the bill on the next day.

Why did the President exercise his veto on the bill? He had already warned the National Assembly that he would veto the National Health Insurance reform bill. The President, however, had promised a National Fund of Health Insurance in his manifesto for the presidential election a year before. For what reason did he change his mind? First, he did not anticipate that the opposition would dominate the National Assembly. President Rho actually thought that a national fund was inevitable in due course, but he did not want to be pushed by the National Assembly. Secondly, he feared the loss of support from the upper and middle classes. From the viewpoint of the upper and middle classes, they would lose considerably and gain nothing from the possible merger of health funds into a national fund. There might be transfer of

⁹² National Assembly, *Ūijōng Yoyak* [Summary of the National Assembly Discussions], 9th March 1988, mimeo.

money from their fund to others who would use the health service more frequently and pay less than themselves. From the President's point of view, it was politically unwise to impose a loss on his main basis of supporters in the battle against the hostile National Assembly.⁹³

This deadlock of policy -making was resolved by the merger between the governing party and two opposition parties in January 1990. President Rho struck a deal with two opposition leaders, Kim Young Sam and Kim Jong Pil, leaving Kim Dae Jung as a minority opposition. These three leaders formed a new party, the Democratic Liberal Party. This party became a governing party through the back door and began to dominate the National Assembly with a big margin. After this political realignment, the National Assembly no longer exercised an effective power of veto. The government began to get policy proposals through the National Assembly. The decision-making process, however, did not return to the old style of presidential dominance. The former opposition leader, Kim Young Sam, had a strong say within the governing party and to the president. He often threatened the President by saying that he would leave the party unless the President would accept his political demands. For instance, one of the Prime Ministers in the Rho government had to leave office because Kim Young Sam insisted on his resignation. He became effectively a veto power within the government. Despite Kim's influence on political issues, he did not interfere with detailed policy matters. With respect to social-policy making, since there was no major legislation after the political realignment, we do not have an

⁹³ Interview from Yun-Taek Lee, held in Oxford, December 1993. He was a Senior Secretary to the President on Public Administration from 1988 to 1990. Yun-Taek Lee was appointed to the Minister of Public Administration in 1990 and Minister of Labour in 1992.

opportunity to see what changes had taken place.

To what extent, overall, did the new democratic arrangements in the institutional structure bring about changes in the making of social policy? First, the decision-making process moved into a more open space from the confined institutional terrain in which the President had dominated all decisions. The National Assembly played a greater part in policy-making in the period prior to the political realignment than ever before. After the political realignment, the factions within the governing party gained strong voices on political issues. Secondly, the new emergence of several effective points of decision meant diverse access channels for interest groups such as the opposition parties and the factions in the governing party. Despite this opportunity, interest groups did not yet seem to take full advantage of the new institutional arrangement. It would take time for interest groups to adapt their strategic and organisational structure to the new environment.

Thirdly, the role of experts in social policy was drastically reduced in the new configuration of the institutions. Experts had been located in the strategic point in the decision-making process, namely around the president. As the president could not enjoy the monopoly of power, the role of the experts shrank accordingly. Experts also lost the political insulation provided by the president and became subject to political scrutiny.

Despite the new arrangements in the institutional structure, we have not had many opportunities to see changes in the social-policy making because few major policies had been introduced so far. It is, however, almost certain that future social policies will be made in more democratic ways.

Chapter 3.

The Structure of Social Policies

The previous chapter analysed the political rationale for state intervention for the purpose of redistribution in Korea. The present chapter will analyse the structure of the instruments used by the state for that purpose. We will clarify three types of state intervention to portray the Korean case in relation to the mix of policy instruments used. We will also examine continuity and changes in the role of the state in relation to social policy institutions. Our analysis is limited to social welfare programmes, which is obviously not a full analysis of state intervention in the market process.

3.1 Three Types of Intervention

We can divide various forms of state intervention in the area of social policy into three types by the extent to which the state takes the responsibility for financing social welfare programmes.¹ The first type is the role of a provider. As a provider, the state finances social welfare programmes through its expenditure. Secondly, the state can make statutory rules as a regulator in order to bring about certain forms of social

¹ John Mohan used the terms, coordinator, facilitator and provider, in order to refer to the role of the state, but he did not make clear the definition of the terms. It is very difficult to distinguish the coordinator type of the state from the type of the facilitator. For this reason, his terms do not much advance the understanding of the characteristics of state intervention. John Mohan, "Health Care Policy and the State in 'Austerity Capitalism'," in James Simmie & R. King, *State In Action* (London: Pinter Publisher, 1990).

welfare programmes without financial commitments. Lastly, the state can limit itself to the minimum role, which only maintains certain requirements for market operation and leaves welfare provisions to the market. We can call this type of intervention a market-maintainer.

The notion of market-maintainer might seem to be incompatible with the concept of state intervention. In the present context in which the presence of the state has been found in almost every aspect of daily life, the market-maintaining role is no less significant a form of state intervention than the two other types which we have defined. The methodological implication of the role of market maintainer is important in the analysis of policy change. If the state retreats intentionally from areas where it used to take responsibility, this will have a great impact on the current outcome of welfare distribution. The 'cut-back' policies in some of the European countries like Britain and Sweden in the 1980s aimed at retreat from the state's financial responsibility in many areas where the state used to take responsibility, leaving the market and charity to provide and distribute welfare provisions.² These cut-back policies would probably bring about changes in the dividing line between welfare winners and losers.

In order to further clarify these three types of the roles the state in relation to welfare programmes, we could take housing policies as an example. Suppose that the state itself constructs houses by employing workers and buying building materials through its own expenditure. The state may also allocate the houses to the consumers according to their qualifications. We can describe this form of state intervention as a

² Rune Premfors, "The 'Swedish Model' and Public Sector Reform," *West European Politics* Vol. 14, No. 3 (1991); Roger King, "Policy and Process in the Modern State," in James Simmie and R. King eds., *The State In Action* (1990).

provider type. In this form, it is basically taxes which provide the required resources.³

In the case of the regulator, the extent of the state's financial involvement is narrower than that of the state as a provider. The capital required for building is mainly supplied by the private sector. The location, number, and price of the new houses could be determined by market mechanisms with the state only imposing certain regulations on market decisions. Suppose that in the housing market, the building businesses prefer constructing large houses to building small houses because there are more profits from and demand for large houses. Even if there is a need for small houses, the need cannot always be expressed in the form of market demand. In some cases, the potential buyers of small houses may have financial difficulties. In other cases, choices offered by suppliers may not be wide enough to attract potential buyers.

In these situations, the state could introduce, for example, quota rules under which construction businesses have to build a certain number of small houses in proportion to the number of large houses. Some incentive measures could also be used to stimulate the demand and supply of small houses, such as tax relief to small house builders and financial aid to buyers.

Lastly, if the state limits itself to maintaining the basic requirements for market operations such as the legal framework and infrastructure, most decisions in the housing market will be undertaken by market mechanisms. Compared to other types of involvement, the extent of the state's role in the 'market-maintainer' type seems to be far narrower. There seems to be no state intervention at all. However, the impact of this type of involvement is not so insignificant as it might seem to be. If the role of the state has retreated from that of the provider or regulator role to that of 'market-

³ Rents from tenants could also be one of the source of resources.

maintainer', there will be a significant change in the distribution structure. Some people may well lose their entitlement to certain welfare provisions which they would otherwise have had, and others might pay less taxes than before.

We can also find three contrasting types of state intervention in health care programmes across nations. The National Health Service in Britain is a classic example of the provider role of the state. The National Health Service is solely financed by state revenue.⁴ The regulator type of state involvement regarding the financing of health care programmes can be found in National Health Insurance in Korea. As we will see, National Health Insurance is mainly financed by contributions from employers and employees. This is imposed by the statutory regulation. By contrast, the state does not much interfere with the health market in the U.S.A. and Switzerland. The states in these countries are closer to the third type.

Having described the types of state intervention regarding the financing of welfare programmes, one should recognise that these three types are only ideal types. In reality, the ways of financing welfare programmes vary to a large extent and are more complex than these simple examples. Even in health care programmes which show clearer examples of state intervention, the ways of state financial involvement vary from one extreme to the other in one country. In Britain, for instance, the state maintains market competition in the health care market as well as providing health services. In Korea and the U.S.A., the state finances health care programmes for low-income groups through the Health Assistance Programme and the Medicaid and Medicare programmes. There is also the Dutch case, in which the state pays for, but

⁴ Although the British National Health Service is in principle also financed by contributions from employers and employees, the state treats these contributions as just another tax and part of its general revenues.

private institutions manage the health care programme.⁵

The overall structure of the welfare state comprises various programmes each of which has various financing methods. In some programmes, the government expenditure is the main resource and in others the private sector pays a greater share of the costs. Even in a single programme, there usually exist several ways of funding. It is, therefore, difficult to identify the role of the state exclusively with one type rather than the other. In most cases, it is a mix of different roles of the state. We can only say that one type of state intervention is more or less dominant, acknowledging that the other types exist in the welfare state mix.

Despite the complexity of welfare systems and their financing methods, there are some advantages in differentiating the types of state intervention. In comparative studies of social policy, the analysis of the composition of government expenditure is often adopted as a methodological strategy for the comparison of welfare systems between countries or between two periods in one nation.⁶ This expenditure approach presupposes a hypothesis that higher social expenditure will entail more welfare provisions. In other words, a country having larger expenditure on social spending will provide more social welfare provisions than another country where social spending is smaller. Since all welfare programmes inevitably need financial resources, there must be some co-relation between government spending and the level of welfare

⁵ See OECD, *Financing And Delivering Health Care: A Comparative analysis of OECD Countries* (Paris: OECD, 1987), pp. 27-28.

⁶ Douglas Hibbs, "Political parties and macro-economic policy," *American Political Science Review*, 71 (1977); Hewitt, "The effect of political democracy and social democracy on equality in industrial societies: A cross-national comparison," *American Sociological Review* 42 (1977); David Cameron, "The expansion of the public economy: A comparative analysis," *American Political Science Review*, 72 (1978); Francis Castles, *The Impact of Parties* (London: Sage, 1982).

provisions. This hypothesis, however, can be valid to a reasonable extent only if welfare provisions are produced predominantly by the same mix of the welfare state in the countries in comparison. Suppose that most of the welfare services in one country are financed by non-governmental sources rather than through the government expenditure. The state only imposes certain regulatory rules which make welfare programmes compulsory, for instance, rules forcing employers to pay premiums for social insurance on behalf of their employees. National Health Insurance in Korea is an example. In another country, say the National Health Service in Britain, the state provides funding for services. In this case, the comparison of expenditure is not a relevant methodology for all purposes. For this reason, it is necessary to examine more closely how welfare systems are financed in the comparative analysis.

3.2 The Role of the State in the Economy

Before proceeding to the examination of the Korean welfare programmes, it is necessary to look at the role of the state in the Korean economy. The reason for this is that social policies are not isolated from economic policies. They form a structure of policies in which economic policies frequently override social policies, as explained in Chapter 2. It is also interesting to contrast the role of the state in the area of economic policy and in social policy. If the state intervenes in the market as either a provider or a regulator through its economic policies, can it be expected that the state would play the same role in the area of social policies? According to 'conventional wisdom', socialist governments prefer state intervention while right-wing governments

emphasize market mechanisms in their economic and social policies. This 'conventional wisdom' is not true in every instance, because the right-wing Catholic parties of Continental Europe often take a more activist social stance than their left-wing counterparts.⁷

To explore whether and how the Korean state has intervened in the market, this section will review some of the literature on Korean economic development policy instead of undertaking primary research. With respect to the role of the state in the economic development of Korea, there have been three waves of studies which have coincided with the stages of the general debate on economic development in the developing countries. The first wave came from the neo-classical economists who used to dominate the debate on economic development in the developing countries. In the second wave of studies, scholars argued that the Korean state is one of the most important factors in its economic development, criticising the neo-classical explanation. The third wave flowed from the side which placed greater emphasis on the international economic system than on the role of the state. According to the third explanation, the Korean economy is located at a strategic point which has provided great advantages for its economic development.

To trace these waves of studies, it is necessary to pay attention to the

⁷ Bismarck's reform and the social policies of Christian Democratic Parties are examples in this respect. For Bismarck's social policies, Gaston Rimlinger, *Welfare Policy and Industrialization in Europe, America and Russia* (New York: John Wiley & Sons, 1971); W. Dawson, *Bismarck and State Socialism: An Exposition of the Social and Economic Legislation of Germany since 1870* (London: Swan Sonnenschein & Co, 1890); P. Paur, "The Corporatist Character of Bismarck's Social Policy," *European Studies Review*, Vol. 11 (1981). For the Christian Democratic Parties, see Kees van Kersbergen, "Catholicism and Social Citizenship: In Search Of The Christian Democratic Welfare State," paper presented at the conference on the Comparative Studies of Welfare State Development in Bremen (1992).

background of the general debate on the political and economic development of the Third World, because the Korean economy was taken as evidence to support each of the competing general theories. Before some of the Asian economies emerged as NICs, the issue in the general debate was why most of the nations in the Third World had failed to develop their economies. According to the neo-classical theory, it was state intervention which hampered the economic dynamism that could otherwise have been stimulated by the market. For neo-classical economists, politicians and officials in the bureaucracy are merely selfish individuals who seek their own interest rather than the general needs of the economy. From this point of view, state intervention will serve the interest of a small number of people who hold power. Because of the interference of the state in the market, business people pursue political favours, instead of following market signals.⁸ Consequently, market dynamism will die away. Therefore, the neo-classical explanation concluded that state intervention was to blame for economic failures in the Third World.

In the debate on 'why the third world economies fail?' dependency theories challenged the neo-classical view. In contrast to the neo-classical view, dependency theories found the cause of failures in the international economic system. According to their theories, the world economic system comprises three different groups of countries: core, semi-periphery and periphery.⁹ For the nations in the semi-periphery and periphery, it is impossible to break through the divisions of the world economic

⁸ Anne Kruger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64, No. 3 (1974).

⁹ Samir Amin, *Unequal Development: an Essay on the Social Formations of Peripheral Capitalism* (New York: Monthly Review Press, 1976); Andre G. Frank, "The Development of Underdevelopment," *Monthly Review* XVIII (1966); Immanuel Wallerstein, *The Capitalist World Economy* (London: Cambridge University Press, 1976).

system. Short-term economic success in those countries would lead to economic deterioration, as experienced in the Latin American countries through the Import Substitute Industrialisation strategy, according to which the economy develops import substitute industries first and deepens the structure of industry later. Peter Evans argued that economic development in a dependent country could be achieved to a certain extent but he also argued that such development would end up with intensifying dependency.¹⁰

The Korean economy in the 1970s and 1980s recorded an impressive performance alongside other East Asian economies like Taiwan, Singapore and Hong Kong. Students in developmental economics have shown a great deal of interest in these countries. Because the sizes of Singapore and Hong Kong are small, more attention was paid to the Korean and the Taiwanese economies. The issue of the debate was also changed: How did the East Asian economies make a success of economic development? For the neo-classical economists, these cases provide supporting evidence for their arguments. With respect to the Korean case, it was argued that the state provided an adequate infrastructure to enable industry to function efficiently and profitably with minimum interference.¹¹ Because economic growth in Korea was heavily dependent on exports, businesses and industries had to face a highly competitive international market. Through exposure to such intense competition,

¹⁰ Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (Princeton: Princeton University Press, 1979).

¹¹ Ian Little, "True Experience and the Cause of Rapid Labour Intensive Development in Korea, Taiwan, Hong Kong and Singapore: and the Possibilities of Emulation," (Bangkok, ILO Working Paper WP/II-1, Asian Employment Paper (Asian Round Table of Economic Policy), 1979).

private enterprises made themselves efficient and profitable.¹² This is the point the neo-classical theory has argued for a long time.

The second wave of explanation drew quite a different picture. What was common in the literature in the second wave was the emphasis on the role of the state in economic growth. With her phrase, "get price wrong", Alice Amsden confronted the neo-classical explanation. She argued that the Korean state had intervened in the market mechanism and deliberately distorted market prices in order to compete in the international market. According to her, modern states have always intervened in the market in order to spur economic activity, and Korea was no exception to this general rule.¹³ What made Korea different was the discipline which the state had exercised over big businesses, known as *chaebōl*. The Korean state imposed performance standards on private firms. Once private firms met the standard, the state provided various kinds of subsidies such as low interest rate capital, a license which allows these businesses to enter new markets and gain recognition of their monopoly status.¹⁴ For those who failed to meet the standards, the state did not supply either subsidy or extra capital to rescue them in the case of financial difficulties.

How could the Korean state exercise such tough discipline over private enterprise? Robert Wade analysed the institutional structure, particularly the financial system, to give an answer to this question. He pointed to a powerful set of policy

¹² Bela Balassa, "Structural Adjustment Policies in Developing Economies," (World Bank Staff Working Paper No. 464, 1981), p. 8.

¹³ Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialisation* (Oxford: Oxford University Press, 1989), p. 14.

¹⁴ On subsidies see Hajoong Chang, *The Political Economy of Industrial Policy* (London: St. Martin's, 1994), pp. 115-116.

instruments and a certain kind of organisation of the state which made it capable of intervening effectively.¹⁵ The Korean financial system was a credit-based system in which private firms, especially the *chaebōls*, had a high debt/equity ratio. The logic of high debt/equity ratio forced firms to be heavily dependent in their finance on the banks which were either owned or controlled by the government, rather than on the stock market. Through this credit-based financial system, the state could exercise selective intervention, either by subsidies or by sanctions. In addition to these policy instruments, the state had highly centralised and coherent institutions which set out the overall economic strategy. Wade pointed to the Bank of Korea and the Economic Planning Board as the central guidance agencies.¹⁶

This explanation assumes a contrasting hypothesis to the rent-seeking theory. According to the rent-seeking theory, the massive interference of bureaucrats will lead to inefficiency because businesses would pursue favours rather than improve productivity. Under the situation in which, as Robert Wade has pointed out, private firms are heavily dependent on the state for their finance, economic inefficiency is more likely to happen than in other circumstances because of bureaucrats' self-interest and the rent-seeking behaviour of businesses. Contrary to this expectation, bureaucratic elites retained significant independence from businesses in the formulating of economic policy.¹⁷ According to Haggard, the economic policy-making process was

¹⁵ Robert Wade, "The Role of Government in Overcoming Market Failure: Taiwan, Republic of Korea and Japan," in Helen Hughes ed., *Achieving Industrialization In East Asia* (Cambridge: Cambridge University Press, 1988), p. 130.

¹⁶ *Ibid.*, p. 36-137.

¹⁷ Stephan Haggard, "The Politics of Industrialization in the Republic of Korea and Taiwan," in Helen Hughes ed., *Achieving Industrialization In East Asia* (1988), p. 264.

relatively insulated from direct political pressures and compromises.¹⁸ Peter Evans found the source of the independence of the bureaucrats in their recruitment system: "Highly selective, meritocratic recruitment and long-term career reward create commitment and a sense of corporate coherence."¹⁹

From the point of view of the second wave of explanation, state intervention in the economy was the key point in the economic development of Korea. Which type of state intervention do they identify with the Korean state in the economic growth? They do not see the Korean state as a market-maintainer. Nor does the second wave of explanation identify the type of state intervention with the provider type.²⁰ The concepts used in the second wave of explanation, such as performance standards for private firms, guidance, selective intervention and license, imply that the Korean state was a regulator rather than a provider. Can the Korean state, therefore, be described as a regulator in terms of the ways in which it functions in economic policies? F. Deyo seems to take this position when he defines the overall economic strategy in Korea as a state-led strategy. By state-led strategy, he means selective intervention by state agencies in the private sector decision-making process.²¹ However, a conclusion

¹⁸ Ibid., p. 261.

¹⁹ Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change," in Haggard & Kaufman, *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992), p. 163.

²⁰ In the area of economic policy, we interpret the role of provider in a strict manner. By the provider, we describe the state which not only provides financial resources to a economic actor such as public companies but also own same companies.

²¹ Frederic Deyo ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), p. 17. Deyo differentiates the state-led strategies from the state-induced strategies which emphasizes the role of the private sector in implementing strategy within a broad political, legal infrastructural, and economic framework. He argues that Korea and Taiwan adopted state-led strategies on the one

has not yet been reached among participants in the general debate. Having faced such criticism, neo-classical economists still maintain that state intervention in Korea was highly selective and restricted so that the market mechanism was not suffocated, even though they recognise the importance of state intervention in the Korean economy. For them, it was the market which created economic dynamism. Apart from the neo-classical economists, Chalmers Johnson takes this line of explanation. He uses the term, "market-sustaining", when he describes the Korean state's role in economic growth.²²

The third wave of studies placed more emphasis on the international economic system, even though it recognised the importance of the role of the state in economic growth. Bruce Cumings argued that the analysis of the economies in East Asia could be understood only if the international political and economic structures of the region were taken into consideration. He criticised the attitude in some studies which sought to find unique causal factors in each country in East Asia. The emphasis on uniqueness might often turn out to be misleading because it could ignore the dynamism of the international economy, such as the international division of labour. According to his explanation, the hegemony in this region had shifted from the United States to Japan. The nations in this region, particularly Japan, Korea and Taiwan, formed an economic constellation. This constellation, in Cumings' term, is 'the Yen Bloc', in

hand. On the other hand he argues that in the Latin American context, this basic distinction suffices to separate periods of state-led, import substituting industrial restructuring from state-induced, and neo-conservative experiments in economic liberalization.

²² Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Deyo ed., *The Political Economy of the New Asian Industrialism* (1987), p. 140.

which Japan placed itself at the spearhead. As a hegemonic nation, Japan managed the economic dynamism in this region. With respect to the division of labour, Japan transferred technologies to Korea and Taiwan in the areas where Japan no longer had a comparative advantage in the market. He indicated the textile and television industries in this respect. From this point of view, it is not coincidental that Korea and Taiwan have shown impressive economic performances following the Japanese record.²³ Regarding international politics in this region, Korea and Taiwan had a strategic importance against the communist bloc. The billions of dollars which Korea and Taiwan received from the United States were not simply economic aid or grants. The United States wanted Korea and Taiwan to defend the western rim of the Pacific area against communist threats. He also recognised the importance of the role of the state in these two countries within this strategic context.²⁴

In his recent book, Haggard also stresses the external variations of the economy. He compares the development trajectories of economies in the Latin American and East Asian countries. Among the Newly-Industrialised Nations, Singapore and Hong Kong took an entrepôt path towards economic development

²³ Bernard and Ravenhill raise a question on the validity of the Cumings' explanation of economic development in the East Asian region. They argue that the economic development in this region cannot be satisfactorily explained by the product-cycle theory. Mitchell Bernard and J. Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalisation, Hierarchy, and the Industrialization of East Asia," *World Politics* Vol. 47, No. 2 (1995).

²⁴ Cumings describes the Korean and Taiwanese states with the term, Bureaucratic-Authoritarian Industrializing Regimes (BAIR). He describes, "These States are ubiquitous in economy and society: penetrating, comprehensive, highly articulated and relatively autonomous of particular groups and classes." Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political consequences," in Deyo ed., *The Political Economy of the New Asian Industrialism* (1987), p. 70.

because of their geographic locations in international trade. Singapore and Hong Kong are not only the bridges to China but also centres for trade between the East Asian-Pacific economic region and outside economies. For Haggard, this strategic location is an external variation which made Singapore and Hong Kong take a specific economic pathway, an entrepôt road. Korea and Taiwan had a common pathway with Latin American countries until these two countries shifted their economic strategies from the import-substitution to export-led growth. At the beginning of the twentieth century, the main product in Korea and Taiwan was rice which was exported mostly to Japan. After World War II, Korea and Taiwan took the import-substitution trajectory towards economic development. While the Latin American economies maintained the import-substitution strategy in the 1970s, Korea and Taiwan took a new approach, the export-led growth trajectories. It was the export-led growth strategy that made Korea and Taiwan continue their economic growth, Haggard argues. What was the causal factor for the change of the economic strategy? According to Haggard, these economies responded differently from the Latin American economies to external economic shocks.²⁵ In terms of the impacts of external shocks on the economy, Korea and Taiwan were more vulnerable than the Latin American countries because these two nations were not endowed with natural resources as much as the Latin American countries. The Korean responses to external shocks, mainly the two oil shocks, were very aggressive. The state-directed big push into heavy industries was one of the responses. Large-scale private businesses were given the General Trade License to be spearheads of export. By contrast, in Taiwan, numerous small-scale businesses played

²⁵ Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca: Cornell University Press, 1990), p. 31.

important roles in the economic growth. Compared with Singapore and Hong Kong, the internal variations as well as the external variations in the Korean and Taiwanese cases were crucial in choosing their economic pathways. Haggard's argument can be placed in the third wave of explanation because of its stress on the external variations.²⁶

The third wave of explanation has an important implication which may change the character of the debate on economic development in the Third World. The reason why the Korean economy has attracted the interest of students of developmental economy is that Korean economic development not only has shown an impressive performance but also can be adopted by other developing economies as a model. As Cumings and Haggard have suggested, if the causes of the success are rooted in the external factors, such as geographical locations, the geo-political significance, and regional economic constellations, these economies cannot be models which other developing economies should follow. Simply, the geographical location of an economy is not something which can be moved from one place to another. The geo-political significance will change but it depends on international politics. Even though Cumings has criticised the attitude which has stressed the uniqueness of the Korean economy, he himself ends up with emphasizing the uniqueness of the Korean economy which the others cannot possibly follow.

With respect to the role of the state in economic policies, there has emerged a consensus that the state has played an important role in economic growth in Korea. Not to mention the statist approach in the second wave, the neo-classical arguments

²⁶ See James Cotton's criticism on Cumings' approach, James Cotton, "Understanding The State In South Korea: Bureaucratic Authoritarian or State Autonomy Theory?" *Comparative Political Studies*, Vol. 24, No. 4 (1992).

begins to agree that state intervention had played a crucial role, even though they still maintain that the state intervened in the market as long as the market dynamism was not hampered. The third wave of explanation also recognise the heavy presence of the state in economic policies, although the argument emphasises the external factors more than the second wave of explanation. All three waves of studies on the Korean economic development agree that the Korean state was interventionist, despite the disagreement on whether it was a major factor for the economic growth. However, despite the recognition of state intervention, all three perspectives failed to make clear which type of state intervention was adopted for Korean economic development. This is because the concept of state intervention, which has been frequently used in the debate, is ambiguous. The concept of state intervention has not differentiated state actions between the regulator-type state intervention and the provider-type of state intervention. In the provider-type, the state directly produces goods and supplies them to the market. In the regulator-type, the state coordinates (through either incentives or sanctions) each side of the market. The concept of state intervention includes all varieties of state action and does not clarify differences between state actions. If we read the meaning of state intervention in the debate carefully, it is correspondent to the regulator-type of state intervention.

3.3 Industrial Accident Insurance

Just after the Workmen's Compensation Act of 1887 in England and Wales which imposed compulsory insurance against industrial accidents, an English Liberal commentator criticised the Act by saying that the Act would cut down the contractual

capacity of 'workmen and masters'. According to his view, employers should not be liable where accidents involve the negligence of employees. Employees should be aware of the risks connected with their jobs and assume these risks voluntarily on signing contracts.²⁷ Under this doctrine, an injured workman had to prove that the damage was caused by the fault of his employer, often in the court, in order to seek a compensation. This rigid view could not sustain its position against the Workmen's Compensation Act in the wake of industrialisation but it might have left labourers in a very vulnerable situation. The compulsory industrial accident programmes like the Workmen's Compensation Act in 19th century England and Wales began to provide workers with minimum protection in an industrialised economic situation. From the point of view of employers, compulsory insurance against accidents would make their financial situation more secure and predictable in case of industrial accidents. Without such an insurance scheme, a serious accident might lead business into bankruptcy. After one hundred years of disputes and experiences the modern principle of industrial accident compensation reads like the following:

Any person who carries on economic activities by using machinery and the labour of other persons creates an organisation which, by its very nature, may result in accidental injury to those persons; and that such a person should have a responsibility to provide compensation in prescribed contingencies, 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.²⁸

²⁷ A. V. Dicey, *Law and Public Opinion in England* (1954), pp. 283-284, recited from G. Rimlinger, *Welfare Policy and Industrialization in Europe, America, and Russia* (1971), pp. 56-57.

²⁸ International Labour Office, *Introduction to Social Security* (Geneva: ILO, 1984), p 43-44.

Industrial Accident Insurance was the first compulsory welfare programme introduced in Korea, in 1964. In 1962, the Committee for Social Security (CSS) examined three alternatives for the possible introduction of a welfare programme: industrial accident insurance, unemployment insurance and health care insurance. Among these three alternatives, the industrial accident insurance programme was chosen as the first welfare programme, for two reasons. First, it was not so difficult to raise insurance funding for Industrial Accident Insurance as for other programmes. By the Labour Standard Law of 1953 employers had already become liable for industrial accidents at work regardless of their causes, either worker's fault or not. The drawback of the Labour Standard Law was the inadequate assurance of compensation. Despite the liability by the Labour Standard Law, employers could not pay compensation unless their financial situations had allowed it. The change which Industrial Accident Insurance brought about was the introduction of an insurance scheme against industrial accidents. The Industrial Accident Insurance Act imposed the whole insurance pay-roll on employers, who had been already liable for industrial accidents, and there was no serious objection from the businesses about the arrangement of the insurance scheme.

Secondly, the Committee for Social Security was in favour of the industrial accident programme rather than the unemployment benefit programme, considering that injured labourers would be in a more difficult situation than the unemployed because of the loss of ability to work as well as the necessity of health care compared to the unemployed.²⁹

²⁹ The Ministry of Labour, *Sanjae Pohōm 15-nyōn Sa* [*The Fifteen Year History of Industrial Accident Insurance*] (1981), p. 27.

At the beginning, Industrial Accident Insurance covered labourers in work-places of 500 employees or more. Since then, the number of people covered has increased gradually. From 1987 Industrial Accident Insurance has expanded to cover work-places employing more than five people. In 1990, 41.3% of employed people³⁰ were covered by the Insurance. (See Appendix B The Eligibility and Coverage of Social Welfare Programmes.)

The fund of Industrial Accident Insurance is financed solely by contributions from employers.³¹ The government subsidised the administrative cost of setting up the programme for the first two years, 1964 and 1965. The subsidy was discontinued afterwards until 1978. In accordance with the 1978 revision of the Industrial Accident Insurance Act, the government resumed the subsidy for administrative costs. The subsidy after 1978 accounted for less than 1% of the Insurance revenue each year and reached 1.01% in 1990.³²

In contrast with the limited role in the financing, the government actually operated Industrial Accident Insurance from the beginning. Before the Ministry of Labour took over the function, the Ministry of Health and Social Affairs ran Industrial

³⁰ The figure is calculated from the Korean Statistical Yearbook (1990) and *Sanjae Pohōm Saōp Nyōnbo* [Yearbook of the Industrial Accident Insurance] (1990). 'Employed people' includes 'temporary employees' who work less than 18 hours a week.

³¹ The Fund of Industrial Accident Insurance is managed by the Ministry of Labour under the heading of the 'Special Account for the Industrial Accident Insurance'. The revenue mostly comes from the pay-roll of employers. 'Subsidy from the government' means subsidy from the 'general government expenditure' to the 'Special Account for the Industrial Accident Insurance'.

³² The Ministry of Labour, *Sanjae Pohōm Saōp Nyōnbo* [Yearbook of Industrial Accident Insurance] (1990).

Accident Insurance.³³ There is no particular reason that industrial accident compensation schemes should be run by a governmental department. Compensation schemes can be run by either public bodies or private insurance companies. There was no clear reason specified why the Committee for Social Security decided that Industrial Accident Insurance should be run by the government. In the series of discussions held in the Committee of Social Security in 1962, when the Committee was preparing the basic structure, the issue, whether Industrial Accident Insurance should be operated by the Government or not, was never raised explicitly. Not only the Committee for Social Security but also the decision-makers involved in Industrial Accident Insurance, including President Park, seemed to take it for granted that Industrial Accident Insurance should be run by the Government. The underlying reason for this, as argued in chapter 2, had to do with the political strategy of legitimation just after the coup d'état of 1961. To serve the purpose of legitimation, Industrial Accident Insurance should be run by the government not by private insurance companies.

Over the last three decades, Industrial Accident Insurance has been developed in an incremental fashion. It is difficult to divide the development into clear-cut stages. The Industrial Accident Insurance programme, however, has been developed in three ways. First, it has been elaborated with respect to the features of the insurance scheme. Secondly, it has expanded its scope beyond insurance functions, providing some services for injured workers. Thirdly, it has increased the scope of its

³³ In 1981, the new Ministry, the Ministry of Labour, was established and it took over businesses concerning labour affairs previously dealt with in other Ministries, which included the management of Industrial Accident Insurance. The Ministry of Labour, *Nodong Paeksō* 1990 [*Labour White Paper*], p. 411.

regulatory role, mediating disputes between employers and workers.

First, with respect to the development related to the insurance features, the increase of workers covered by the programme is the most noticeable change, reaching 41.3% of employees in 1990. Regarding the conditions for compensation, changes have been made in favour of workers. Before the change of 1981, there were two conditions for compensation: accidents must happen in the process of work and the causes of accidents must be related to work, at the same time. After the amendment of 1981, proving the existence of either of the conditions would meet the requirements for compensation. In 1986, the calculation of the pay-roll was also elaborated in such a way that it became more strongly related to the safety records of work-places.³⁴

Secondly, Industrial Accident Insurance expanded its scope beyond the insurance operation. The first expansion of its functions was made by the opening of the Industrial Rehabilitation Centre in 1972. Three years later, Changsōng Hospital in Kangwōn Province was purchased by the Insurance Fund as another expansion of the function of the Industrial Accident Insurance programme. The Changsōng Hospital was previously owned by the Korean Coal Corporation, and it had treated injured mining workers from surrounding mining fields. By 1990, the Insurance Fund ran seven hospitals, one rehabilitation centre and three retraining centres.³⁵ Despite this increase, the capacity of the hospitals, rehabilitation centres and retraining centres could not meet the demand from injured workers. The system of 'designated

³⁴ Up to $\pm 40\%$ of the premium which used to be 30% can be reduced or added to the basic premium according to the accident rate of the work-place for the previous three years. The accident rate (%) = (the gross of compensation / the gross of wage) * 100.

³⁵ The Ministry of Labour, *Sanjae Pohōm Saōp Nyōnbo* [Yearbook of Industrial Accident Insurance] (1990), pp. 48-49.

hospitals' fills the gap of demand. Under this system, the Ministry of Labour appoints hospitals as specialised clinics for the treatment of industrial injuries. The designated hospitals agree the price list of treatment and medicine beforehand and also follow the instructions from the Ministry of Labour.

Thirdly, disputes between employers and workers can be settled by the Committee of Industrial Accident Insurance. When accidents involve employers' mistakes or negligence, workers still have rights to bring the cases to the Civil Court even after compensation from Industrial Accident Insurance. Since legal procedures are in most cases protracted, both sides of the dispute have to spend considerable time to settle the matter. For injured workers and their families and for employers as well, it would be better to avoid this long legal procedure on condition that a settlement can be reached. The cumbersome of legal procedure gave rise to the necessity of a certain kind of arrangement to settle disputes. The first initiative came from the business interest groups: the Korean Chamber of Commerce and the Korean Coal Corporation.³⁶ They proposed the idea that the injured workers should choose either compensation from Industrial Accident Insurance or settlement by the Civil Court. The proposal was tilted in the employers' favour because the proposal would simply curtail the workers' right to take cases to the court. From the workers' point of view, there was no reason to give up the possibility which might bring bigger compensation to them despite the lengthy legal procedure. The issue was not resolved until 1982, and meanwhile there were many cases in the Civil Court on compensation. In 1982 a new way of settlement, namely the 'Special Compensation', was introduced. Injured workers whose injuries were caused by their employers' fault would receive a special

³⁶ *Ibid.*, p. 67.

compensation according to the degree of injury on top of the regular compensation and would give up the right to pursue their cases in the Civil Court. There are three conditions for proceeding to a settlement in this way. First, the accident must be caused by the mistakes or negligence of employers. Secondly, the accident must have caused serious damage to the workers involved,³⁷ and thirdly each side, employers and workers, must agree to settle the matter according to the Special Compensation clause.³⁸ The local offices of the Ministry of Labour are responsible for mediating between employers and workers. When the local offices fail to mediate, either employers or workers can bring their cases to the Committee of Industrial Accident Insurance. The Committee consists of members appointed by the Minister of Labour and takes a neutral stance from any of the involved sides, the Ministry of Labour, employers and workers. The Committee also deals with other disputes involving industrial accidents.

In terms of the protection of workers, the industrial accident compensation is only a second best solution. The most important protection is the prevention of accidents. For this reason, the effectiveness of an industrial accident insurance programme must be seen together with efforts to prevent accidents. The rate of industrial accidents remained high until the late 1980s. Even though the government is not solely responsible for the prevention of accidents, the government did not devote

³⁷ The Decree of the Ministry of Labour regarding the Industrial Accident Insurance specifies the degree of injuries by fourteen classes. Serious damage means the first, second and third classes of injury according to the Decree.

³⁸ After agreement, the Insurance Fund pays the special compensation together with the regular compensation to injured workers. In the following year, the employer reimburses the special compensation to the Insurance Fund by quarterly payments.

itself to effective prevention.³⁹ The Labour Standard Law which had dealt with industrial safety had only ten clauses on industrial safety and did not specify safety regulations at work or employers' responsibilities. In 1981, the Industrial Safety and Health Law was passed and it specified the responsibilities of the Ministry of Labour, employers and workers.

Table 3.1 Industrial Accident Rate*

1965	1970	1975	1980	1985	1988	1990
5.9	4.9	4.4	3.0	3.2	2.48	1.8

* Industrial Accidents Rate = No. of victims / No. of workers covered by the Industrial Accident Insurance * 1,000

Source: *Sanjae Nyōnbo [The Year Book of Industrial Accidents]* (1990)

The industrial accident rate had been slowly reduced over the years. Even after the 1981 Industrial Safety Law, the rate did not sharply decrease, but good progress was made in the later part of the 1980s.

3.4 The Public Assistance Programme

One of the distinctive characteristics of the Korean welfare system is the fact that most cash-benefit programmes are work-related contributory programmes. The National Health Insurance was also a work-related contributory programme until 1989 when it became partly non-work related. Yet, it is still a contributory programme. The Public

³⁹ KDI, *Sahoe Pochang Chedo Kaesōn-ūl wihan Yōn'gu Pogosō [A Research Report on the Reform of the Social Welfare Programme]* (Seoul, KDI, 1981), p. 102.

Assistance Programme is the only non-work-related and non-contributory programme in the Korean welfare structure.

Table 3.2 No. of People Covered by the PAP (in thousands)

	1st Cate.	2nd	3rd	total/population
1965	288	72	3563	13.66 (%)
1970	306	63	2116	7.71
1975	375	52	904	3.77
1980	339	47	1500	4.95
1985	282	63	1928	5.52
1990	340	81	1835	5.26

Source: Sō Sang-Mok et al., *Pin'gon-ūi Siltae-wa Yōngsemin Taech'aek [The Situation of Poverty and Policies for the Poor]* (Seoul: KDI, 1981); *Korea Statistical Yearbook* (1966, 1986 and 1990)

The Public Assistance Programme was enacted in 1965. It is a means-tested programme providing benefits to low-income people. Up until the late 1970s, the number of people who received benefits had been reduced, which somewhat reflected the economic growth in the period of the 1970s. The rise of the number of people receiving benefits from the early part of the 1980s was not caused by the increase of people in poverty in absolute terms. The reason for the rise is simple. The government put up the income ceiling of the means test and the official number of poor people automatically increased. The number of persons who received benefits from the Public Assistance Programme was 5.26 % of the population in 1990.

The Public Assistance Programme divides the recipients of benefits into four categories by income earning ability. The first category is for those who have no

income earning ability and who, at the same time, have to stay in public residential institutions because of old age, mental disability, or homelessness. People in the second category also have no income earning ability but they live in their own home. The third category includes those who have income earning ability but who live in poverty. In other words, it covers the people who have no more than 45,000 Won⁴⁰ of monthly income in 1990. There is another category which does not appear in Table 3.2. Technically, the fourth category is not derived from the Public Livelihood Protection Law on which the Public Assistance Programme is based. Its legal foundation is the Medical Protection Law, but in practice it is dealt with as a part of the Public Assistance Programme. In 1990, including the fourth category, the Public Assistance Programme covered 7.7% of population.⁴¹

As indicated in Table 3.3, the Public Assistance Programme provides income support for the first and second categories who have no income earning ability and the third category whose income support is related to the job training scheme. The determination of whether one has income earning ability is extremely simple. According to the Public Livelihood Protection Law which is the legal basis of the Programme, a person between age 18 and 65 is assumed to have income earning ability unless mentally or physically disabled.

⁴⁰ The basket of 45,000 Won includes 'food and beverage,' 'fuel, light and water charge,' and 'clothing and footwear'. The income of 45,000 Won is the 65 hours of work, if paid by the minimum hourly wage defined in 1990. Economic Planning Board, *Kyōngje Paeksō [Economic White Paper] 1990*, pp. 320-329. The minimum monthly income calculated by the General League of the Korean Trade Unions was 185,383 Won, three times higher than the official poverty line. Ministry of Labour, *Nodong Paeksō [Labour White Paper] (1990)*, p. 67.

⁴¹ Ministry of Health and Social Affairs, *Pogōn Sahoe T'onggye Nyōnbo [Yearbook of Health and Social Statistics] (1990)*.

Table 3.3 Benefits of the Public Assistance Programme
in 1990 (in thousands)

	Benefits	No. of Persons
1st Category	Residential Care, Income, Medical & Educational* Support	339.4 (10.2 %)
2nd Category	Income, Medical & Educational* Support	81.4 (2.4 %)
3rd Category	Medical, Educational* Support & Job Training (conditional Income Support)	1,835 (55.4 %)
4th Category	Medical & Educational* Support	1,059.4 (32.0 %)
Total		3,315.6

* Educational support for children

Source: *Pogōn Paeksō [White Paper on Health and Social Affairs]* (1990)

The educational support began from 1979. School fees of the children of families in the Public Assistance Programme were paid for up to the middle school level at the beginning. From 1987, the Public Assistance Programme began to cover the fees of the vocational high schools for the children of all the categories of the recipients. As shown in Table 3.3, the people in the third category are entitled to job training. The interesting point is that the job training programmes leads to income support under the headings of training support, food support and family allowance. The total amount of 80,000 Won⁴² was given monthly to the job-training programme participants during the period of the training. The amount of the income support was

⁴² The payment of 80,000 is the equivalent of 116 hours of work, if paid by the minimum hourly wage defined in 1990. Economic Planning Board, *Kyōngje Paeksō [Economic White Paper]* 1990, pp. 320-329.

almost twice the amount of the income support to the first and the second category.

In the end of the training programmes, extra cash was also provided for the transitional period between training and job.

Table 3.4 The Trend of Participants in Job-Training Programmes

year	start	finish	employment (%)*
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)

* employment rate ; no. in employment/no. of those finishing

Source: *Pogõn Paeksõ [White Paper on Health and Social Affairs]* (1989, 1990)

With respect to the efficiency of the Public Assistance Programme, doubts have been raised about the method of selecting recipients. Atkinson identifies two sources of inefficiency in the claiming process. One is false negative, where eligible families or persons are not awarded benefits. The other error is false positive, where benefits are awarded to those not eligible. The false negative means that the programme has holes and the false positive means that the expenditure is less well targeted than

intended.⁴³ In the identification process of recipients, there are two stages in order: the decision by the potential beneficiary to make a claim and, then, the verification of the claim by the Government. Regarding the Public Assistance Programme, identification and verification are carried out in a bureaucratic fashion by the officials of the *tong*, which is the smallest unit of local administration. The officials involved in the process work on the basis of the previous year rather than actual income-tests. As well as this official identification, informal contacts at the local level play an important part in selecting new recipients.

According to the special survey by the Statistical Office in 1982, eighteen per cent of the total recipients of the Public Assistance Programme were the false positive. In the case of recipients of medical support in the Programme, 45.7 % were not eligible for the support.⁴⁴ The KDI survey carried out in 1989 also pointed out that no less than 50% of all recipients were incorrectly taking up the benefits.⁴⁵ This massive false take-up is not just because of bureaucratic practice. It is also related to the fact that the income ceiling is set on an unreasonably low level. The official line of poverty does not have real meaning in the practice of local administration.

⁴³ Anthony Atkinson, "The Social Safety Net," (The Welfare State Programme Discussion Paper 166: Suntory Toyota International Centre, 1991) pp. 16-17.

⁴⁴ Sō Sang-Mok et al., *Pin'gon-ūi Silt'ae-wa Yōngsemin Taech'aek [The Situation of Poverty and Policies for the Poor]* (Seoul: KDI, 1981), p. 192.

⁴⁵ Ko Il-Tong, "Kongjōk Pucho Chedo-ūi Kaesōn-gwa Pin'gonch'ūng Taech'aek" [The Reform of the Public Assistance Programme and Policies for the Poor], in *Kukka Yesan-gwa Chōngch'aek Mokp'yo [National Expenditure and Policy Targets]* (Seoul: KDI, 1990), p. 332.

3.5 National Health Insurance

National Health Insurance has been through three distinctive stages of development. The first stage was the period from 1965 to 1977. In this first stage of development, National Health Insurance was an experimental programme in which only a limited number of people participated. The second stage began in 1977 when National Health Insurance became a compulsory health care programme. The number of people covered by National Health Insurance had increased sharply through the second period. In 1978, 10.49% of the population was covered by National Health Insurance and the coverage reached 51.13% in 1987. National Health Insurance became a universal programme in 1988, covering most of the population. In 1990, National Health Insurance covered the 92.3% of the population and the rest were covered by the Health Assistance Programme which is a non-contributory programme for the poor.⁴⁶ This marked the beginning of the third stage of the development of National Health Insurance.

Even though the increase of people covered by National Health Insurance is an explicit feature of the changes, the main factor underlying moves from one stage to another was changes in the role of the state in financing the programme. In the first stage, the state tried an experiment in health care programming and left the provision of health care to the market. In the second stage of the development, the state made National Health Insurance a compulsory programme and implemented it from large-scale work places. In this stage, however, the state did not provide funding to

⁴⁶ Ministry of Health and Social Affairs, *Pogōn Sahoe T'onggye Nyōnbo* [Yearbook of Health and Social Statistics] (1990).

National Health Insurance. Despite this lack of financial commitment of the state, National Health Insurance expanded its coverage rapidly in this stage. From the third stage, the state began to provide a part of the funding of National Health Insurance, mainly for the regional members.⁴⁷ Even though the state provided only limited funding for National Health Insurance, its commitment to the financing of National Health Insurance marked a break-through in the development of the whole welfare system in Korea. What are the causes underlying the changes in the role of the state? We have examined the political aspect of the shift in chapter 2. In this section, we will place the focus on the internal logic of National Health Insurance by looking at the stages it has been through.

The First Stage (1965-1977): Adverse Selection

When the Committee for Social Security designed National Health Insurance in 1963, it was meant to be a compulsory programme. The Committee for Social Security, however, could not have their original draft pass through the Supreme Council for National Reconstruction. National Health Insurance was altered and became an experimental programme in the reading process of the Supreme Council. This alteration led to a serious setback for National Health Insurance.

⁴⁷ Most of these regional members do not have employers because they are farmers, the self-employed and so on. Those employed among the regional members are employed in the informal sectors, small scale businesses which are not legally recognised as businesses. These regional members' health insurance is managed along the line of the local boundary. Local authorities collect the pay-roll on behalf of the health funds of the regional members.

Table 3.5 The Experimental Projects of National Health Insurance

Year	No of Projects	No of the Insured
1965	1	340
1966	2	1314
1967	2	1301
1969	3	22386
1970	3	19352
1971	3	17000
1973	5	32581
1974	8	N.A
1975	11	68417
1977	12	63455

Source: Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa [The History of Korean Social Policy Research]* (Seoul, Korean Institute for Social Security, 1991), p. 120.

An experimental project of National Health Insurance was started at the Honam Pilyō company, a fertiliser manufacturer, in 1965. Another experiment was tried in the Pongmyōng Mining company, with 590 employees. Table 3.5 shows the experimental projects of National Health Insurance in the period 1965-1977. The experimental projects were doomed to failure from the beginning. Since the experimental project could not attract many participants, their financial situation was difficult.⁴⁸

This was due to the adverse selection phenomenon. Because National Health

⁴⁸ Choe Ch'ōnsong, *Han'guk Sahoe Pojang Yōn'gusa [The History of Korean Social Policy Research]* (Seoul, Korean Institute for Social Security, 1991), p. 121.

Insurance was not a compulsory programme, employees in the companies where the experiment was carried out could choose whether they would participate in the projects or not. The decision was dependent upon how much they expected to gain from the project. Under the principle of public insurance, the premium of insurance was decided not by actuarial base but by the level of income. Those who would gain were the groups of the low-income, risk-prone or large families, for the possibility that they would use health services was higher than those of high-income, low-risk or small family-size groups. For this reason, redistribution through the social insurance programmes normally takes place between different risk-categories.⁴⁹

Low-risk profile categories are unlikely to support the welfare programmes in which high-risk categories would gain whereas they would lose. If political power imposes certain welfare programmes which will divide winners and losers, the potential losers may make their 'voice' heard or 'exit' from the scheme if they can.⁵⁰ In the case of the experimental projects of National Health Insurance, the potential losers did not have to enter the system from the beginning before they would make their voice heard or exit from it because the experimental project was not a compulsory programme. The experimental projects of National Health Insurance selected only potential winners, but the result was quite different from the expectation of the potential winners. Because the participants in the experimental projects were only those of low-income, large family, and risk-prone groups, the demand for

⁴⁹ Peter Baldwin, *The Politics of Social Solidarity* (Cambridge: Cambridge University Press, 1990).

⁵⁰ Voice, exit and loyalty are Albert Hirshman's concepts which describe a theory of reaction. A. Hirshman, *Exit, Voice and Loyalty* (Cambridge, Mass., Harvard University Press, 1970).

medical services was very high while the contributions remained on a low level. The financial situation of the experimental projects was inevitably precarious. What made matters worse was that many of the insured often failed to pay contributions because of low income.⁵¹

However, one cannot say that the experimental projects were an absolute failure. Not only did the projects provide some experience of implementing public health care programmes, but also they taught a very important lesson: without government intervention, public health insurance programmes could not survive. In 1970, the government made an amendment in National Health Insurance Law, which would make National Health Insurance a compulsory programme. This amendment, however, was not implemented because it was not followed by a Presidential Decree which is a legal requirement to put any law into effect.⁵²

The Second Stage (1977-1988): Reverse Stigma

National Health Insurance became a compulsory programme in 1977. It did not, however, cover all the population. It started with large-scale companies having more than 500 employees. Companies of less than 500 employees could join in National Health Insurance but it was not compulsory for them like the previous experimental projects. In 1978, government employees and private school teachers became

⁵¹ Pak Chong Ki [Park Chong Kee], *Han'gug-ūi Pogōn Chaejōng-gwa Ūiryō Pohōm [Health Financing and Health Insurance in Korea]* (Seoul: KDI, 1979), p. 98.

⁵² In the Korean legal system, a law cannot usually be implemented for itself. Even though the National Assembly tables and revises the law, the detailed provisions concerning its implementation are assigned to the decision of the government. This gives a great deal of legislative power to the government.

compulsory members and the number of people covered by National Health Insurance reached 10.49% of the population). Since then, National Health Insurance has expanded its coverage incrementally, but rapidly. By 1987, National Health Insurance had provided health care for most of the employees in the industrial sector. Those who did not have employers paying employers' contributions, such as farmers, the self-employed, informal sector employees and the unemployed, were still outside the health insurance programme. For what reason the health care programme provided the relatively better-off industrial workers with health care while the worse-off remained unprotected is well explained by A. Mills. According to her,⁵³

Social insurance schemes are concentrated in the industrial sector of developing countries not least because wages and profits are high enough for compulsory levies to be paid, and the structure of wage employment makes collection of the levies feasible.....in addition government workers may also be covered by insurance arrangements paid for by the government from its tax revenues, sometimes assisted by employee contributions.

Korea was no exception to the situation Mills described. One may argue that a practical approach is inevitable to introducing a social welfare programme in the first place. However, it clashes with the idea of social policy which is protecting the vulnerable. In the case of National Health Insurance, this practical approach caused a social stigmatisation, which we will call reverse stigmatisation.

The term, social stigmatisation, has been used to describe a social situation in

⁵³ Anne Mills, "Economic Aspects of Health Insurance," in A. Mills & K. Lee eds., *The Economics of Health in Developing Countries* (Oxford: Oxford University Press, 1985), p. 80.

which people dependent on social benefits are looked down on by the rest of the public. Often the public regards welfare beneficiaries as lazy or inept people. Government officials often treat them in an impolite way in dealing with their welfare claims. Consequently, social stigmatisation affects some people claiming welfare benefits. By contrast, by reverse stigmatisation we mean the situation in which those who do not receive benefits are stigmatised.

As National Health Insurance had increased its members, those outside the programme became increasingly isolated from the rest of the population. People outside the programme shared a common characteristic in that they were not salaried employees. Among them, some might be well off, but most of them belonged to low-income groups. When a person who did not have the membership of National Health Insurance visited a hospital, he found there were different queues, one for National Health Insurance patients and the other for non-National Health Insurance patients. After the same treatment, he had to pay much more expensive fees than National Health Insurance patients who paid only 30% of the fee. The membership of National Health Insurance became a symbol of the middle class and stigmatised the low-income groups who did not have membership.

According to the amendment of National Health Insurance Law of 1981, occupational associations could establish their own health insurance funds and join in National Health Insurance for their members. The National Association of Artists organised a health fund for the first time in 1981 and many other occupational associations followed this example.

Table 3.6 The Coverage of National Health Insurance (by per-cent)

	Total	IW	GT	Re*	OM	VM
1978	10.49	10.33				
1981	26.69	18.70	10.27	0.47	0.06	0.19
1984	42.37	28.75	10.11	0.97	2.02	0.53
1987	51.13	36.01	10.50	0.76	3.17	0.69
1988	68.87	38.76	9.67	16.15	2.58	0.64
1989	94.20	38.96	10.55	44.69	0.00	0.00

Source: *Medical Insurance Statistical Yearbook* (1990)

IW: industrial workers, GT: government employees and private school teachers, Re: the Regional Members, OM: the Occupational Members, VM: the Voluntary Regional Members

The Occupational Members and the Voluntary Regional Members were integrated into the Regional Members in 1989.

* Before 1988, the Regional Members Health Funds were still experimental projects.

The number of the Occupational Members unexpectedly increased, unlike the previous experimental projects. The rapid expansion of the Occupational Members of National Health Insurance can be partly explained as an effort to avoid reverse stigmatisation.

As the coverage of National Health Insurance increased, and the membership of National Health Insurance became a symbol of middle class⁵⁴, the isolation and frustration of non-National Health Insurance patients were getting deeper.

In the second phase of the development, the role of the state was largely regulatory. By a statutory rule, the government made National Health Insurance a

⁵⁴ Le Grand shows that the middle class benefits most from the National Health Service in Britain. See J. Le Grand, *The Strategy of Equality: Redistribution and the Social Services* (London: Allen & Unwin, 1982).

compulsory programme. National Health Insurance was financed by contributions from employees and employers. The financial commitment of the government was very limited, for it only subsidised the administration costs of health funds. The health funds for industrial workers, private school teachers and government employees received no subsidy from the government from 1985 as their finance became stabilised.

Table 3.7 The Expenditure of the Health Assistance Programme
(in million won)

	central gov't (%)	local gov't (%)	total
1977	4189 (86)	695 (14)	4884
1981	16952 (76)	5258 (24)	22210
1987	80652 (75)	26254 (25)	106906
1988	129168 (76)	41844 (24)	171012
1989	155325 (75)	50614 (25)	250939
1990	151274 (78)	43480 (22)	194754

Source: *Pogōn Paeksō [White Paper on Health and Social Affairs]* (1990)

In the second stage the state did, however, begin to play the role of provider in relation to the Health Assistance Programme. The programme was launched in 1977, and it was for those receiving benefits from the Public Assistance Programme.⁵⁵ The

⁵⁵ The Health Assistance Programme divides its recipients into three categories according to income earning ability. For the First Class, who are not able to earn income, the Health Assistance Programme pays the whole fees for medical services. In the case of the Second and Third Class, the Health Assistance Programme covers all fees of out-patients. In-patients in the Second Class pay 40% (in urban area) or 20% (in rural area) while 50%, 40% respectively in the Third Class. The rest of the fees are paid by the Health Assistance Programme, after which the patients will repay it to the Health Assistance Programme in 1-3 years time without interest.

Health Assistance Programme fund was composed of the central government grant (50% in Seoul, 80% in other provinces) and the local government expenditure. Table 3.7 shows the trend of the Health Assistance Programme expenditure from the central government and the local governments.

The Third Stage (1988-): A Universal Programme

From 1988, National Health Insurance began to cover all those previously left outside the programme and accordingly became a universal programme. The government provided a part of the funding for National Health Insurance, mainly in the form of 50% of contributions for regional members, which is the equivalent of employers' contributions in the case of industrial workers. This was an important move from regulator to provider in the financing of National Health Insurance. This new role of the state solved the problem which had been identified for a long time, that of reverse stigma. In other words, low-income groups could now get health care from National Health Insurance.

After reaching universality, National Health Insurance faced two issues: cost containment and the stabilisation of the finance of health funds. In 1989 health care spending as a proportion of GDP reached 6.6% in contrast with 2.8% in 1975 and 5.2% in 1985.⁵⁶ To contain health care costs, the government introduced a regional health care system, which divided the country into 140 medium-level health care

⁵⁶ Willy De Geyndt, "Managing Health Expenditures Under National Health Insurance: the case of Korea," World Bank technical paper No. 156, (Washington: World Bank, 1991), p. 1.

regions and 8 large-level health care regions in 1989. It had long been recognised that the insured patients preferred large health institutions, such as general hospitals which cost more than clinics and health centres. This preference accounted for some parts of the increase in health care spending.⁵⁷ After the introduction of the system of health care regions, patients should visit clinics and health centres in their regions first before they go to general hospitals. The idea underlying this health care region system is that local clinics and health centres not only provide primary medical treatment but also play a 'gate-keeping' role to general hospitals where medical treatments are expensive. The system of regional health care is expected to cut down unnecessary visits to general hospitals. It remains to be seen how much this regionalisation will reduce health care costs.

With respect to the financial stability of health funds, the financial situation of all of the 409 health funds under National Health Insurance varied to a great extent because they were separately financed. It had been feared that health insurance funds for regional members would have financial difficulties despite the government's contribution, since some regional members might not be able to keep up their payments for insurance and at the same time they might need more health care than others. This could lead to financial deficits in health funds for regional members. As a measure to stabilise health funds for regional members, the National Assembly attempted to pass a bill which would establish a National Health Fund. This National Health Fund would have paved the way to financial transfer between health funds. This attempt was dismissed by the presidential veto as we discussed in chapter 2.

⁵⁷ Yōn Hach'ōng & Hagiōng Kim, *Pogōn Ūiryō Chawōn-gwa Chillyo Saenghwal Kwōn* [Health and Medical Resources and Health Regions] (Seoul: KDI, 1980), pp.56-67.

In the development of National Health Insurance, we have seen three different stages. In this development, the role of the state has moved incrementally towards a role of provider. In other words, the state financial commitment to National Health Insurance has increased. The funding provided by the state, however, remained limited and National Health Insurance essentially remains as a social insurance model.⁵⁸

3.6 The National Pension Programme

The National Pension Programme was due to be introduced in 1973 as a measure to enhance the political legitimacy of the Park government. President Park, however, could not carry out his policy for the National Pension Programme because of high inflation at the time.⁵⁹ In 1988, the National Pension Programme was eventually reintroduced, following the election promises of President Rho. In contrast with the high level of inflation in the 1970s, the inflation rate in the 1980s was kept at a low level. Since low inflation implies the likelihood of a good return on present contributions in the form of the real value of eventual pensions, conditions turned in favour of the National Pension Programme.⁶⁰ In addition to the low inflation rate, the balance of payments also turned into surplus in 1986, for the first time in over thirty

⁵⁸ About the models of health care systems, see Hellen Immergut, *Health Politics* (New York: Cambridge University Press, 1992), pp. 34-79.

⁵⁹ The average inflation rate in the period of 1971-1975 was 15.46% and it reached the highest point, 29.62%, in 1974.

⁶⁰ Min Chae-Sōng et al., *Kungmin Yōn'gūm Chedo-ūi Kibon Kusang-gwa Kyōngje Sahoe Pagūp Hyogwa* [*The Idea of the National Pension Programme and Its Economic and Social Impact*] (Seoul: KDI, 1986), p. 18.

years. In the budget planning of 1987, the government already prepared for the introduction of the National Pension Programme.⁶¹

Table 3.8 The Comparison of Age Structure of 1990 (in per cent)

	Germany*	U.K.	Korea
0-14	15	19	25.4
15-64	69	66	69.5
65+	16	15	5.1
Dependency ratio	44 **	51.9 **	44

* West Germany

**Projection in 1988

Source: OECD (1988), *Ageing Population*, OECD: Paris; *Korea Statistical Yearbook* (1991).

Apart from these economic conditions, the introduction of the National Pension Programme of 1988 was timely in relation to the demographic structure. A public pension programme is a form of saving in which one saves at the present and from which one can make withdrawals in the future, from an individual's point of view. From the point of view of a society as a whole, a public pension programme also means that the economically active population support the aged and other dependents and will rely in turn on the next generation.⁶² For this reason, the trend of an ageing

⁶¹ Kwak Tae-Won, "Pokchi Yesan-ūi Paengch'ang-gwa Kungmin-ūi Pudam"[The Expansion of Welfare Spending and the Burden of Citizens], in *Kukka Yesan-gwa Chōngch'aek Mokpyō [National Budget and Policy Targets]* (Seoul: KDI, 1987), p. 79.

⁶² The formula of this inter-generational transfer is different between the system of pay-as-you-go and the fund system. In the system of pay-as-you-go, the transfer between generations is direct in the sense that one pays pay-roll tax for pensions of those who are old at the present time and one can rely on the next generation's contributions for the future. As for the fund system, one will receive a pension in the future based on one's contribution in the present. The real value of one's pension, however, would depend on

of population in OECD countries, for instance, puts the burden on the whole society, not just on the aged themselves. With respect to Korea, the demographic structure is quite different that of OECD countries, for example, those of Germany and the United Kingdom as shown in Table 3.8.

Table 3.9 Total Fertility Rate

1955-60	6.3
1960-65	6
1965-70	4.6
1970-75	4.2
1976-80	2.82
1981-85	2.12
1986-90	1.62

Source: 1955-1975 from Roberto Repetto, *Economic Development, Population Policy and Demographic Transition in the Republic of Korea* (Cambridge: Harvard University Press, 1981), p. 25; 1973-1990 from *Korea Statistical Yearbook*.

Table 3.10 The Trend of the Dependency Ratio

	1960	1970	1980	1985	1990
Aged dependency	0.07	0.06	0.06	0.07	0.07
Child dependency	0.73	0.77	0.54	0.46	0.37
Dependency ratio	0.80	0.83	0.61	0.52	0.44

Aged dependency = No. of people over 65 / No. of working population (age 15-64)
 Child dependency = No. of people under 15 / No. of working population (age 15-64)
 Source: *Korea Statistical Yearbook*

the next generation's economic productivity. Despite this difference, both systems have inter-generational redistribution effects. See Nicholas Barr, *The Economics of the Welfare State* (London: Weidenfeld & Nicolson, 1987), pp. 205-221.

The population in Korea is relatively young compared to those in Germany and the United Kingdom. Korea does not yet face the problem of an ageing population as OECD countries do at the present.⁶³ If we break down the dependency ratio of Korea into the aged and child dependency as in Table 3.10, we can find an interesting implication for the future demographic structure and the old-age pension programme.

Even though the whole dependency ratio is still very much accounted for by the child dependency, child dependency has been sharply reduced. This means a smaller influx to the working population. The cohorts born prior to 1975, whose total fertility rates were very high compared to those of the next cohorts, were still composed of a large part of the economically active population. When the cohorts born between 1955 and 1975 begin to retire, in approximately 2015, old age dependency will sharply increase because the influx to the economically active population will become smaller while the outflow from the economically active population to the old age will be getting bigger. In other words, Korea will face the old age problem in the near future.

Given this demographic structure, the National Pension Programme should be introduced at least 20 years before the cohorts born between 1955 and 1975 begin to retire, approximately the year 2015, because the programme requires a 20 years contributions for a full retirement pension. The amount of contribution from that cohort would be bigger than from any other cohort. If the National Pension Programme had missed the contributions of these cohorts while they were economically active, the National Pension Programme would face two problems. First, it could not provide pensions to a large part of population. Secondly, it would miss huge amounts of contributions from the largest cohort. The introduction of the

⁶³ OECD, *Ageing Population: The Social Policy Implications* (Paris: OECD, 1988).

programme in 1988 as a first step was very critical in this regard.

With respect to the role of the state in financing the Programme, the National Pension Programme shows an established pattern of state intervention, namely the role of regulator. This form of state intervention was established through the experience from Industrial Accident Insurance and National Health Insurance: with funding entirely from employers' and employees' contributions, and subsidy for the administration costs from the government revenue, and public agencies to manage the Programme.

Table 3.11 Composition of the National Pension Fund (in million won)

	Contribution	Interest	Transfer*	Others
1988	506931	20110	335	845
1989	1134816	99975	335	5108
1990	1968821	284838	335	5519

*from government revenue

Source: Kun'gmin Yōnkūm Kwalli Kongdan [National Pension Agency], *Kun'gmin Yōnkūm T'onggye Yōnbo* [National Pension Statistics] (1990).

The National Pension Programme began with salaried employees as did National Health Insurance, and may expand the number of people it covers incrementally. In 1989, work places of more than ten people have to join in the National Pension Programme. The rest of the working population may join by their own decision. There is, however, a disadvantage for the self-employed. In the case of salaried employees who are compulsory members of the National Pension Programme, they pay the half of the pay-roll of the Programme, while the self-

employed have to pay both the equivalents of employer's and employee's pay-roll because they do not have employers who would each pay the half of the pay-roll. Because of these arrangements, manufacturing industry accounted for more than 50% of the insured people of the National Pension Programme. (See Table 4.4 Participants of the National Pension Programme by Industry) In 1990, the National Pension Programme covered 15.7% of the working population.

Since the National Pension Programme was introduced in 1988, it remains to be seen what problems may arise. Two issues, however, will certainly arise in relation to the prospect of the National Pension programme as a universal pension programme covering most of the working population. First, as we have seen in the second stage of National Health Insurance programme, the National Pension Programme offers a public pension scheme to a small section of the working population. The underlying reason for this is the limited financial commitment of the state to the programme. The state has played the role of a regulator which only makes rules but does not provide financial resources, even though the state has subsidised the administration cost of the National Pension Programme. Expanding the coverage of the National Pension Programme to the rest of the working population is strongly dependent upon whether the state would take the financial responsibility for those who do not have employment status such as the self-employed, farmers and informal sector employees. A similar issue was raised in National Health Insurance programme in relation to regional members' contributions and posed a deadlock for its development. In the end, the state provided a part of the funding of the health insurance for regional members. Whether a similar policy will be adopted in the National Pension Programme remains to be seen, but it is certain that there will be pressure on the state

to assume the role of provider in the financing of the National Pension Programme.

Secondly, the present benefit system poses a question about the effectiveness of the National Pension Programme as a pension programme. There arises a question how many people will eventually receive pensions when they retire. The National Pension Programme requires a 20-year contribution for a full retirement pension. A partial pension needs 15 years contributions. Those who do not meet the minimum requirement for a pension for reasons such as unemployment are eligible to a lump-sum payment.⁶⁴ Regarding unemployment cases, a person unemployed for a year receives a lump-sum payment. When he returns to work, his previous contribution record will not affect the new record of contribution due to the receipt of lump-sum payment. It will start from the beginning. For those who once received the lump-sum payments, it will be very difficult to fulfil the 20 year contribution requirement. Thus, the National Pension Programme could not provide full pensions at the end of their working life to them. Despite this problem, the National Pension Programme cannot easily abolish the lump-sum payment because it has an important function as an unemployment benefit, given the absence of an unemployment benefit programme in Korea. In other words, the effectiveness of the National Pension Programme will be achieved when it is complemented by an unemployment benefit programme.

⁶⁴ The amount of lump-sum payment is the sum of contributions from the employer and the participant himself and interest at a rate decided by the government. See Min Jae-Sung et al., *Kungmin Yōn'gūm Chedo-ūi Kibon Kusang-gwa Kyōngje Sahoe Pagūp Hyogwa* [*The Idea of the National Pension Programme and Its Economic and Social Impact*] (1986), p. 135.

3.7 Continuity and Changes

Over the last three decades, the Korean welfare system has developed in an incremental fashion. Because of this incrementalism, there is strong continuity in the path of its development. Once a commentator on social policy described the development of welfare programmes in Korea as a patchwork in which welfare programmes were introduced intermittently without a general plan.⁶⁵ He was right in a sense that there was no master plan like the Beveridge plan in Britain for social-policy making. Social policy has drawn the attention of the decision-makers only when they needed a short-term political strategy from time to time. The absence of an overall plan, however, does not mean that there was no continuity in the development of the welfare system.

The method of financing welfare programmes is one of the most conspicuous features of the Korean system. With the exception of the Public Assistance Programme, the programmes we have examined have an identical method of generating funds, namely the compulsory contribution system. In this system, the welfare programmes are mainly financed by contributions from both employers and employees. The role of the state is to impose statutory rules which oblige employers and employees to join the programmes. In other words, the state is a regulator which introduces welfare programmes but does not provide resources. The regulator type of state intervention in the overall welfare system was not quite a result of deliberate policy. This pattern of financing has been established through the experience of one

⁶⁵ Pak Chong Ki [Park Chong Kee], *Han'gug-ūi Pogōn Chaejōng-gwa Ūiryō Pohōm* [Health Finance and Health Insurance in Korea] (Seoul: KDI, 1979), p. 36.

programme after another.

In 1962 when the Committee for Social Security initially prepared the Industrial Accident Insurance programme and the National Health Insurance programme, they did not work from a general principle about what the whole system of programmes should be like. Their work was constrained by the given political and economic conditions at the time. The Committee had to design a programme which would require few financial resources from the government. The programme, at the same time, had to show clear effects in a short period of time for political purposes. The result turned out to be a programme which was financed by the contributions of employers and operated by a governmental department, the Industrial Accident Insurance programme.

Because of the existing Labour Standard Law which had already imposed compulsory compensation for industrial accidents on employers, Industrial Accident Insurance was an easier option than an unemployment benefit programme for the Committee for Social Security, which was working within the constraints. The extent to which the state took responsibility for the programme was different in terms of the two aspects of its structure. Despite its limited financial commitment to the scheme, the government decided to operate the programme directly, taking all responsibility for its management. Even though there is no particular reason for industrial accident compensation schemes to be run by a governmental department, the decision was made due to political considerations just after the coup d'état of 1961.

This extraordinary contrast between two aspects of the structure of welfare programmes was modified in National Health Insurance of 1977. National Health Insurance established a structure typical of Korean welfare programmes. The

programme was financed by contributions from employers and employees and operated by public agencies, which did not belong to the governmental department. By 1977, National Health Insurance had been tried in several work-places as an experimental programme. Since it was only a voluntary programme, the experiment had not made little success. A clear idea that public health care insurance should be a compulsory programme arose from the results of the experiment. As the structure of welfare programmes was established, namely the combination of compulsory contribution and management by public bodies, the government did not have to spend much time on preparing the structure of the National Pension Programme in 1987.

This limited state commitment to the financing of welfare programmes, however, has constrained the expansion of the welfare system. The compulsory contribution system left out those who did not have employment status. Under that system, contributions came from employers and employees. Those who did not have employment status had to either pay the equivalent of the employers' contribution or receive subsidies from the government which the government was reluctant to give. A good case is found in the development of the National Health Insurance programme. Since the programme was funded by the contributions of employers and employees before 1988, it could not cover those who did not have an employment status. This caused social grievances from the people who had not been provided with health care by the programme. From 1988, the government moved to the new role of provider from that of regulator, financing a part of the programme for those who had been outside, namely regional members. This move broke through the deadlock in the expansion of National Health Insurance.

Did this change break the continuity and mark the beginning of a new era?

The answer is a negative rather than a positive one. The change in the National Health Insurance programme did not affect the financial arrangements for other programmes such as the National Pension Programme. More importantly, the unemployment benefit programme which the new government of 1994 is preparing will have the same structure as the National Pension Programme: a compulsory contribution system and management by a public body. This is a typical example of the regulator role of the state.

It would be, however, a hasty generalisation to draw the conclusion that the role of the state in the whole welfare system is that of a regulator only. First, the state provides the entire funds required for the Public Assistance Programme. The state is a provider in this Programme as well as National Health Insurance in which the state is partly a provider. Secondly, the new government which was democratically elected may introduce some programmes funded from government expenditure, responding to the citizens' demands. What changes will take place in the future still remains to be seen.⁶⁶

The incremental fashion of the development and the regulator type of state involvement have entailed another characteristic of the Korean welfare system. As we have discussed, Industrial Accident Insurance, National Health Insurance, and the National Pension Programme have expanded the number of people they covered over the years. In the process of expansion, those programmes began with the people who could pay the contributions. For instance, Industrial Accident Insurance provided an insurance scheme for those in big companies with more than 500 employees at first.

⁶⁶ An unemployment benefit programme will be introduced in 1995, according to an election promise by President Kim. See *Chugan Maegyōng [Maekyung Business Week]* 1993.

National Health Insurance also started with the same big company employees and government employees. The same is true of the National Pension Programme. In other words, these programmes started as middle-class programmes, while they left the less well-off outside.

The way in which National Health Insurance has been organised in the process of expansion is particularly interesting. At each stage of its development, the programme set up a number of separate health funds to deal with the new-comers, instead of integrating them into existing funds. In the end, there was a total of 409 health funds all over the country under National Health Insurance in 1990. These funds fall into three categories according to the people insured: those for government and private school teachers, those for salaried employees, and those for regional members. This dividing line is closer to the line of risk categories. In other words, people working in the same industry are likely to belong to the same health insurance fund. We need here to remind us that health funds are financially separated so that there is no financial transfer between health funds.

Because contributions to the programme are related to the 'Standard Monthly Income Bands'⁶⁷, there must be redistribution effects between members within a health fund. However, it is plausible to say that the level of redistribution within a health fund would be low. For the members of a particular health insurance fund, for instance that of the government employees, face more or less the same level of risk. The income gap between members may not be as wide as it is among all population. By contrast, the difference in income and health between the groups of people joining different health

⁶⁷ National Health Insurance divides the level of wages into 53 'Standard Monthly Income Bands' which wrap up the neighbouring wages into a band.

funds must be far greater, simply because they are all sorts of people. For this reason, financial transfer between health funds would bring about a great deal of redistributive effects. This redistribution cannot, at least for a while, take place through National Health Insurance because there is no arrangement which allows financial transfer between health funds.

By contrast, the National Pension Programme has one national fund which deals with all the insured. Nevertheless, the level of redistribution is not yet high. At present, the participants of the National Pension Programme are the middle and high income groups. By 1990, employees in manufacturing industries accounted for 52.03% of the insured and financial industry accounted for 12.98%. More importantly, all participants have stable income sources. Those who do not have formal employment status are not covered by the National Pension Programme. Bearing in mind that government employees and private school teachers' pension funds are separated from the National Pension Programme, people are to a certain extent divided according to risk categories concerning retirement pensions. Like National Health Insurance programme, redistribution mainly takes place within the same categories of people and not across categories. Only if the National Pension Programme increases its coverage to the lower income groups, will it bring about redistributive effects to a significant extent. This will be analysed in detail in the next chapter.

Chapter 4

Outcomes of Social Policy: an Appraisal from Two Perspectives

This chapter will assess the outcomes of the social policies which we have examined. The analysis of social policy outcomes is important in its own right, but it is, in addition, a contribution to the analysis of the political function of social policy, including the issue of legitimacy. Some political studies of social policy end at the time when political decisions are taken and social policy institutions are formed. Other studies often do not take into account the political background and political process leading up to policy decisions and the formation of institutions, but they start and end the analysis with the outcomes and effects of social policies. Ideally, however, the study of the politics of social policy should combine these two tendencies into an integrated perspective which will allow the analysis to move from the political background of institutions through to policy outcomes. Beyond this, there is the question of feedback effects from policy outcomes to political and social structure, which is, in turn, implicitly related to the politics of legitimation.

This chapter will examine the outcomes of the Korean welfare programmes from two perspectives: the perspectives of redistribution and of social rights. These analyses will not exhaust every aspect of the outcomes of the Korean welfare system. The contention of the present study, however, is that they will provide a balanced view, because these two perspectives put emphasis on different aspects of policy

outcomes. Whereas the perspective of redistribution enables us to evaluate the effects of policy intervention on income equality, the social rights approach sheds light on entitlements, for instance, to health care, pensions and protection against economic contingencies. Our analysis is limited to primary intended outcomes. Unintended outcomes, such as work disincentives, are not considered, nor are second order redistribution effects such as through behavioural responses in the labour market, nor are more philosophically determined issues such as possible relationships between social policies and individual freedom.

From the perspective of redistribution, our analysis will examine three dimensions of income distribution. We will follow the trend in the distribution of income over the last three decades through a review of the few available existing studies. We will assess the impact of policy intervention on income distribution between income groups through the "standard method". Finally, we will analyse redistributive effects of the National Pension Programme over the life-cycle, using a simulation analysis.

In the second perspective, that of social rights, we will examine rights to health care, pension and protection against economic contingencies. In order to answer the question, to what extent social rights are established in these areas, we will examine how many people have entitlement to social welfare provisions, and how far those social welfare provisions are guaranteed. In other words, we will measure social rights in terms of coverage and quality.

4.1 The Perspective of Redistribution

In addition to long standing scepticism¹ about the redistribution effects of the welfare state, there has been doubt about the centrality of redistribution in the welfare state. In his book, *Reasons For Welfare*, Goodin argues that the egalitarianism of welfare state practices is only epiphenomenal and that the welfare state is at best an imperfect instrument for achieving social equality.² This argument gives rise to two implications for the welfare state in terms of redistribution. First, the welfare state cannot be justified solely on the grounds of social equality. Secondly, the extent of social equality that the welfare state may achieve is not the only factor in the evaluation of the welfare state, even though it is still an important factor.

By contrast, Ringen maintains that the idea of the welfare state is to distribute again, by way of politics, what has already once been distributed in the market.³ In response to the criticism that the welfare state is an imperfect instrument for the egalitarian idea, he defines the extent of the redistributive goal of the welfare state.⁴

The redistributive ambition in the welfare state is to create, by way of social policies, a society of less inequality than there would have been had the policies in question not been enacted. Redistribution is thought to be necessary because the market, if unchecked, would generate a

¹ Julian Le Grand, *The Strategy of Equality: Redistribution and the Social Services* (London: Allen & Unwin, 1982).

² Robert Goodin, *Reasons For Welfare* (Princeton: Princeton University Press, 1988), pp. 51-69.

³ Stein Ringen, *Possibility of Politics: A Study in the Political Economy of the Welfare State* (Oxford: Clarendon Press, 1987), p. 5.

⁴ *Ibid.*, p. 166.

more inegalitarian distribution than is acceptable in a democratic society,... The question before us here is whether the strategy of redistribution is effective in reducing inequality.

Are the social welfare programmes in Korea effective measures for the strategy of redistribution? This is the question we propose to answer in this section.

The Trend of Income Distribution

Atkinson has pointed out that the issue of the distribution of income and wealth has been relatively neglected in economic analysis, compared with other topics such as economic efficiency, growth, and employment.⁵ This is certainly true with regard to the current state of analysis of the Korean income distribution. Despite an increasing compilation of literature on the Korean economy, there are only a few studies of income distribution. Among the existing studies, comparability is low, because their ways of collecting data were different and assumptions were not consistent. This is mainly because there was no comprehensive income survey before 1991, even though there have been income surveys of specific sections of the population, such as the income surveys of farm households and urban households. Fortunately, a comprehensive survey, based on a large sample representing the entire population, was carried out in 1991 and published in 1993.⁶ Based on this survey, which will now take

⁵ Anthony Atkinson, *The Economics of Inequality* (Oxford: Clarendon Press, 1975), p. 1.

⁶ National Statistical Office, *Kagu Sobi Silt'ae Chosa Pogosō 1991 [National Survey of Family Income and Expenditure 1991]* (Seoul: National Statistical Office, 1993).

place every five years, the trend of income distribution will henceforth be followed more consistently than previously. We will use the data from this survey in assessing income redistribution effects.

The pioneering study of Korean income distribution was carried out by Adelman and Robinson.⁷ They produced the decile distribution of income in Korea in terms of market income as well as disposable income, based on the "relevant fragmentary evidence".⁸ According to their time-series analysis, there were few changes in the overall size distribution of income between 1964 and 1970. Nevertheless, there had been changes in the composition of income in the period between 1964 and 1970: the relative share of property income in total income and that of wage and salary income increased to a great extent, whereas the relative share of agricultural income dropped sharply in the same period. Adelman and Robinson also pointed out that the real income of the poorest 20 percent of the households was doubled between 1964 and 1970.⁹

Research by Chu reached a similar conclusion about the trend of income distribution between 1965 and 1975¹⁰, even though he criticised Adelman and Robinson's study, arguing that the lowest income group in farm-households was not included in their study and that the income of the higher decile of urban households

⁷ Irma Adelman and S. Robinson, *Income Distribution Policy in Developing Countries: A Case Study of Korea* (Oxford: Oxford University Press, 1978).

⁸ Adelman and Robinson pointed out that there were no acceptable data for the size of income distribution. See *Ibid.*, p. 45.

⁹ *Ibid.*, p. 45.

¹⁰ Chu Hakchung, *Han'gug-ūi Sodūk Punbae Kujo-wa Kyōlchōng Yoin [Income Distribution in Korea and Causal Factors]*, 2 Vols., (Seoul: KDI, 1979) Vol. 1, p. 99.

was underestimated.¹¹ To avoid this bias, Chu collected the data which Adelman and Robinson were not able to take into account, such as the income of small-scale landholders, fishermen and farm-employees. In his data set, as he admitted, the income of the self-employed was biased in the direction of being underestimated.¹² According to his research, the income distribution in the second half of the 1970s became more unequal because of uneven growth among industrial sectors as well as an increasing wage gap between university graduates and those who did not have higher education. For instance, the average wage level of university graduates was 4.3 times higher than that of those who had primary education in 1976. In 1971 the average wage of university graduates had been 3.3 times higher.¹³

The study of income distribution by Song follows up the trend in income distribution of the 1980s. His estimation shows that, after the trend of increasing inequality in the latter part of the 1970s, income distribution became more equal after 1982.¹⁴ Song suggests that the equalising trend in income distribution in the 1980s was due among other things to a reduction of disparity in income between wage earners and property-income receivers and the government's extensive promotion of small industries.¹⁵

¹¹ *Ibid.*, Vol. 1, pp. 78-79.

¹² *Ibid.*, Vol. 1, p. 89.

¹³ *Ibid.*, Vol. 1, P. 101; Song also provides causal factors for the income distribution. His explanation is similar to that of Adelman and Robinson and Chu. Byung-Nak Song, *The Rise of the Korean Economy* (Oxford: Oxford University Press, 1992), pp. 176-180.

¹⁴ Byung-Nak Song, *The Rise of the Korean Economy* (1992), pp. 165-175. Song argues that the pattern of income equality in Korea has followed the Kuznets' U-shape curve in the course of economic development.

¹⁵ *Ibid.*, p. 172.

Over the period from the 1960s through the 1980s, the overall trend in income distribution has been stable. With this stability, there have been three sub-periods of modest changes in the income distribution. These trends are summarised in Table 4.1 in terms of the Gini coefficient. In the period prior to the late 1970s income distribution was stable. In the second half of the 1970s there was a trend of increasing inequality. Since the 1980s income distribution has been more equal than in the previous period. In table 4.1, however, the 1991 Gini index shows that there was a minor increase of inequality. It should be noted that the 1991 index is calculated from *the National Survey of Family Income and Expenditure 1991* which is different from Song's sources. For this reason, we cannot directly compare the 1991 index with those in the previous periods. It only gives a rough idea about the trend of income inequality.

Table 4.1 The Trend in Income Distribution in Korea

	1965	1970	1975	1980	1985	1991
Gini Coefficient	0.34	0.33	0.39	0.39	0.36	0.37

Source: 1965 - 1985 figures are from Byung-Nak Song, *The Rise of the Korean Economy* (1992), p. 173. 1991 figure is calculated from *the National Survey of Family Income and Expenditure 1991*.

The Impacts of Taxes and Transfers on Income Distribution

The distribution of income is the final result of a whole range of economic and social activities in society, including government social policies. The trend in income

distribution, therefore, does not provide specific information about the extent to which social policies have affected income distribution. In order to measure the redistributive effects of social policy, we will use the "standard method" in which pre- and post-tax/transfer income distributions at one point in time are compared and the difference taken as a measure of the redistributive effects of the relevant transfers and taxes.¹⁶ This method estimates the redistributive impact of cash transactions between government and households, *i.e.*, direct transfers and taxes (including social security contributions). This impact depends both on the profiles of transfers and taxes (including social security contributions) and on their levels relative to market and gross income.¹⁷ This standard method does not, however, take into consideration indirect transfers and taxes, *i.e.*, transfers in the form of services, indirect taxes, and employers' social security contributions. In other words, the standard method does not reveal all transactions between government and households.

Table 4.2 presents the income distribution of all households by quintile monthly market income group in 1991. The source of the data is *the National Survey of Family Income and Expenditure 1991*, carried out by the National Statistical Office between October 1991 and December 1991, covering "Households and Residence," "Receipts and Disbursements," "Durable Goods" and "Yearly Income". This survey was the first comprehensive household income survey in Korea, and used 32,000

¹⁶ Stein Ringen, "The Experience of Income Redistribution," a paper presented at the Plenary Lecture given to The Multidisciplinary Research Conference on Poverty and Distribution (Oslo, 1992), pp. 3-4. See also Anthony Atkinson, *The Economics of Inequality* (Oxford: Clarendon Press, 1983), pp. 82-88.

¹⁷ For methodological issues regarding the standard method, see Stein Ringen, *Possibility of Politics* (1987), pp. 166-191 & pp. 242-261; as for the current state of studies of measuring income redistribution, see Stein Ringen, "The Experience of Income Redistribution" (1992).

households from 24 areas representing all regions in the country.¹⁸ Table 4.2 is derived by re-estimating published data and represents the first assessment in the form of redistributive effects of transfers and taxes in Korea. Unlike previous income distribution studies which collected 'fragmented' and 'scattered' data, this analysis is based on a nationally representative set of data.

The 'standard method' is, however, modified in Table 4.2 in order to capture the distinctive profiles of redistribution in Korea. First, Table 4.2 divides market income into two rows by source, market earnings and private transfers. Private transfers are defined as subsidies from other households and private charities. The profile and level of private transfers will be compared with those of public transfers. Secondly, Table 4.2 uses the term 'public transfer' instead of 'direct transfer'. It is a necessary modification, because the term 'public transfer' can include not only direct benefits from the government but also pensions and benefits from public pension programmes such as the National Pension Programme, which do not exactly come from the government expenditure. By contrast, the term 'direct transfer' can only capture direct benefits from the government such as benefits from the Public Assistance Programme. Thirdly, Table 4.2 also has a separate heading for social security contributions, because contributions to public pension programmes such as the National Pension Programme, the Government Employees' Pension Programme and the Private School Teachers' Pension Programme are not counted as taxes in the Korean welfare system. The second and third modifications are made because of the

¹⁸ A few surveys on household income and expenditure have been conducted before, but they covered only a limited area of the country. For example, *Kagu Silt'ae Chosa Pogosō* [*Household Survey Report*] carried out by the National Statistical Office for some years is the survey on urban household income and expenditure.

Table 4.2 Income Redistribution In Korea, 1991

	All	I	II	III	IV	V	Composition
Earnings	1.00	0.31	0.69	0.92	1.19	1.89	95.38
Private Transfer	1.00	1.73	0.76	0.51	0.67	1.32	4.28
Market Income	1.00	0.37	0.69	0.90	1.17	1.87	99.66
Public Transfer	1.00	1.58	0.79	0.32	0.74	1.47	0.34
Gross Income	1.00	0.38	0.69	0.90	1.17	1.87	100.00
Direct Taxes	1.00	0.22	0.33	0.73	0.89	2.82	1.61
Social Sec. Con.	1.00	0.40	0.77	0.94	1.17	1.72	2.07
Disposable Income	1.00	0.38	0.69	0.90	1.17	1.85	96.32

Composition: % of Gross Income

Quintile groups of households by monthly market income

Source: National Statistical Office, *Kagu Sobi Silt'ae Chosa Pogoso 1991* [National Survey of Family and Expenditure, 1991] Vol. 1: Income and Expenditure (Seoul: National Statistical Office, 1993)

Definition of terms

Earnings: Market earnings including wages, salary and returns from assets

Private Transfer: Subsidies from other households and private charities

Market Income: Earnings + Private Transfers

Public Transfer: Direct transfers from the government + Pensions and benefits from social security institutions under laws such as the National Pension Programme, the Government Employees' Pension Programmes and the Private School Teachers' Pension Programme

Gross Income: Market Income + Public Transfers

Direct Taxes: Direct Taxes

Social Sec. Con.: Contributions to public pension programmes under law such as the National Pension Programme, the Government Employees' Pension Programmes and the Private School Teachers' Pension Programme

Disposable Income: Gross Income - Direct Taxes - Social Security Contributions

financing of some welfare programmes. Some programmes such as the National Pension Programmes are public pension programmes, but their financing is not directly related to the government revenue. For the same reason, the pensions which the National Pension Programme provides do not come from the government expenditure but from the separate National Pension Fund.

The column of composition in Table 4.2 shows the levels of each transaction as a percentage of gross income. The levels of transactions between the government and households in the forms of public transfers, direct taxes and social security contributions are very low whereas the level of private transfers is relatively high. These low levels of public transactions are in contrast to those in countries such as Britain, Sweden and Norway where social and fiscal policies have considerable impact on the redistribution of income.¹⁹

The level of public transfers is 0.34 per cent against gross income, and the levels of direct taxes and social security contributions account for 1.61 and 2.07 per cent respectively. Because of the low levels of transactions, their impact on income distribution is necessarily modest. After the government intervention in the form of public transfers, the distribution of gross income is not very different from that of market income. The distribution of disposable income which comes after direct taxes and social security contributions is also almost identical with that of gross income.

By contrast, the level of private transfers is considerably higher than that of public transfers, contributing more than 4 per cent of gross income whereas public transfers account for 0.34 per cent of gross income. This, of course, sets the public

¹⁹ Stein Ringen, *Possibility of Politics: A Study in the Political Economy of the Welfare State* (1987), pp. 242 & 261.

transfer system in its present form in perspective. In contrast to public transfers, private transfers do have a sizable impact on income distribution. In particular, the share of the poorest income group increases after private transfers. According to our re-estimation, private transfers account for 15% of the market income of the poorest income quintile. We cannot identify where the private transfers came from, because *the National Survey of Family Income and Expenditure 1991* does not specify the sources of private transfers. It could be private charities or subsidies from other households. Yet, it is more likely in the Korean context that the greater part of private transfers came from family members or relatives in other households. Ideally, we might have material to account for the effects of private transfers in household expenditure as well as receipts, but this is not possible with the data, and the issue is also theoretically ambiguous.

In Table 4.2, each row shows the profiles of transactions. The profile of public transfers shows that the relative contribution of public transfer income is highest (and above average) in the poorest²⁰ and richest quintile, and lowest in the middle income quintile group. Because public transfers include both benefits from the Public Assistance Programme and pensions from various public pension schemes, we do not know to what extent each of them accounts for public transfers. We, however, believe that public transfers to the lowest income quintile came mostly from the Public Assistance Programme and that those to the other quintile groups came from various pension schemes which are in varying degrees earnings-related programmes. These

²⁰ It is worth noting that the average age of the heads of households of the poorest quintile is considerably older than those of other quintile groups. This suggests that elder people are prone to poverty, which might have to do with the absence of a pension programme for them.

transfers are, however, not distributionally neutral, but because of their low level they have little impact on the distributional profile. The public transfers have a distributional profile which is close to that of private transfer, although slightly flatter. Because of the higher level of private transfer, this profile carries through to the noticeable (although modest) distributional impact.

The profiles of direct taxes and social security contributions are as follows. The profile of direct taxes is progressive. The highest income quintile pay the highest level of direct taxes. The profile of social security contributions is 'flat rate' relative to the profile of gross income, *i.e.*, distributionally neutral. The overall effect is that there is no redistributive changes between gross income and disposable income distributions.

All in all, the standard analysis in Table 4.2 reveals little or no redistribution through public transfer and taxes in the Korean case. These policies are not distributionally neutral in the profiles, but are not on a sufficient level to have made an impact. Only private transfers slightly modify income inequality.

In interpreting Table 4.2, however, one has to be aware that the standard analysis of income redistribution does not capture all transactions between the government and households. There are three underlying reasons for the limitation of the standard analysis. First, with respect to taxes, the standard analysis does not reveal the size and impact of indirect taxes. These are on a higher level than direct taxes in the Korean tax structure. For instance, indirect taxes account for 31.46% of the total taxes, whereas direct taxes account for 25.27% of total taxes. Even among direct taxes, corporate taxes which account for 9.78% of the total taxes do not appear in the *National Survey of Family Income and Expenditure 1991* (See Appendix C,

The Compositions of Taxes). Given the tendency for indirect taxes to be more regressive than direct taxes, it is likely that final income (after indirect taxes) would be more unequal than disposable income.

Secondly, employers' social security contributions also do not appear in this analysis. These contributions account for half of all contributions in the case of the National Pension Programme.²¹ Employers' social security contributions follow the transaction line from corporates through public pension funds to households, instead of the line from households through the government to households which, for instance, income tax follows. For this reason, at least in the short term, employers' social security contribution do not have a direct impact on income distribution. Considering employees' contributions are roughly 'flat rated', it might perhaps be a reasonable assumption that this would be a case for employers' contributions, in which case there would be little or no impact in the measurement of redistribution.

Lastly, the National Pension Programme is still immature in terms of the coverage and provision of pensions. In 1990, the National Pension Programme covered 15.6% of the working population. Other pension schemes currently provide pension coverage to only a small part of the working population. Together, the government employees', private teachers' and veterans' pension schemes cover 3.84% of the working population. Given the limited coverage, the redistributive effects of public transfer will be small, because the standard analysis captures the effects on the basis of all income groups regardless of the number of the participants of the National Pension Programme. In addition, the National Pension Programme does not yet

²¹ Employers paid a third of contributions until 1992. The rest were paid by employees and retirement funds of companies. From 1993 employers pay half, and employees pay the rest (See Table 4.4 Details of Contributions and Pensions).

provide full pensions because of its minimum requirement of contributions for full pensions, which is 20 years of contributions. Since public transfers, despite the limited coverage and the low level of benefits, have a potential distributional profile in relation to market income, it should be expected that the maturity of the system and any broadening of coverage would result in changes in redistribution effects.

It is also expected that the National Pension Programme will expand its coverage in an incremental manner. Benefit levels will increase as the system matures. This would entail a positive impact on the legitimacy of the political system. At the same time, there may arise political pressures to fasten expansion of the coverage of public transfers as the democratic political system allows social groups to express and pursue their interests. Apart from political pressure, the internal dynamics of public transfer system will also force the government to expand the coverage of the public transfer system. The expansion of the coverage will bring about a higher level of redistributive effects than expected at the current level of coverage due to its pension calculation formula. This will be discussed in detail in the next section.

In the last section, we suggested that income distribution has been stable since the 1960s, the period when the Korean economy experienced considerable changes. We did not explain how the stability of income distribution was maintained over the period of economic changes in which forces toward inequality tend to be strong. We have found, however, in this section that government intervention in the form of direct taxes, social security contributions and public transfers has so far had little redistributive impact on income distribution, despite potential redistributive effects which will appear as the system mature. This suggests that government social welfare programmes have not been related to maintaining the observed stability in income

distribution, although other government policies outside the social welfare system may have influenced this stability.

A Life-Cycle Analysis of the National Pension Programme

Redistribution takes place over a long period of time. Redistributive effects of social and fiscal policies on income distribution at one point in time may be 'corrected' by an opposite result later.²² Among other mechanisms, economic changes over one's life-cycle may well modify redistributive effects of social policy at one point in time. At one stage, one may pay for social welfare programmes such as unemployment and pension programmes when one is economically productive. Later in life, one draws benefits such as unemployment benefits or pensions when necessary. Because of this life-cycle fluctuation, what appears to be inter-personal redistribution at one point may in effect, at least to some degree, be intra-personal redistribution in the long run.²³

The standard method we have been using in the previous section does not capture this dynamic aspect of income redistribution because of its static nature.

In this section, we will analyse the redistributive effects of the National Pension

²² In interpreting redistribution effects at one point in time, we need to be cautious about the social mechanisms in which society "strikes back" against the redistribution made by policy intervention. In other words, social forces in society may respond to policy intervention in various ways to protect their interests. Due to this mechanism, the trend of income redistribution in the longer scale of time can be different from that of the short-term time span. Stein Ringen, "The Experience of Income Redistribution," (1992), p. 3.

²³ J. Falkingham, J. Hills & C. Lessof, "William Beveridge versus Robin Hood: Social Security and Redistribution over the Lifecycle," (London: LSE Welfare State Programme 88, 1993); Anne Harding, "Income Distribution and Redistribution Across the Lifecycle: Evidence From Australia," Suntory-Toyota International Centre, The Welfare State Programme Discussion Paper 70 (1992).

Programme over the life-cycle, using a simple simulation method. In this simulation, we will focus on two issues. The first question is to what extent the National Pension Programme will compensate for the loss of income due to retirement. Secondly, we will analyse the distribution of gains or losses through the National Pension Programme over the life-cycle. Basically, we need to calculate the cost of participation in the pension programme over the working life and expected pensions which one will receive after retirement in order to answer these two questions.

We will simulate the income and pensions of two individuals belonging to different income groups whom we select from *Nodong T'onggye Yōn'gam (the Yearbook of Labour Statistics) 1990* : a "Professional, Technical and Related Worker," and an "Electrical Fitters and Related Electrical and Electronic Worker".²⁴ We will call them "the professional" and "the electronic worker". We assume they represent the high and middle income groups respectively. The reason we do not select a person from the low income group is that the low income person is not among the typical participants of the National Pension Programme with its present coverage. The majority of the participants of the National Pension Programme fall into the middle and high income groups (See the analysis in the section of Pension Rights, 4.2 Social Rights Approach).

We will project these two persons' monthly income over their life time, from these projections calculate their contributions, and then estimate likely pension receipts from current rules. The assumptions of the simulation are the following:

²⁴ These are definitions of job categories from the *Yearbook of Labour Statistics*. Ministry of Labour, *Nodong T'onggye Yōn'gam [Yearbook of Labour Statistics] 1990*.

1. The professional enters the labour market at the age of 25, and the electronic worker at the age of 20.²⁵
2. They join in the National Pension Programme in 1988. This allows them to take advantage of the transitional contribution rates set for the first ten years of the National Pension Programme.²⁶
3. Both individuals in the simulation will remain in their jobs until retirement. The professional will retire at the age of 60 and the electronic worker at the age of 55.²⁷
4. The wages of the professional and the electronic worker by the ninth year of their working life will be the average of their job categories by career specified by the "Average Monthly Wage of Workers by Occupation, Sex and Career (June, 1989)," *Nodong T'onggye Yōn'gam* [Yearbook of Labour Statistics] 1990 .²⁸

²⁵ According to "Workers of Accession by Industry, Education, Age, Group and Sex (the first half of 1989)," 51.5% of "Electricity, Gas and Water" industry workers enter the labour market after graduation from high school. In the " Financing, Insurance, Real Estates & Business service," and "Community & Personal Service," industry workers, to whom our professional belongs, 48.2% are university or college graduates. Taking into account two and half years of Military Service which all Korean men should do, we assume the professional and the electronic worker to enter the labour market at 25 and 20 after graduating from university and high school respectively. Ministry of Labour, *Nodong T'onggye Yōn'gam* [Yearbook of Labour Statistics] 1990.

²⁶ For the first five years, the contribution rate of the National Pension Programme is set at 3.0% and for the second five years at 6.0% of the 'Standard Monthly Income'. In these transitional periods, the retirement funds reserved in companies pay a third of contributions and employers and employees pay each half of the rest. After a ten year transitional period, the contribution rate will be 9% of which employers and employees will each pay half.

²⁷ This assumption should be made because more than a year of unemployment would lead to the lump-sum payment according to the National Pension benefit system. Then contributions would start from the beginning after resuming work. Consequently, a leave from work for more than a year would make our simulation much more complex, which we are going to avoid. For this reason we assume that they will not be unemployed and will pay contributions without interruption.

²⁸ We have data from the "Average Monthly Wage of Workers by Occupation, Sex and Career (June, 1989)". From this set of data, we know the average wage of workers in all categories of jobs, who have worked for 'less than a year,' '1-2 years,' '3-4 years,' '5-9 years,' and '10 years and over'. Ministry of Labour, *Nodong T'onggye Yōn'gam* [Yearbook of Labour Statistics] 1990.

5. The professional will be promoted to higher positions until his retirement step by step and his salary after the ninth year will increase over the working life due to promotion as well as the annual increase of salary. The electronic worker will get promotion to a limited extent so that he will stay in the middle of the pyramid of organisation at his retirement. His wage in his late working life will increase by an annual base rather than by increase due to promotion.²⁹

6. The professional will die at the age of 74 and the electronic worker at the age of 70. Their wives will survive for four years after their husbands' death.

7. We assume that the two men in our simulation would have invested rather than spent their contributions if there had been no public pension programme. Therefore, the cost of participation in the pension programme is their contributions and the interest which they would have earned from the alternative investment. We also assume that contributions from employers and the retirement funds of companies would go to employees in the absence of the public pension programme.³⁰ Therefore, the cost of participation consists of employees' and employers' and companies retirement funds' contributions and interest on all contributions.

8. We do not count tax reduction for contributions, because the two men would have the same tax reduction for their long term deposit with which we compare the pension programme as an alternative.

9. Price is the constant price of 1989 and we do not count either inflation nor indexation. Therefore interest rates will be also real interest rates. We also assume simple rather than compound interest.

10. Both men's pensions will include wife supplement but not child supplement, because we assume that their children will not stay with

²⁹ In the data set of "Average Monthly Wage of Workers by Occupation, Sex and Career (June, 1989)" *Nodong T'onggye Yōn'gam [Yearbook of Labour Statistics]* 1990, we have only data of average wage '10 years and over' while we have year by year data by the ninth year. For this reason, assumption 5 attempts to make the professional and the electronic worker typical high income and middle income persons. However, we are in no position to follow correctly their income level year by year. We have inevitably to guess to a reasonable extent based on other assumptions.

³⁰ We cannot be sure that employers' contributions would shift entirely to employees' wages, if there were no public pension programme. It depends on wage negotiations between employers and employees among other things. The assumption that the cost of participation includes employers' contributions may exaggerate the cost of participation.

their parents at retirement.³¹

11. All pension receipts are assumed spent and none saved, and therefore no interest is estimated on pensions in retirement.

In projecting wages, it does not have to be so precise that it is accurate to the nearest penny. Because we are dealing with wages in relation to the National Pension Programme, what we have to know is the "Standard Monthly Income Bands" to which their actual wages belong. The National Pension Programme divides the levels of wages into 53 "Standard Monthly Income Bands"³² which wrap up the neighbouring wages into a band of wages. These income bands, instead of the exact figure of wages, are counted in relation to calculating contributions and pensions. The bottom line of an income band is the basis for calculating contributions.

In sum, the professional begins his work at the age of 25 with wages within the "28th Standard Monthly Income Band" out of 53, and will retire at the age of 60 with wages within the 49th band out of 53. The electronic worker begins his work at the age of 20 with wages within the "20th Standard Monthly Income Band" out of 53 and will retire at the age 55 with wages within the 39th band out of 53. They start their jobs in 1988, when the National Pension Programme was implemented. This would allow them to take advantage of the provisional rates of contribution at the beginning of the Programme.

³¹ The children of two couples would not live together with their parents at the time of the retirement of their fathers. Even if they stay with parents, children over 18 are not entitled to children supplement.

³² As the level of wages becomes higher, the Standard Monthly Income Band is wider. This is why the shape of the line in Figure 4.1 becomes more like the shape of steps as the wage level of our two men becomes higher.

Table 4.3 The Profiles of the Individuals in the Simulation

	Age at the Start	Age at Retirement	Age at Death	Years of Contribution	Income Level ¹
Professional	25	60	74	36	28/53 ² 49/53 ³
Electronic Worker	20	55	70	36	20/53 ² 39/53 ³

¹ Standard Monthly Income Bands

² Income level at the start of work

³ Income level at retirement

By this simulation, we will be able to estimate two parameters: first, the replacement rate (monthly pension at age of 61 / the wage of last month at work), secondly, the gain rate (the total amount of gains / the total cost of participation).

First, we calculate the total cost of participation. Based on the assumptions we have made, we can project the professional's and the electronic worker's monthly income in the form of 'Standard Income Bands' which appears in Figure 4.1. The professional's wage starts from the 28th Standard Monthly Income Band" out of 53, and his wage will be within the 49th" band out of 53 at his retirement. The electronic worker begins with wages within the 20th Standard Monthly Income Band out of 53 and will retire at the age of 55 with wages within the 39th band out of 53.

Contributions to the fund of the National Pension Programme are 9% of Standard Monthly Income per month, except as follows: first five years (1988-92): 3.0%; second five years (1993-1997): 6.0%.

The total of actual contributions will be 35,226,000 Won for the professional and 20,689,200 Won for the electronic worker. If we add the interest to the actual contributions, the total cost of participation will be 50,119,308 Won (interest rate 3%),

67,977,052 Won (interest 7%) or 94,799,232 Won (interest rate 12%) for the professional, and 29,910,888 Won (interest rate 3%), 42,206,472 Won (interest 7%) or 57,575,952 Won (interest rate 12%) for the electronic worker.³³ Interest is calculated year by year. For instance, the first year's contributions produce interest for 36 years, which is the entire contribution period of the two men in the simulation, and the second year's contributions for 35 years.

Secondly, we need to calculate pensions. The National Pension Programme's pension formula combines the earnings-related with the flat rate system. The whole formula is in Table 4.3. According to the formula, we need basically to know the mean monthly income of all participants a year before pensions start and the average monthly wage over the working life of the two individuals. Obviously, we do not have the data on the mean monthly income of all participants a year before our two men's pensions start. Instead, we use the mean monthly wages of all participants of the National Pension Programme in 1989. This makes the simulation consistent with assumption 4 on wages by career, which is based on the data of "Average Monthly Wage of Workers by Occupation, Sex and Career (June, 1989)," *Nodong T'onggye Yōn'gam* [Yearbook of Labour Statistics] 1990. Together with assumption 4, this means that our simulation sees the life-cycle in relation to the National Pension Programme on the basis of the current rules and conditions (see assumption 9). No simulation is in a position to project the future correctly, but it only attempts to see the future as realistically as possible from the viewpoint of the existing conditions.

³³ As a real interest rate, 12% is unrealistically high. We include this high interest rate for the purpose of illustration in estimating gain rates which will be discussed later in this section.

Table 4.4 Details of Contributions and Pensions

Contribution Rate (Contribution from employees, employers and retirement fund of the company)

First 5 years (1988-92):	3.0%
Second 5 Years (1993-1997):	6.0%
The Rest:	9.0%

Total cost of participation

Actual Contribution

Professional :	35,226,000	Electronic W. :	20,689,200
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Total cost of participation including interest

interest rate	(3%)	(7%)	(12%)
Professional:	50,119,308	67,977,052	94,799,232
Electronic W. :	29,910,888	42,206,742	57,575,952

$$\text{Monthly Pension} = 2.4 * (M + 0.75 * A) * (1 + 0.05 * N) / 12 + 5000$$

M: Mean Wage of All Participants of the NPP in 1989: 451,259.5

A: Average Wage over the working life

Professional :	985,555.6	Electronic W. :	587,777.8
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N: No. of years of contribution - 20

5000: wife supplement

Survivor's Pension = 60% of full pension with no supplement

Pension at the age of 61

Professional :	433,553.4	Electronic W.:	326,153.4
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Replacement rate (monthly pension at age of 61 / the wage of last month at work)

Professional :	0.31	Electronic W. :	0.42
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Gain rate (total amount of gains / total amount of contributions)

Interest rate = 3%

Professional :	0.70	Electronic W. :	1.17
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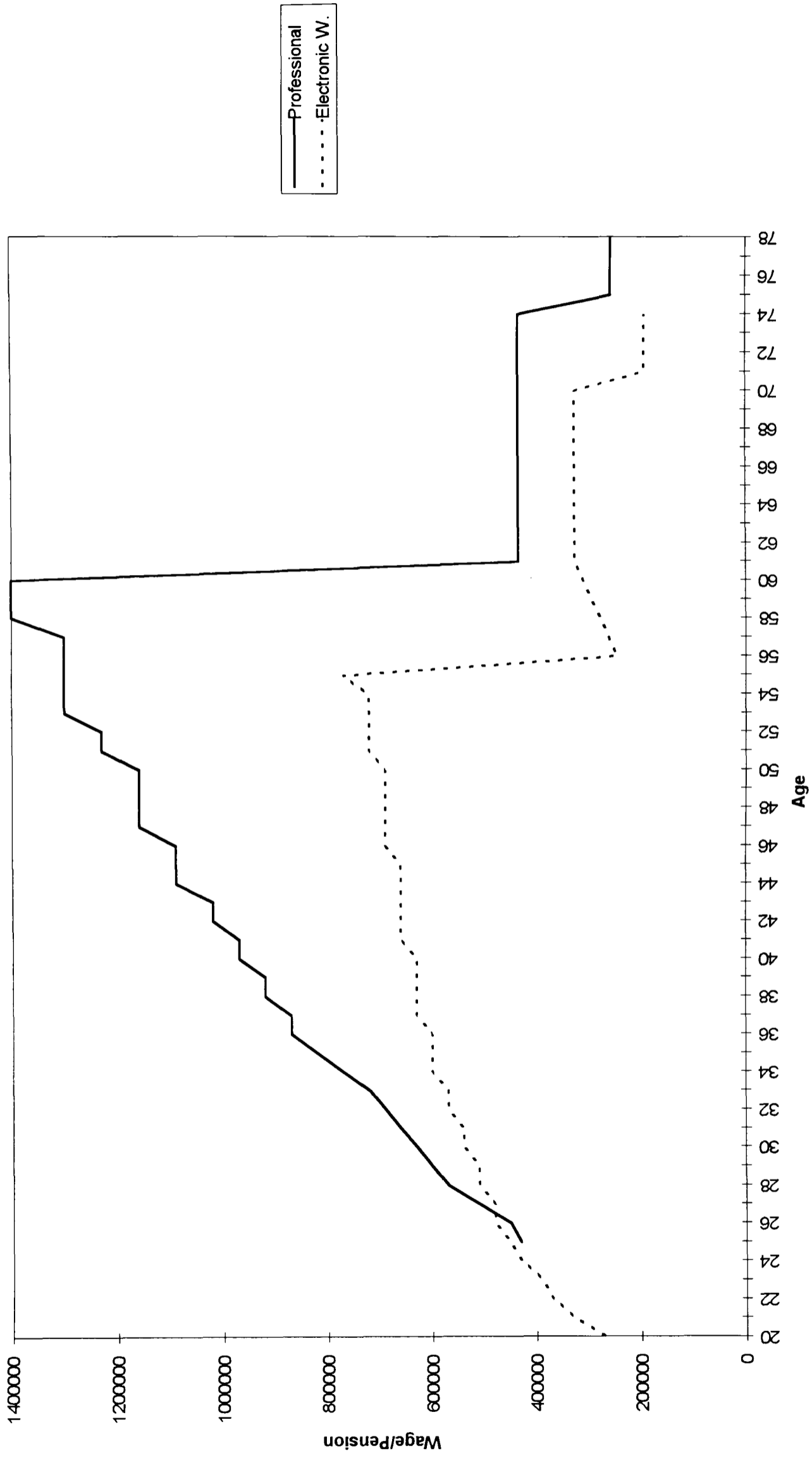
Interest rate = 7%

Professional :	0.22	Electronic W. :	0.54
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Interest rate = 12%

Professional :	- 0.10	Electronic W.:	0.13
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Figure 4.1 Monthly Income Over Life-Cycle



Pensions at the age of 61 will be 433,553.4 Won for the professional and 326,153.4 Won for the electronic worker.³⁴ These pensions include the supplement for wife but not for children. In the case of the electronic worker, he starts to receive pensions at the age of 56, which is five years before the age set by the rule of the National Pension Programme. In other words, he takes early retirement regarding the National Pension Programme. His pension at 56 is 75% of full-pension and it increases by 5% each year until the age of 61 when he will receive the full pension. When these two men die, their wives will receive 60% of full-pension as their survivor's pensions. Figure 4.1 shows the monthly wages and pensions over the life-cycles of the professional and the electronic worker and their wives' survivor's pensions. The details of contributions and pensions in relation to the National Pension Programme are summarised in Table 4.4. (See also Appendix D, Wages and Pensions.)

Now, we can return to our questions: first, the issue of compensation for income loss due to retirement and secondly, the issue of redistribution. The replacement rate (monthly pension at age of 61 / the wage of last month at work) can answer the first question. According to the simulation, the replacement rates of pension are 0.31 for the professional and 0.42 for the electronic worker. In other words, the pensions from the National Pension Programme do not reach half of the wages for the last month at work. The electronic worker's replacement rate is higher than that of the professional. Although the income gap between the professional and the electronic worker remains, the income gap in pensions is much smaller than the

³⁴ These pensions are approximately £ 332.5 and £ 250.8 respectively at the exchange rate of 1,300 Won per Sterling.

income gap in earnings at the time of retirement.

With respect to the second question, whether the National Pension Programme redistributes life-time income between income groups, we set a formula which we call the 'Gain Rate'. The gain rate will enable us to operationalise the gains and losses of individuals through the National Pension Programme. In this formula, we first estimate total pension receipts and then deduct the total cost of participation including interest, and finally we divide that result by the total cost of participation. In other words, the gain rate will indicate gains per unit of the cost of participation.

If a person's gain rate is 0, this means that he draws the same amount of pension as his total cost of participation in the National Pension Programme. If the gain rate is positive, the pension receipts are higher than the cost of participation. If the gain rate is negative, the participants will lose out through the National Pension Programme. In this case, pension receipts are smaller than the cost of participation.

$$\text{Gain Rate} = \{ P - (C + I) \} / (C + I) = P / (C + I) - 1$$

P = gross pension received
C = gross contributions
I = gross interest
C + I = total cost of participation

In this formula, the gain rate is dependent on pensions, contributions and interest rates. Since contributions and pensions are given in the simulation, the result depends strongly on the assumed interest rate. If we set the average interest rate at 3%, the gain rate of the professional is 0.70, and 1.17 for the electronic worker. If the interest rate is higher, let us say 7%, the gain rate will decrease to 0.22 for the professional and 0.54 for the electronic worker. Only if we increase interest rates up to 12%, do

we get a negative gain rate. The gain rate for the professional is -0.10 while that of the electronic worker still remains positive (0.13).

If we assume that the professional and the electronic worker represent the high income and middle income groups respectively, we can extend the implications of our simulation onto a wider horizon. The National Pension Programme in the present rules and conditions which we project into a longer span of time only modestly compensates for the loss of income due to retirement, giving a higher replacement rate to lower income earners despite the fact that higher income earners will have higher pensions. Regarding the issue of redistribution, it is likely to take place inter-personal redistribution between different income groups over life-time, since both gain rates and replacement rates favour the lower income group.

In our simulation, however, redistribution between income groups only take place on a unrealistically high level of interest rate. On a more realistic level of interest rate such as 3%, both the higher and the middle income groups appear to have gains through the National Pension Programme. This result of the simulation is somewhat surprising, because the result suggests that everyone participating in the National Pension Programme will have gains. If everyone gains, who will pay the cost of gains which the National Pension Programme promises?

We can think of two possible lines of explanation for the results. First, our simulation may be relatively simple, and the two cases may not be representative. The number of individuals whose life-cycles we have simulated may be small, and we did not take into account many details of their life-cycle. It is also possible that the professional and the electronic worker may not represent as typical higher and the middle income groups as we assume in the simulation.

Secondly, our simulation may reveal the reality in the future which needs to be explained. If everyone participating the National Pension Programme has gains, there will be three possible scenarios in relation to the financing of pensions. First, the pension fund will simply be unable to provide pensions, and will financially collapse in consequence. This mean that the government has made a promise which it cannot deliver. To avoid the financial collapse, the government would have to provide a subsidy to the pension fund to finance pensions. Such governmental subsidy will in effect bring about redistribution between participants of the National Pension Programme and non-participants. This could also means a reverse-redistribution in which lower income groups lose while higher income groups win, since most participants of the National Pension Programme are middle and high income groups. This first option would be politically very unpopular, and it would be difficult to expect the government to take this option.

The second option is that the government might raise the level of contributions to finance pensions. Alternatively, expected pension receipts could be reduced through the modification of the pension formula. Either the increase of the cost of participation or the reduction of pension receipts would reduce gain rates. With these changes, the higher income earners are more likely to have a negative gain rate while the lower income earners still have positive gain rates since the National Pension Programmes favours lower income groups. The second option, therefore, will bring about redistributive effects which take place between the participants of the National Pension Programme. This second option which would either increase contributions or reduce pension receipts also seems likely to prove politically unpopular. Nevertheless, the government might think that the second option would be more feasible than the

first one.

The third scenario is that the government expands the coverage of the National Pension Programme, in particular to lower income groups. The expansion of the coverage, at first glance, seems to have nothing to do with the financing of the National Pension Programme, but in reality there is a strong relation. The expansion of coverage will have an impact on the financing of the National Pension Programme as follows. First, as the National Pension Programme expands its coverage, the lower income groups could join the programme. This will lower the mean wages of all participants. Secondly, this will lead to making expected pensions smaller than those expected on the basis of the current conditions, since expected pension receipts are related to the mean wage of all participants of the National Pension Programme.³⁵ Lastly, reduced expected pensions of individual participants will in turn reduce the total of pensions which the National Pension Programme will pay. The loss will be greater to those who are high income earners than to middle income earners. Participants whose income is lower than the mean wage of all participants will be expected to have redistributive gains. Regarding redistribution, this third option will bring about inter-personal redistribution over life-time on the wider basis of the population.

This third option is politically viable. In 1990, the National Pension

³⁵ The pension formula is as the follow.

$$\text{Monthly Pension} = 2.4 * (M + 0.75 * A) * (1 + 0.05 * N) / 12$$

M: Mean wage of all participants of the NPP a year before pension starts.

A: Average Wage over the working life of the person in concern.

N: No. of years of contribution - 20

Because of the M, the expansion to lower income groups will reduce the expected amount of pension of the current participants of the National Pension Programme.

Programme covered 15.7% of the working population, which is the relatively well off part of the population (see Table 4.6). Apart from the issue of financing, there will arise political pressure on the government to provide pension entitlements to lower income groups those who are currently outside the Programme. Therefore, the third option would solve the political problems regarding the coverage of the National Pension Programme and at the same time resolve the potential financial crisis of the National Pension Programme.

Before the year 2007 when the National Pension Programme begins to provide full pensions, the government may expand its coverage to lower income groups. The expansion of coverage, however, would require government subsidy, in particular regarding contributions of the self-employed who do not have formal employers. Including this issue, how the government will increase the coverage of the National Pension Programme depends on political decisions in the future, but we believe that the National Pension Programme will provide pension entitlements to the wider population. With such expansion of coverage, once it becomes mature, the National Pension Programme will bring about far greater redistributive effects than we have observed through our standard analysis.

In this section, we have examined three aspects of income distribution. First, income distribution in Korea has been generally stable over the period of considerable economic changes. Secondly, the cross-sectional analysis finds that government intervention in the form of social and fiscal policy has so far had very little redistributive impact, and this suggests that the stable income distribution was not directly related to the government's social welfare policy. Lastly, even though social welfare programmes have so far had little redistributive impact, our simulation

suggests that there are potential redistributive effects which will appear in time. In particular, the financing of the National Pension Programme will press the government to expand the coverage to lower income groups, which will make the programme redistributive to a much greater extent than expected under present conditions.

4.2 The Social Rights Approach

The concept of social rights was developed and advocated by T. H. Marshall. Social rights constitute a part of citizenship. According to him:

Citizenship is a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status endowed.³⁶

Citizenship comprises three rights: civil, political and social rights. By social rights, Marshall means:

... the whole range from the rights to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society.³⁷

³⁶ T.H. Marshall, *Citizenship and Social Class* (1950, reprinted in 1992, Pluto Perspective: London), p. 18. For the historical account of the development of social rights, see Richard Bendix, *Nation-Building and Citizenship: Studies of Our Changing Social Order* (Berkeley: University of California Press, 1974).

³⁷ *Ibid.*, p. 8.

In this account of Marshall's, we can read his idea of social rights, but the content of social rights is yet to be determined. Marshall's response is that there is no universal principle that determines what those rights shall be. Oli Kangas defines social rights in terms of legal social entitlement. According to him, "social rights refer to legislated social provisions aimed at the guaranteeing economic welfare and security for every citizen, and the standard of those provisions corresponds to the prevailing standards in the society."³⁸

In this section, we will pay attention to three aspects of social rights: rights to health care, to pensions and to protection against economic contingencies. In order to examine to what extent social rights are established in these areas, we will assess social rights in terms of coverage (who has rights?) and quality (what rights do they have?).

Social Rights to Health Care

Even though many students of social policy are concerned with the issue of who receives benefits from health care services³⁹, this is not the central issue from the point

³⁸ Oli Kangas, *The Politics of Social Rights: The Studies on the Dimensions of Sickness Insurance in OECD Countries* (Stockholm: Swedish Institute for Social Research, 1991), p. 15. See also Joakim Palme, *Pension Rights in Welfare Capitalism: The Development of Old-Age Pension in Eighteen OECD Countries 1930 to 1985* (Stockholm: Swedish Institute for Social Research, 1990), p. 15; Walter Korpi, "Power and State Autonomy in the Development of Social Citizenship: Social Rights During Sickness in Eighteen OECD Countries Since 1930," *American Sociological Review*, Vol. 54, No.3 (1989), p. 313.

³⁹ Le Grand and his colleagues, for instance, present tables of the use of the National Health Service by socio-economic group and income group. Julian Le Grand, D. Winter, & F. Wooley, "The National Health Service: Safe in Whose Hands?" in John Hills ed., *The State of Welfare: the Welfare State in Britain since 1974* (Oxford: Clarendon, 1990),

of view of the social rights approach. Instead, the social rights approach deals with the question of entitlements.

In terms of coverage, social rights to health care in the Korean welfare system are the most developed area of welfare. National Health Insurance covered 90.8% of the population in 1990. The rest of the population is covered by the Health Assistance Programme. This means that social rights to health care have become universal.

We should, however, read this with caution. In terms of quality, the National Health Insurance remains comparatively immature. First, the National Health Insurance does not cover all the costs of health care when patients use health care services. Patients have to pay 20% of the cost of treatment in the case of hospital in-patients, and 50% in the case of out-patients in general hospitals. Moreover, the use of health services is limited to six months in any one year, after which patients are obliged to meet the costs in full.

Table 4.5 Distribution of Hospital Beds (per 10,000 persons)

	No. of Hospitals	No. of Beds	No. Beds per 10,000
Cities	17976	108442	325.5
Counties	2049	18079	54.5

Source: *Yearbook of Health And Social Statistics (1990)*

Secondly, the uneven distribution of medical facilities poses a difficulty for National Health Insurance. If we measure the distribution of medical facilities by region, it seems to be evenly distributed. The distribution of hospital beds per 10,000 persons in

pp.122-123.

the provinces varies from 21.3 (Kyōngbuk Province), 33.1 (Seoul) to 39.1 (Kwangju).⁴⁰ The picture, however, is quite different, if we compare the number of hospital beds between the urban and the rural areas. Of all hospitals, 90% are concentrated in the urban areas, while the remaining 10% are located in the rural areas (see Table 4.5). Consequently, residents in rural areas have considerable disadvantages in accessing health care services.

In short, a universal right to health care has been achieved in a relatively short period of time in Korea, but in terms of the quality of health care there are both immaturity and inequality. Bearing in mind that health policy has been politically the most sensitive among welfare issues, the issue of quality of health provision through National Health Insurance is likely to give rise to political pressure on the government.

Pension Rights

Pension rights are, as we have seen, limited in coverage. In 1990, the National Pension Programme and other public pension schemes (government employees', private teachers' and veterans') together covered 18.54% of the working population.⁴¹

⁴⁰ Ministry of Health and Social Affairs, *Pogōn Sahoe T'onggye Nyōnpo* [Yearbook of Health and Social Statistics] (1990).

⁴¹ *Pogōn Sahoe T'onggye Nyōnpo* [Yearbook of Health And Social Statistics] 1991; Ministry of Public Administration, *Kongmuwōn Yon'gūm T'onggye Nyōnbo* [Statistics of Government Employees Pension]; Sahak Yon'gūm Kwanli Kongdan [Private School Teachers' Pension Agency], *Sahak Yon'gūm 20-nyōnsa* [20 Year History of Private Teachers' Pension]; Kukbangbu Insakwa [Personnel Department, Ministry of Defence]. Figures above do not include pensioners because we are dealing with entitlement.

Table 4.6 Participants of the National Pension Programme by Industry (in per cent)

	1988	1989	1990
Agriculture, Forestry & Fishing	1.04	1.06	1.03
Mining	1.28	1.00	0.84
Manufacturing	55.31	53.54	52.03
Electricity, Gas & Water	1.12	1.15	1.19
Construction	3.53	3.55	3.93
Wholesale, Retail	5.20	5.63	6.18
Transport, Communication	9.11	9.17	8.91
Financing, Insurance & Property	10.57	11.92	12.98
Social & Personal Service	5.54	5.99	6.26
Unclassified	7.30	6.98	6.67

Source: *The National Pension Statistics* (1990)

The limited coverage of pension rights raises a question about the moral ground of the pension programmes, not only because pension rights are limited to a small section of the population, but because those who have an entitlement to pension at their retirement are economically more secure than the rest of the population. For instance, government employees and private school teachers are among the categories of people who have stable jobs. The National Pension Programme also covers mostly those who are employed, in other words those who have a stable income source. If we break down the participants of the National Pension Programme, it will be clearer that pension rights are confined to a small section of the population (see Table 4.6). The participants of the National Pension Programme are highly concentrated in the manufacturing industry. The finance, insurance and property sectors as well as those

of social and personal service, whose employees are among the best paid, also account for a considerable section of the participants. In terms of coverage, pension rights are not only limited but inequitable in distribution.

At present, the National Pension Programme covers employees in work-places with more than 10 employees. It is expected that employees in smaller work-places will be covered in the near future, bearing in mind the experience of Industrial Accident Insurance and National Health Insurance. However, a difficult obstacle to overcome in expanding the coverage of the National Pension Programme is the issue relating to contributions of the self-employed. Under the present system, the self-employed can join the National Pension Programme voluntarily. The self-employed, however, have to pay both the equivalent of employers' and employees' contributions whereas employees in companies, for instance, pay only employees' contributions. This must deter the self-employed from joining the National Pension Programme. As in National Health Insurance, government financial support would solve the present problem. Whether the government will commit itself to such a financial burden depends on the political balance of power and political decisions in the future.

In terms of quality, pension rights in their own do not guarantee income security at retirement, even though some earnings-related pension programmes such as those for government employees may provide a high level of pension to high income earners. Regarding the National Pension Programme which will deal with pensions for the majority of the population, the replacement rate is low according to our simulation. However, it will distribute pensions progressively, giving a higher replacement rate to lower income groups.

Protection Against Poverty and Contingencies

Although income maintenance is widely recognised as one of the main functions of the welfare state, even in an affluent society it is a very recent phenomenon that individuals and families are guaranteed a minimum income by the state without stigma.⁴²

The Public Assistance Programme is the main programme in Korea with respect to relieving poverty. It is a universal programme in that anyone falling into the category defined as poor is eligible for benefits. The method adapted in the Public Assistance Programme to identify poverty⁴³ is the basic food basket approach, which is also used in the United States.⁴⁴ In 1990, the official poverty threshold was a monthly income of 45,000 Won⁴⁵ per person, and those having below that level of income are regarded as poor and should be eligible to support from the Public Assistance Programme. The number of persons who received benefits from the Public Assistance Programme was 5.26% of the population in 1990. The problem of this

⁴² Asa Briggs, "The Welfare State in Historical Perspective," *European Journal of Sociology* Vol. 2 (1961), p. 228.

⁴³ For the methodological debate about the measurement of poverty, see Amartya Sen, "Poverty relatively Speaking," *Oxford Economic Papers*, 35 (1983); Stein Ringen, "Direct and Indirect Measures of Poverty," *Journal of Social Policy* 17 (1988).

⁴⁴ Sō Sangmok et al., *Pin'gon-ūi Silt'aewa Yōngsemin Taech'aek* [*The Situation of Poverty and Policy Responses*] (Seoul: KDI, 1981) p. 99.

⁴⁵ The basket of 45,000 Won includes 'food and beverage,' 'fuel, light and water charge,' and 'clothing and footwear'. The income of 45,000 Won is the equivalent of 65 hours of work, if paid by the minimum hourly wage defined in 1990. Economic Planning Board, *Kyōngje Paeksō* [*Economic White Paper*] 1990, pp. 320-329. The minimum monthly income calculated by the General League of the Korean Trade Unions was 185,383 Won, three times higher than the official poverty line. Ministry of Labour, *Nodong Paeksō* [*Labour White Paper*] (1990), p. 67.

'official poverty line' is that whether people live in poverty depends not on how they actually live, but on where the poverty line is drawn. In fact, the official poverty line went up in 1980 and accordingly the number of persons in measured poverty rose. The income support to those below the poverty line through the Public Assistance Programme was 48,000 Won in 1990.⁴⁶ There is also the benefit of 80,000 Won⁴⁷ given monthly to the job-training programme participants among those recognised as living in poverty during the period of the programme. Yet, the income support of 48,000 Won only goes to the first and second categories of the Public Assistance Programme, which is 12.4% of all people in the Public Assistance Programme. The benefit of 80,000 Won is exclusively for those who take the job-training programme. We can compare these figures with the poverty line of 300,000 Won per family as defined by the KDI in 1990.⁴⁸ All in all, the Public Assistance Programme fails to guarantee the minimum income security.

Regarding protection against unexpected fall in income caused by economic contingencies such as unemployment, industrial accidents and sickness, there is only Industrial Accident Insurance which specifically deals with industrial accidents. Over the last three decades, Industrial Accident Insurance has provided support either in the form of income compensation or health care to injured workers. It is now recognised

⁴⁶ *Kyōngje Paeksō [Economic White Paper] 1990*, p. 321.

⁴⁷ The payment of 80,000 is the equivalent of 116 hours of work, if paid by the minimum hourly wage defined in 1990. Economic Planning Board, *Kyōngje Paeksō [Economic White Paper] 1990*, pp. 320-329.

⁴⁸ The KDI's poverty line does not specify the size of family and it just set 300,000 Won as the poverty line regardless of the family size. Ko Il-Tong (1990), "Kongjōk Pujō Chedo-ūi Kaesōn-kwa Pin'gonch'ūng Taech'aek" [The Reform of the Public Assistance Programme and Policies for the Poor], in KDI, *Kukka Yesan-gwa Chōngch'aek Mokp'yō [The National Expenditure and Policy Targets]* (Seoul: KDI, 1990), p. 310.

that Industrial Accident Insurance is one of the most established programmes among the social welfare programmes. It was introduced in 1964. In 1990, it covered 41.3% of all employees. In terms of quality, Industrial Accident Insurance specifies the degree of injuries by fourteen classes according to which compensation is calculated. In cases involving employers' negligence, workers can claim special compensation on top of normal compensation.

With respect to unemployment, there is no separate programme providing unemployment benefits, and there are few benefits available to unemployed people from the state.⁴⁹ Regarding sickness, invalidity and survivors' benefits, only a small part of the working population is entitled to cash benefits as the fringe benefits of the public pension programmes, which in 1990 covered 18.54%.

In short, the area of rights to protection against economic contingencies is among the least developed areas in the Korean welfare system despite the establishment of Industrial Accident Insurance. The absence of an unemployment programme and the low level of income support of the Public Assistance Programme are predominant features regarding protection against economic contingencies in the Korean welfare system. However, the new government of 1993 promised an unemployment programme in the election. It remains to be seen what development will be made in this area.

⁴⁹ If an unemployed person who lives in poverty as defined in the Public Assistance Programme takes the job-training programme, he would get the subsidy of 80,000 Won.

4.3 Still in the Beginning?

We have examined the outcomes of social welfare programmes from the two perspectives: the perspective of redistribution and that of social rights.

If we begin with the social right approach, the evaluation through the social rights approach presents a somewhat mixed picture. Social rights in such area as rights to health care is now established as a universal right in a relative short period of time. All the population have access to health care through National Health Insurance and the Health Assistance Programme. However, the quality of health provision by the National Health Insurance is still low, and the uneven distribution of medical facilities between rural and urban areas also poses a problem to National Health Insurance. Pension rights are limited and inequitably distributed. With the exception of the veterans' pension, all existing pension programmes provide pension entitlements to those who are relatively well-off while others remain unprotected. However, bearing in mind that the National Pension Programme was introduced in 1988, it is fair to say that it has made good progress. With respect to protection against economic contingencies, Korean social welfare programmes do not yet provide adequate income security against poverty and economic contingencies, even though Industrial Accident Insurance has provided injured workers with medical treatment and economic compensation for nearly 30 years. Yet, it covers less than half of the working population.

With respect to redistribution, we have examined three dimensions of income distribution: the trend of income distribution, cross-sectional redistribution and income distribution over the life-cycle. First, income distribution has been generally stable

since the 1960s, although with some fluctuation in sub-periods.

Secondly, government intervention in the form of taxes, social security contributions and public transfers has so far had little impact on income distribution. This means that the stable income distribution was maintained not by government intervention through social policy but by other factors which are not dealt with here. The limited coverage and immaturity of the National Pension Programme are the main reason for the small redistributive impact of social policy. In the comparison between private and public transfers, the level of private transfers is higher than that of public transfers, and plays a greater role than public transfers in securing minimum income.

Lastly, the analysis of life-cycle effects of the National Pension Programme suggests that the National Pension Programme has potential redistributive effects. Lower income groups are likely to gain through the National Pension Programme and have more favourable income replacement rates than higher income groups, even though the income gap between income groups will remain. Moreover, our simulation suggested that the National Pension Programme has to expand its coverage, in particular to lower income groups, in order to stay financially viable. How the expansion of the National Pension Programme will be achieved is highly dependent on future political decisions, because a further expansion of the coverage would require government financial commitment. Nevertheless, we anticipate that the National Pension Programme with its expanded coverage will bring about far greater redistributive effects than expected on the basis of current conditions.

In all analyses from the two perspectives, we found that it is too early to evaluate the effects of social policy to a sufficient extent because the Korean welfare system is still in the initial stage of development. Despite this limitation, the analysis

in this chapter strongly suggests the way in which the Korean welfare system will evolve in the future. As we have argued, the logic of the development of the Korean welfare system has been primarily determined by the political necessity of power, *i.e.*, the logic of legitimation. In the future, however, the internal dynamics of the welfare system will steer the development of the Korean welfare system to a greater extent than it has since the 1960s. Political pressure from various social groups will also play a greater part as the political system becomes more democratic. For these reasons, we anticipate that the Korean welfare system will grow at least for some time to come.

The evaluation of social policy in this chapter is a first attempt in this kind. It covered a somewhat broad range of social policy outcomes. This broadness of the scope may limit the thoroughness of our analysis. At the same time, however, to draw a balanced picture, we have inevitably covered broad scope of social policy outcomes. For instance, we have observed significant achievements of the Korean welfare system through the social rights approach. Yet it must be noted that the outcomes in terms of social rights appear in a relatively short period of time and can be easily measured. These outcomes do not show all or at least some aspects of social policy outcomes, particularly in Korea of which the welfare system is in its early stage of development. The redistribution approach, by contrast, does not show clear effects of social policy. Despite the little impact, the analysis through the redistribution approach shows potential impacts of social policy and enables us to anticipate the future direction of the development of the welfare system.

The analysis in this chapter suggests some areas of further research which would deepen our knowledge on the Korean welfare system. First, *the National*

Survey of Family Income and Expenditure will enable us to follow the time series of income distribution with more consistency. We can also follow up the redistributive effects of social and fiscal policy through the standard method. If *the National Survey of Family Income and Expenditure* includes data such as indirect taxes and social services which are not contained at present, we can examine the redistributive effects more thoroughly than we do in the present study. Secondly, there is a need to build a set of data on the life-time fluctuation of individuals from a wider range of groups throughout the population. This will allow us to see the effects of social policy from a dynamic perspective. Thirdly, we need to follow changes in the welfare system, and analyse the implications of those changes. Lastly, through such research we should be able to build a theoretical and empirical foundation which would allow us to compare the Korean welfare system with those in other nations.

Chapter 5

Conclusion

5.1 The Institutional Logic of Social Policy

Initiatives for social policy reform have through history often been taken within the logic of the politics of legitimation, *i.e.*, to enhance political consent and acceptance of, or support for the prevailing regime. Bismarck's social insurance legislation in the 1880s is the classic example of this political strategy of legitimation. His legislation was a conscious effort to maintain social order in the wake of industrialisation, as well as an effort in the strategy of strengthening the authority of the central government. In the Reichstag election of 1877, the German Social Democrats gained twelve seats, which was enormous progress for the left-wing movement.¹ Facing the rapid emergence of the working class, Bismarck introduced social insurance programmes - health insurance in 1883, accident insurance in 1884 and old-age and invalidity insurance in 1889 - as a preemptive strike against the socialists. Bismarck's political strategy was to preserve the fabric of the industrial society and the traditional system of political inequality by demonstrating to the newly emerging working class that the state could still provide social protection. These political initiatives by Bismarck inspired many politicians elsewhere to preempt social movements which might threaten the prevailing order.

¹ Gaston Rimlinger, *Welfare Policy and Industrialization in Europe, America, and Russia* (New York: John Wiley & Sons, 1971), p. 111.

Critics have often opposed social policy, not necessarily because they do not think social welfare programmes do any good, but because they do not agree with the motivation behind them. For instance, the Bonapartist interpretation of the development of social policy argues that social welfare programmes are mere concessions from the dominant class in order to undermine the political power of the working class. The dominant class gives the working class a small gift of social security but preserves its own political power.

The political strategy of legitimation is not in any sense free from constraints. On the contrary, according to Offe, this political strategy undermines the very existence of capitalist society. He has argued that the social policies in capitalist society are contradictory to the commodity relations of that same capitalist society.² Gough has explained the contradiction of the welfare state in terms of class conflicts. He has argued that the underlying aim of the welfare state is to maintain social harmony, but that the ever-growing burden of the welfare state ends up exacerbating the conflict between capital and labour.³ More empirically, O'Connor has argued the thesis of the fiscal crisis through an analysis of welfare expenditure in America.⁴ This line of argument seems to support the hypothesis that social policy measures aimed to maintain the social order of advanced, and mixed-economy capitalist democracy might ultimately introduce new tension which that very society would find itself unable to

² Claus Offe, *Contradictions of the Welfare State* (London: Hutchinson, 1984), pp. 130-145.

³ Ian Gough, *The Political Economy of the Welfare State* (London: Macmillan, 1979), pp. 102-127.

⁴ James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973).

resolve. The validity of this hypothesis remains in dispute, but it must be said that most governments in advanced capitalist societies currently do face difficulties in public finance and (social) expenditure which are starting to look periodically like a 'financial crisis'.⁵

The policy of introducing social welfare programmes from the early 1960s in Korea was a part of a political strategy which aimed to enhance the legitimacy of the political regime. What was different from the situation that Bismarck had faced was that there was no real perceived threat from the working class. The Park government which had taken over power through the military coup d'état in 1961 was aware of the potential threat from the student movement which had brought down the First Republic, but it is doubtful that this was serious as a lasting real threat to political and social order. On the other hand, there was also absence of strong liberal criticisms directed against a policy of state intervention through social welfare programmes. Hence, the Korean example is a curious case of a preemptive strike in the logic of legitimation in the absence of imminent political challenge, either ideologically or from political parties and social classes.

The development of social policy in Korea has coincided with economic development. In the early 1960s, the First Five-Year Economic Plan provided the momentum for economic growth. Although economic growth was undoubtedly seen as a necessary condition for social policy reform, this is far from being a sufficient explanation. We cannot understand the politics of social policy in terms of a simple linear correlation between economic growth and the development of the welfare

⁵ OECD, *Social Expenditure 1960-1990: Problems of Growth and Control* (Paris: OECD, 1985).

system. An analysis of the political dynamics underlying social policy decisions is essential for understanding the development of the welfare system, and in the Korean case this dynamics has been more to be determined *internally* in the system of political decision-makers, than *externally* by the pressures brought to this system either ideologically or from competing social or political groups.

In the development of the welfare system in Korea, social classes did not play significant roles. In particular, the working class in Korea was not able to exercise much influence on social-policy making, due to its lack of political power at the time, and has anyway not been much concerned with issues of social policy. This remained the case later when it did acquire political influence. Hence, class-based theories of social policy do not explain the political mechanism of social-policy making in Korea any more than do the logic-of-industrialisation theories which seek the explanation of political dynamics in economic development.

Instead of these two theories, this thesis has analysed the dynamics of social-policy making within the framework of the historical institutional perspective. We have looked into three conjunctures of political institutions. First, the deficiency of political legitimacy, which was deeply embedded in the post-1945 period as well as in the democratic deficiency of the constitution, led political battles to take place over the normative grounds of the overall structure of political institutions. While strengthening their grip on power through constitutional revisions, the use of heavy-handed measures against civil movements and through a strategy which was of course facilitated by the prevailing cold-war mentality on the one hand, the governments on the other hand turned to political efforts to demonstrate that they were competent to achieve what the nation wanted. The Park and Chun governments attempted to

enhance their political legitimacy through performance.

Secondly, the overall structure of political process and practice did not allow institutions such as the National Assembly, political parties and interest groups to play significant roles in the making of social policy. Because of institutional constraints imposed on such political institutions and actors, social policy decisions were made in a confined institutional terrain to which only a small group of decision makers had access. In this confined circle of institutions, top decision makers such as the president, his advisors and involved ministers made the social policy decisions. In this circle, another group of actors, namely policy experts, played a significant role in making social policy. It must be said that in this small circle of decision-making there was implicit but conscious and determined will to modernise Korean society, i.e., bringing Korea into the international mainstream of modern communities. We have examined two groups of policy experts. The experts of the Committee for Social Security (CSS) were idealists who pursued 'social development' as the main goal of their work. Those of the Korean Development Institute (KDI) were pragmatists who saw social policy as a part of economic policy. We analysed the rise and fall of these groups of policy experts and in particular the considerable influence exercised by the KDI pragmatists.

This brings us to the third point. Given the nature of politics and institutional configuration, political actors develop their political strategy to realise their interests. The way in which political actors see politics and policy issues, i.e., the policy paradigm, matters for their formation of strategy. Regarding social-policy making, top decision makers, the presidents in particular, placed economic development in the centre of their political strategy. Always economic policy came first. In this

paradigm, the idealistic approach of the CSS did not simply fit, and this institution was effectively squeezed out of the confined circle of decision-making. By contrast, the KDI's pragmatic approach was compatible with the policy paradigm of the decision makers, and the pragmatists quickly took over the place of the CSS. The pragmatic experts of the KDI changed the decision makers' perception of social policy. Social policy had been understood by the decision makers in a way that assumed that social welfare programmes might hamper economic growth. The pragmatists persuaded the decision makers that social policy could be a part of economic policy. This shift of perception gave rise to the National Welfare Pension Programme which was legislated in 1972, but then postponed later due to unexpected economic setbacks, notably high inflation caused by the oil-shock, and subsequently implemented only as of 1988.

Since the democratisation process began in 1987, the overall institutional configuration has undergone dramatic changes. The transformation of the institutional structure has a direct impact on social-policy making. The competitive presidential election of 1987 led to a breakthrough in the development of National Health Insurance. After the election promise, the government provided a part of the funding for National Health Insurance, which paved the way for National Health Insurance subsequently becoming a universal programme. After the general election of 1988, which provided the opposition parties with an unprecedented opportunity to dominate the National Assembly, the National Assembly directly confronted the President. The National Assembly passed a law which would merge all existing agencies of National Health Insurance into a single managing body. The President vetoed that law, and the political situation was in deadlock. The existence of two effective points of decision-making meant that neither was effective. They became veto points. This political

deadlock was resolved by the merger between the governing party and two opposition parties. The new governing party began to dominate the National Assembly. The new democratic institutional settings, however, did not allow the old style of decision-making to return. The National Assembly, which can now check the government, and competitive elections become an arena for policy debates. It is, however, still too early to say much about the making of social policy in this new institutional setting.

5.2 The Structure of Social Policy

The pattern of social-policy making arose against the background of the politics of legitimation. That pattern of policy-making in turn strongly influenced the structure of social policy institutions. Since the social welfare programmes and their institutions were introduced as short-term political measures within the logic of politics of legitimation, they were, intentionally at one time and unintentionally at the other, designed in a way that did not require the government's long-term commitment, in particular the financial commitment. This entailed the system of financing social welfare programmes in which the state plays the role of regulator. This is one of the distinctive features of the Korean welfare system.

We classified three types of social-policy intervention. First, the state may finance social welfare programmes through its expenditure. In this case, we call the state a provider. Secondly, the state can make statutory rules in order to bring about certain forms of social welfare programme without financial commitments. Here, the state is a regulator. Lastly, the state can leave most welfare provisions to the market

and simply maintain the market mechanism. This we call the market-maintainer. This is basically a non-action type of 'intervention', but it can, of course, be a deliberate mode of policy.

The welfare state in reality could comprise all the types of intervention. In one programme, the state may provide the finance required and in the others the state may regulate the way in which the welfare provisions are distributed or leave it all to the market. Despite this mix, we can still say that one type of state intervention is predominant. In Korea, the state has played mainly the role of regulator. With the exception of the Public Assistance Programme, other programmes such as National Health Insurance, the National Pension Programme and Industrial Accident Insurance have been contributory insurance programmes. The funds of these programmes are raised by contributions and are managed separately from government expenditure. Non-governmental agencies manage the programmes, except Industrial Accident Insurance which is run by a department of the Ministry of Labour, but the Industrial Accident Insurance Fund, however, is maintained as a separate account outside government expenditure. Subsidies from government expenditure to these programmes are only for certain programmes' administrative costs

5.3 The Outcomes of Social Policy

We have evaluated outcomes from the two perspectives: the perspectives of redistribution and of social rights. From the perspective of redistribution, we have examined three dimensions of income distribution: the trend in income distribution,

cross-sectional redistribution and redistribution over the life-cycle. First, income distribution has been generally stable since the 1960s when the Korean economy experienced considerable changes and managed to achieve economic growth. Secondly, according to the cross-sectional analysis, government social policy intervention has so far had little impact on income distribution. This suggests that the stable income distribution was not maintained by the government social and fiscal policy. Thirdly, the simulation analysis reveals that the National Pension Programme has potential redistributive effects under the current rules and conditions. In terms of compensation for the income loss due to retirement, the National Pension Programme favours lower income groups, giving them a higher level of replacement rate.

If the National Pension Programme expands its coverage to lower income groups who are currently outside the programme, the redistributive effects will be greater than expected under current rules and conditions. However, according to our simulation, it should be expected that the National Pension Programme will come under increasing financial pressure unless current rules are modified with expanded coverage. A financial subsidy from the state budget might also be required. However, although current rules contain a redistributive dynamic when projected into the future, these surely cannot be regarded as 'safe' against future modification. It is therefore not possible truly to make predictions about actual future redistribution.

The evaluation through the social rights approach suggests that the Korean welfare system is still immature, although health care rights have become universal and rights to protection against industrial accidents have made good progress. In terms of quality, the level of health care provision is low, and health care facilities are unevenly distributed. Pension rights are limited to a small section of the population

and do not secure income security at retirement. as for other areas, protection against economic contingencies such as unemployment and sickness, adequate income security is not guaranteed.

Our evaluations through social rights and redistribution perspectives show both the achievements and the limitations of the Korean Welfare system. There are some achievements in the coverage of social rights, although limitations in quality. There is also yet limited achievement in redistribution. What really becomes clear is that there is a potential for future redistribution, although future is uncertain about the prospect for the modification of this potential.

5.4. The Politics of Legitimation

We have argued that the political and institutional logic of social policy in Korea has been primarily determined by the politics of legitimation. Social welfare programmes were introduced as an effort of consolidation after the institutional crisis caused by the violation of democratic principles. This political logic entailed a structure of social policy institutions in which the state plays the role of regulator, particularly in the financing of welfare programmes. Did the political strategy of legitimation work? We need to differentiate the long-term political implications from those of the short term.

In the short-term political context, the effect lies in the very introduction of some social welfare programmes rather than in their impact on social structure. Some effects of social policy such as in terms of social rights, however, already manifest in some areas. Whether these shot-term impacts of social policy have made positive effects on political legitimacy does not simply depend on the outcomes of social policy.

There are, at least, two aspects of second order consequences to be considered as well. First, given the newly introduced social rights, there is still a large number of people who are excluded from these rights. Secondly, it is necessary to examine how social welfare programmes and their short-term effects are perceived by political actors and the public.

This inevitably brings us to the analysis of the long-term effects. In the long run, the legitimation effects lies in the impact of social policy on the social structure, for example, income distribution, inequality, social security and how these impacts are perceived by the population. Since the time span in which the outcomes of social policy manifest themselves is often much longer than that of any government, we cannot directly relate policy outcomes to a particular government. For this reason, we can evaluate the political function of social policy, and that of legitimacy in particular, only in relation to the political system in general.

Due to the immaturity of the social welfare system and uncertainty about future policies, including the possibility of modification of existing programmes, it is not yet possible to say much with certainty about the impact of social policy on social structure. In turn, the question of legitimacy cannot be answered in advance of future developments. Nevertheless, we are able to suggest the future direction of the Korean welfare system through our analysis. Among others, we could expect steady expansion of social rights and increasing effects of redistribution. There will be also changes in social-policy making. In contrast to the pathway in the past in which the logic of legitimation steered the development of the welfare system, the internal dynamics of the welfare system, in particular the financing of programmes and the equitable distribution of welfare provision, will be the main factors in deciding the way

in which the Korean welfare system will evolve in the future. Political pressure from various social groups will also play a greater part than in the past.

By and large, there are three social policy issues which are likely to arise in the political arena. First, and most immediately, an unemployment programme which was promised by the new government in the election of 1992 will be brought forward in the legislative process and will raise the issue of how to finance the programme.

Secondly, the issue of merging all health insurance agencies of National Health Insurance into a National Health Fund is likely to arise again. Since National Health Insurance has expanded in an incremental fashion over the years, health insurance funds have been organised by occupation and managed separately by numerous health insurance agencies. Bearing in mind that the financial situations of health insurance funds vary, the merger which would make the transfer of funds between health insurance funds possible would have great redistributive effects. In 1989, the attempt of the National Assembly to merge all health insurance funds into a National Health Fund was vetoed by the President.

If this issue arises again, the line of conflict will lie between wage earners and non-wage earners. Members of the financially sound health funds, such as those of the government employees and wage earners may oppose the merger because their funds would have to transfer money to other funds. Regional members' funds through which the self-employed and farmers join National Health Insurance would receive those transfers. They will call for restructuring the financing of National Health Insurance. How this conflict of interest will be resolved in policy remains to be seen, but the political process in the democratised system will be different from conditions under the authoritarian regime. Interest groups, political parties and the National

Assembly as well as decision makers in the government will play a greater role in the decision-making.

Thirdly, the issue related to the expansion of the coverage of the National Pension Programme will raise the question of government financial commitment to social welfare programmes. It would not be particularly difficult to expand the National Pension Programme to employees in smaller work-places which are currently outside the Programme. The real question is how to cover those who do not have formal employment status, such as the self-employed, farmers and urban informal sector workers. They can join the National Pension Programme if they want. In reality, however, the government have to decide whether it would pay the equivalent of employers' contributions for them. No matter how this issue may be resolved, the government will be pressed to expand the coverage to lower income groups due to the financial pressure of the National Pension Programme. The implication of the expansion of the National Pension Programme to lower income groups is far-reaching in terms of redistribution and the development of the Korean welfare system as a whole. Its redistributive effects will be far greater than those of the present system. The role of the state in financing welfare programmes will move further toward the role of provider from that of regulator.

5.5 Is It A Conservative Welfare Regime ?

In this section we will briefly discuss what kind of model of social policy the Korean welfare system belongs to. Can we identify it with one of the existing models? Titmuss' typology comprises three models, namely 'the residual welfare model of

social policy', 'the industrial achievement-performance model of social policy' and 'the institutional redistributive model of social policy'. His typology focuses on which institutions are the main actors in welfare provision, the market, the family or the state.⁶ His three-model typology has been conflated into the two types of welfare state: the institutional welfare state and the marginal welfare state. The institutional welfare state has a firm commitment to welfare for all citizens and it does not recognise any fixed boundaries for public welfare provision.⁷ It also has a strong redistributive goal and tends to use universal programmes, to which all citizens are equally entitled.⁸ The marginal welfare state, by contrast, sees the market as the main mechanism for delivering welfare to citizens. The role of the state in the distribution of welfare is marginal, which means that the state only steps in when the normal channels of distribution fail.⁹ In the marginal welfare state, welfare benefits are targeted towards a minority of citizens, and they may suffer stigmatisation. The redistributive goal is not a strong objective in the marginal model.

Esping-Andersen's three regimes of the welfare state focus on the social classes behind the development of the welfare state. He also paid attention to the historical

⁶ Richard Titmuss, *Social Policy; An Introduction* (London: George Allen & Unwin, 1974), pp. 30-32.

⁷ Gösta Esping-Andersen & W. Korpi, "From poor relief to institutional welfare states: the development of Scandinavian social policy," in R. Erickson, E. J. Hansen, S. Ringen, & H. Uustitalo eds., *The Scandinavian Model: Welfare States and Welfare Research* (New York: M. E. Sharpe, 1987), p. 40.

⁸ Stein Ringen, *The Possibility of Politics: A Study in the Political Economy of the Welfare State* (Oxford: Clarendon Press, 1987), p. 12.

⁹ Gösta Esping-Andersen, W. Korpi, "From poor relief to institutional welfare states: the development of Scandinavian social policy" in R. Erickson, E. J. Hansen, S. Ringen, & H. Uustitalo eds., *The Scandinavian Model: Welfare States and Welfare Research* (1987), p. 40.

legacy of regime institutionalisation.¹⁰ In the social democratic welfare regimes, working classes and social democratic parties are the main driving forces for the development of the welfare state. Here, the equality of the highest standards is pursued and services and benefits are upgraded to levels commensurate with the tastes of the new middle classes. The second regime-type is the conservative welfare state in which the preservation of status differentials is more important than the promotion of equality. The redistribution impacts of welfare benefits are negligible in the conservative regime type. Thirdly, the liberal welfare state advocates the principle of self-reliance in which work rather than welfare is emphasized. In the liberal welfare state, means-tested assistance, modest universal transfers, or modest social-insurable plans dominate.

Both Titmuss' typology and Esping-Andersen's classification of welfare state are European historical products, which cannot easily be applied to a nation which has a quite different historical and political background. Given this different background, the model of the conservative welfare regime is the closest one to the Korean welfare system. First, the structure of social policy is mainly organised on the compulsory insurance principle. Secondly, the emphasis is on maintaining rather than transforming the prevailing order. Thirdly, the initiative came from those who have power rather than those who have not.

However, for three reasons we cannot simply identify the Korean welfare system with the conservative regime type without further research. First, despite similar political strategies in relation to social policy initiatives, the nature of politics

¹⁰ Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990), pp. 26-33.

underlying those social policy initiatives is different. The class dimension of the politics of social policy was very weak in Korea, whereas, for example, in nineteenth century Germany, feudal, bourgeois and working classes were actively engaged in social policy issues as well as politics in general. Secondly, the ideology underlying social policy is social and economic modernisation in Korea, rather than paternalistic or Christian ideology which lays behind the conservative welfare regimes. Thirdly, the nations which are categorised into the conservative welfare regime type like Germany and Austria have a comprehensive welfare state and a high standard of welfare provisions. With only those similar features which we mentioned, we cannot simply put the Korean welfare system into the category to which those well advanced welfare states belong.

All in all, this thesis has explained the development of the Korean welfare state within the knowledge which has been developed through the experience of the European welfare states. We have found similarities and differences between the Korean welfare system and the Western European welfare states. Beyond these similarities and differences, there arises a necessity to construct a model for non-European welfare states to advance our knowledge of the welfare state.

Appendices

Appendix A Chronology 1960 to 1992

Appendix B The Eligibility and Coverage of Social Welfare Programmes

Appendix C The Composition of Taxes

Appendix D Contributions and Pensions

Appendix A Chronology 1960 to 1992

	Politics	Social and Economic Policies
1960 April	April Student Revolution The Second Republic	
1961 May	Military Coup D'état by General Park Chung Hee	
1962 January		First Five-Year Economic Plan
1963 December	Park Chung Hee elected as President of the Third Republic	The Industrial Accident Insurance and National Health Insurance Acts
1965 September		Experimental Projects of Health Insurance, Public Assistance Programme implemented
1967 May	Park Chung Hee reelected as President	
1969 October	Constitutional Amendment allowing President Park to run a third term	
1971 April	Park Chung Hee reelected in a close election	
1972 August		Special Economic Measures to freeze informal debts of private businesses

1972 October	Martial Law declared Yushin Constitution introduced	
1972 December	Park Chung Hee reelected as President by the electoral college The Fourth Republic	
1973 December		The National Welfare Pension Act passed (implementation postponed)
1974 January		Presidential Emergency Measure No 3 declared to reduce taxes for lower income earners and curb unfair labour practices
1977 March		National Health Insurance became compulsory (from 500 employees), Health Assistance Programme
1979 December	President Park assassinated by his intelligence chief	
1980 August		The Fifth Five-Year Economic Plan (constitute an Economic and Social Plan)
1981 August	General Chun elected as President by the electoral college The Fifth Republic	

1987 June	Presidential candidacy of the governing party, Rho Tae Woo promises democratic constitutional reform	
1987 December	Rho elected President under the new constitution, benefitted from a divided opposition	
1988 January		Regional members joining the National Health Insurance Programme, National Pension Programme implemented
1988 April	Opposition parties dominate the National Assembly after the general election	
1992 March	The ruling Democratic Liberal Party secures a majority in the general election	
1992 December	Kim Young Sam elected as President	

Appendix B The Eligibility and Coverage of Social Welfare Programmes (1990)

Programmes	Eligibility	Coverage
Industrial Accident Insurance	Work-places with more than 5 employees	41.3 % ¹
Public Assistance Programme	Person with less than the monthly income of 45,000 Won	5.26 % ³
Health Assistance Programme	Same as Public Assistance Programme	7.7 % ³
National Health Insurance	All population paying contribution	90.8 % ³
National Pension Programme	Employees in work-places with more than 10 employees	15.7 % ²
Government Employees Pension	Government employees	2.8 % ²
Private School Teachers Pension	Teachers and employees of private schools	0.52 % ²
Veterans Pension	Military personnel with the exception of national servicemen	0.52 % ²

¹ Percentage of employed people

² Percentage of the working population

³ Percentage of all population

Appendix C The Composition of Taxes

	1989	1990
National Taxes		
Direct Taxes	26.30	25.27
Income tax	13.56	14.31
Coporation Tax	11.85	9.78
Inheritance Tax	0.55	0.90
Revaluation Tax	0.34	0.29
Indirect Taxes	30.74	31.46
Customs Duties	8.07	8.38
Stamp Revenue	0.62	0.59
Public Monopoly	0.01	0.00
Defence Surtaxes*	13.28	13.43
Education Surtax*	1.61	1.58
Local taxes	18.91	19.29
Carry-Over	0.46	0.79
Total Taxes	100	100
Tax Burden	18.6	19.0

* Defence and Education Taxes are surtaxes and therefore they are collected both indirectly and directly.

Tax Burden = Total Taxes / GNP

source: Korea Statistical Yearbook 1990 & 1991

Appendix D Contributions and Pensions

Professional			Electronic Worker				
	Contribution/Year	Pension/Year	Age	Age	Contribution/Year	Pension/Year	Age
25	154800	5202641	61	20	97200	2935381	56
26	162000	5202641	62	21	118800	3131073	57
27	183600	5202641	63	22	133200	3326765	58
28	205200	5202641	64	23	140400	3522457	59
29	216000	5202641	65	24	154800	3718149	60
30	453600	5202641	66	25	324000	3913841	61
31	475200	5202641	67	26	345600	3913841	62
32	496800	5202641	68	27	345600	3913841	63
33	518400	5202641	69	28	367200	3913841	64
34	554400	5202641	70	29	367200	3913841	65
35	885600	5202641	71	30	583200	3913841	66
36	939600	5202641	72	31	583200	3913841	67
37	939600	5202641	73	32	615600	3913841	68
38	993600	5202641	74	33	615600	3913841	69
39	993600	3085585	75	34	648000	3913841	70
40	1047600	3085585	76	35	648000	2312305	71
41	1047600	3085585	77	36	648000	2312305	72
42	1101600	3085585	78	37	680400	2312305	73
43	1101600			38	680400	2312305	74
44	1177200			39	680400		
45	1177200			40	680400		
46	1177200			41	712800		
47	1252800			42	712800		
48	1252800			43	712800		
49	1252800			44	712800		
50	1252800			45	712800		
51	1328400			46	745200		
52	1328400			47	745200		
53	1404000			48	745200		
54	1404000			49	745200		
55	1404000			50	745200		
56	1404000			51	777600		
57	1404000			52	777600		
58	1512000			53	777600		
59	1512000			54	777600		
60	1512000			55	831600		
Sum	35226000	85179315		Sum	20689200	65021455	

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